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International franchising in the fashion industry

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SUMMARY

Introduction

The franchising contract is one of the most adopted tools that a firm may use to enter a new area or market. It represents at the same time not only a good investment for the contractor (called *franchisor*), but also a great opportunity for a third party (called *franchisee*), to start a new business but avoiding a huge amount of initial capital contribution.
This dissertation is useful in order to analyze this contract and to underline its advantages, disadvantages, opportunities and drawbacks.
We will so describe all the contract's characteristics, and we will also compare franchising with the other forms of contract.
It will also be our purpose to introduct the fashion industry and to show its trends and evolutions through years. This procedure will help us to understand how and where can be worthwhile to invest for a company operating in this sector.
After that, we will try to underline the positive and negative factors that characterize the two markets we decided to study in this dissertation: China and the US.
Our main purpose will be to answer to two questions: why can franchising be preferred to other forms of contracts as mode of entry or expansion in a foreign market? And which are the drivers that influence this choice?
We will try to give credible answers combining the results obtained by putting in relationship the companies Max Mara, Diesel, Furla and Salvatore Ferragamo with the Chinese and North American market.

Chapter 1: what is franchising?

1.1 Origins and definition

The english term "franchising" (the french version "franchise" is also very common) has historically been used to express a concept of freedom and privilege. Nowadays this term has in some way kept its original meaning, and it's used to define a specific contract typology.

In particular "in franchising, franchisors (a person or company that grants the license to a third party for the conducting of a business under their marks) not only specify the products and services that will be offered by the franchisees (a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support"[1].

In other words franchising is a form of collaboration between two firms, both giuridically and economically independent to each other, in which the former part (franchisor) gives to the latter part (franchisee) the grant to become part of its franchising chain. The franchisor also gives to the franchisee the grant to take advantage of its patents, trademark, name and know-how under the payment of a certain amount of money.

"Most franchise contracts grant the franchisee the right to renew the contract (sometimes after paying another franchisee fee) provided that he has complied with the initial contract. However, upon renewal the old contract is replaced with the contract that the franchisor is using for new franchisees"[2].

Another element we may take into consideration is the contract's lenght. Being more specific this factor creates a trade-off: in one hand the long term contract represent an advantage for the franchisee, in order to face environmental changes; in the other hand with a short term contract the franchisor has the possibility to change the initial conditions, making them more favorable to itself.

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[1] http://www.franchise.org/what-is-a-franchise

[2] *Contract Duration: Evidence from Franchise Contracts*, The Bradley Policy Research Center Financial Research and Policy Working Paper No. FR 03-08 (pag.6), James A. Brickley, Sanjong Misra, R. Lawrence Van Horn

Summarising:

FRANCHISOR	**FRANCHISEE**
Trademark's property	Trademark's exploitation
Supports the franchisee by granting: -name -patents -trademark -know-how -others	Enlarge its business thanks to the franchisor's support
Receives fees	Pays fees

1.2 Key elements and forms of a franchising contract

We just saw how a franchising contracts works and what is the role of the parts involved.
Going further, before starting to describe all the possible varieties of franchising forms, it may be useful to analyze the key elements of this particular contract.
We can basically find three basic pillars in each franchise operation: the *Brand Name*, the *Operating System* and *Ongoing Support* (also consisting in *Performance Enhancement*).
We are going show each one of them below, in order to clarify the concept and have a clear and complete understanding of every single part:

1) Brand Name: "The franchise might have a brand name value that enables the
franchisee to charge higher prices and attract more customers than an otherwise similar business"[3]. […] "This brand name value is augmented by the fact that the franchisor often provides the advertising for the product"[4].
It consists on the Brand recognition. So a Brand Name can be represented not only by
a name in the strict sense, but also by a sign, a logo, interior and exterior decorative elements of the point of sale, and also by certain types of vehicles in the case of "mobile franchise".
The franchisee gains so this powerful advantage of beeing associated by the potential customers with the brand's history and with its successful history. In the opposite case, by building a customers awareness of the brand as independent (so from zero).

2) Operating system: as we know once a franchise contract is settled, the franchisor also transfers to the franchisee its knowledge and its competences, and all this set of qualities is called "know-how". With the term "know-how" we mean a package of non-patented practical informations, resulting from long experience and testing activities made by the franchisor. In other words, the know-how is that complex of operational methods, knowledge, procedures that enable an individual to become an active member of a franchise system.
The know-how that the franchisor transfers to the franchisee is the result of a long, precise, verified and formalized work, made in order to allow the technical and commercial viability.

3 D*ealing with Intangibles: Valuing Brand Names, Flexibility and Patents, Stern School of Business* (2006), pag. 7, Aswath Damodaran,.
4 *Ibidem*

It is a very important element which in one hand allows the franchisee to benefit from an immediate competitive advantage, but in the other hand the existence of a valid know-how justifies the request from the franchisor of an equal amount of fee to entry to the franchisee.
The know-how, with the image of the network, enables the affiliate to place themselves in the market with a considerable advantage over independent traders.

3) Ongoing Support: Third fundamental element of the franchise agreement is the creation of a technical and commercial support from the franchisor in favor of the network of affiliates through technological tools and computer or its physical agents.
A very important instrument of the support, and maybe the most effective one, is the *training*, which has a strong effectiveness on each one of the three main pillars mentioned above.
In particular "the supporting training provided to the affiliates is divided into initial and ongoing formation.
Initial management support comprises a detailed manual of the business concept, assistance in finding a location for the outlet, analysis of outlet location, and planning of outlet equipment"[5].

Those training sessions are essential for the franchise's life because they allow to speed up the start-up process, but they also have a future effectiveness, by helping to improve the business in the network life.

In order to give a complete introduction of the franchise contract, as we said before, it was important to introduce the three main elements of it. Going further it will be helpful to describe the franchise forms, in order to better understand why do entrepeneurs use this particular contract, which sectors can achieve a competitive advantage through it and which form fits better to a certain business.

As a result of the relative complexity of the phenomenon, of its dynamic character, of its indeterminacy and multiformity, the Franchise systems can be classified just considering a plurality of variables.

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5 *Contractual Relations and Organizational Structure in Franchising – Empirical evidence from Germany* (2009), (pag.14), Anna Rohlfing, Philipp Sturm,

So our first distinction can be based on the *role played by each actor in the system of production and distribution chain*.
In this way we can distinguish between horizontal agreements (ie between operators belonging to the same stage of the supply chain) and vertical agreements (ie between operators located in different phases of the production and distribution chain, but connected by sequential interdependence).

The former agreement will be :
- between manufacturers, as in lifreding (licensing, franchising, export and development mix);
- between service producers, as hotels and car rentals;
- between a company of the retail trade (mainly large retailers) and other companies (smaller) retailers, as in agreements between retailers for the adoption of a common sign to obtain a greater bargaining power;
- between a wholesale business and other smaller wholesalers, as in the case of some cash & carry;
- between trade organizations (purchasing groups, voluntary unions) and associated commercial companies.

The letter kind of agreement is instead:
- between industrial and wholesale companies, as in some cases of territorial franchise for the distribution of products (the best example is the franchise bottling system developed by Coca-Cola);
- between industrial and retail businesses, which most common case;
- between producers and distributors of services, such as postal services;
- between a wholesale company and retail companies, as in voluntary unions.

If instead we use as discrimination parameter the sector of activity of the operators who come together to form a network of Franchise, you can distinguish between:
1) *Product Franchising*
2) *Manufacturing Franchising*
3) *Business-format Franchising*

1) Under the *Product Franchising*, “dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademark goods of the producer”[6]. In this way the manufacturer gives to a business owner the right to produce certain goods using: his own brand, the necessary processes or formula for manufacturing (manufacturing option) or processes (variant processing) of a product, and the possibility of reselling on the market at the standards required by the franchisor, while allowing the franchisee to maintain his own autonomy. So the element which differentiates the Product Franchising from a simple subcontracting agreement is the granted possibility o resell the manufacturer products.

In the category of Product Franchising it can be included the “Lifreding” (already mentioned in this paragraf), a term created by the union of the words "licensing, franchising, export and development mix." It is characterized by four elements:

a) license of a manufacturing patent or of a know-how;

b) the franchise of a set of production techniques and distribution not patentable
and of registered brands;

c) the export of products, management information systems or entire companies;

d) the development of manufacturing and management techniques, distribution network and the reputation of the brand in common.

2) With the *Manufactoring Franchising*, “the franchisor (manufacturer) gives the dealer (bottler) the exclusive right to produce and distribute the product in a particular area. This type of franchising is commonly used in the soft-drink industry. Coca-Cola and Pepsi are the popular examples of such type of franchising[7].

It is divided into four sub-types, related to four different relationships between entrepreneurs who are at different stages in the channel:

a) Manufacturer - Retailer;

b) Wholesaler - Retailer;

c) Large Distribution - Retailer;

d) Large Distribution – Wholesaler.

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6 *Entrepreneurial Development* (2006), par. 33.3.6, S S Khanka

7 *Ibidem*

The franchisor may be so both a producer and a distributor that selects the products, procures or let produce them for his own firm by third parties and distributes them, in whole or in part, through his franchisee chain.

3) “Business-format franchising is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, production of operations manuals and standards and quality – control guidance”[8].

Business-format franchising is so the most complete type of franchising, which provides the transfer from the franchisor not only of products and brands, but of an entire "franchise package", which includes every aspect of the business formula (techniques, strategies and know-how);

We’ve seen above how a franchise contract works, and in particular what are the elements included on a franchise cagreement. After this we’ve just mentioned the three main franchsing types. This distinction will help us to understand why and how firms adopt a certain model and i twill be useful to introduct us to the fashion industry.

But after we’ve made the contract’s overview and we’ve seen the analytic part of the franchising, there’s an important question we must ask to keep this analysis going: is it worth it?

To give a correct and complete answer to this question we must first examine advantages and disadvantages, view in both franchisor’s and franchisee’s perspective.

Franchisee’s Perspective:

“Owning a franchise allows you to go into business for yourself, but not by yourself”[9]. That’s how Matt Haller, Director od communication for the IFA (International Franchise Association) summarizes franchisee’s benefits and costs.

But franchisees actually have several <u>advantages</u> compared to independent entrepreneurs, that can be summarized as follows:

- *Reputation*: the franchisee that takes part to a solid and asserted project doesn’t need to work to build a company's reputation, since opening a new business by taking advantage of a brand which

8 Ivi

9 Director of communications for the IFA (International Franchise Association), February 2011, Matt Haller

is already well-known and positivelly accepted by the public. “A franchise provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily takes years to establish […]Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.”[10];

-*Management*: usually the management of a franchise store requires less financial resources because the franchisor offers inventory control and management systems that can reduce costs. In some cases, the franchisor may provide financial assistance for the start of the activity and for the management thereof;

-*Experience*: the experience of the franchisor may in many cases compensate the lack ofexperience of the franchisee, in fact the affiliating companies offer courses and initial job training for new owners who in any case will have to follow the guidelines set by the parent;

-*Assistance*: the new owner of an independent store has to learn everything from zero and also an expert in the sector may not know everything that concerns commercial activity (taxation, statistics, advertising, marketing, etc. etc..). The best franchises assist the franchisee in all the aspects of the management by offering optimal solutions;

-*Income:* an efficiently managed and with optimal trade agreements company can enjoy a reasonable profit margin;

-*Motivation*: since both the franchisor and the franchisee have common interests, both will work to achieve business success.

As we’ve seen the franchise contract seems to be very profitable and not very risky for the franchisee. Nevertheless we also have to mention its possible drawbacks and disadvantages, that can be summarized as follows:

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10 http://www.franchise.org/what-is-a-franchise

-*Duties*: are the charges that must be paid to the franchisor for the use of the brand. The price charged for supplies and other expenses may be higher in some cases, so the profit for the franchisee is reduced.

-*Less Independence*: of course the franchisee must follow the rules of the franchisor, in this way the entrepreneur loses a big part of its independence.

-*Standardization*: the procedures are standardized and the franchisees do not have the possibility to develop new ideas, promotions or projects;
-*Slowness*: due to the size of a business, the franchisor may be slow in accepting new ideas or proposals from the franchisee. In addition, with changing market conditions, the franchisor may be slow in adopting appropriate solutions;

-*Contract's annulment*: it may be difficult and expensive to terminate a franchise agreement if the franchisor does not agree.

Franchisor's perspective:

As previously made we can starting analyzing the franchisor's perspective from his reasons and advantages.

-*More rapid expansion:* the first reason that can drive an entrepreneur to become franchisors is the ability to expand more rapidly. The lack of capital or the lack of good employees can slow the expansion of a company. The franchisee's figure in this way is fundamental, because he brings both of these items once he opens his store,. The franchisor, instead, can help the franchisee to obtain capitals to start new activities, but the responsibility to repay the capital is supported by the franchisee. In addition the franchisor is usually chosen for its expertise in business and its management skills. So, a franchise operation is convenient for both the franchisor and the franchisee.

-*Greater motivation:* a company that makes franchising, acquires a group of entrepreneur-managers motivated to succeed. A manager is also more conscientious in conducting business because, as owner, is totally responsible for the company's results. This means that a potential franchisee should ask itself what are the reasons that drive a franchisor to look for affiliates.

-*Capital:* there is another advantage in launching a franchise. Franchising in fact allows a company to get money without selling any stake in the business. The franchisor uses the entry rights for his business expansion. On the other hand, the emission of new shares often leads to a loss of control by shareholders and lower profits. Similarly, loans are often granted only under certain conditions and require significant costs in the form of interest paid. Unlike these methods of financing, franchising is a valid alternative.

However, it is also useful to examine some disadvantages that franchisors face.

-*Image:* the name and image of a company are threatened when they are sold to third parties in use. As a result, the franchisor is usually very picky about the respect by the franchisee of his quality standards. Franchisors therefore usually outline of the strict rules that must be followed by the franchisees. The concern about the image entrusted to franchisees explains why many franchisors reserve the right to repurchase the affiliated activity. Potential franchisees can still feel reassured by the fact that the franchisor is committed to achieve the success of its affiliates. The common goal for the success of the network encourages franchisors to provide to franchisees all the necessary support.

-*Less profitability for the franchisor*: another disadvantage for the franchisor is related to the fact that he doesn't participate to the profits of the store. A potential franchisee should also consider future motivations of the franchisor. The franchisor, after a franchisee has invested time and energy to make the activity profitable, will try to buy the franchise back? The franchisor should interpret the success of the franchisee as something convenient for both parties.

-*Possible competition*: make a franchise operation also carries the risk of facing possible competitors. Franchisees may exploit the knowledge of the franchisor in order to replicate the operation under a different name. This has already happened to some franchisors and needs prudence. A good franchisor will try to establish a relationship of mutual trust with franchisees, in order to avoid this inconvenience.

When to review a franchise agreement, it’s important to consider the franchisor's perspective. Is fundamental to consider that contract that promotes a balanced relationship between partners. A good franchisor is one who engages in creating a relationship where both parts would be winning.

1.3 Trend, life-cycle and possible situations

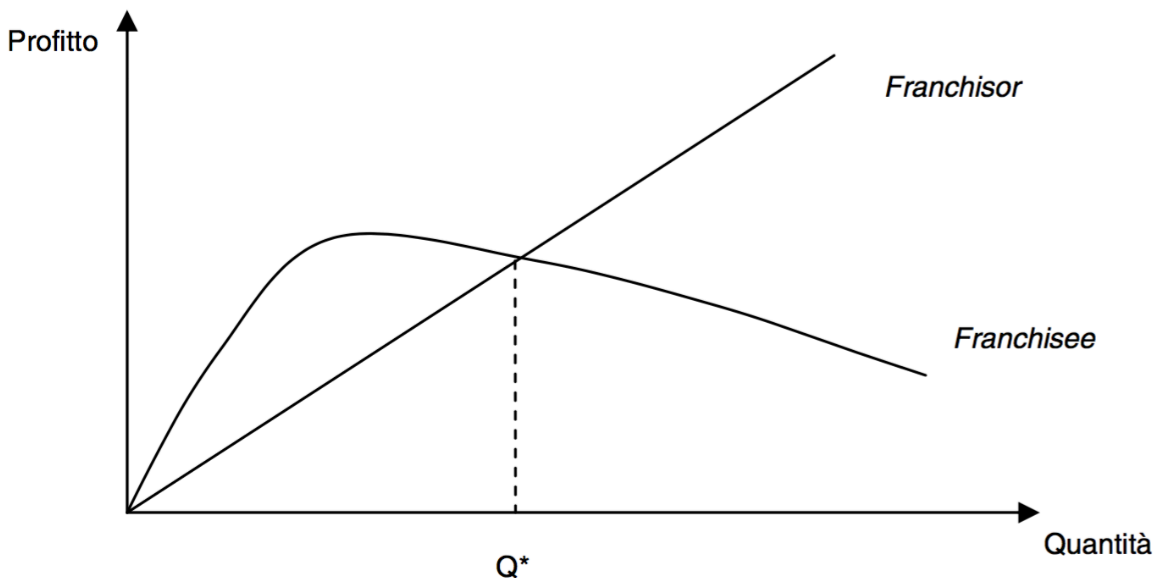
Like any economic organization, even the franchise network is moving predominantly depending on profits but this element has always been a matter of conflicts.

The franchisor is interested on the franchisee's turnover and on the development of ths business because it means increasing his own profit (through royalties or other remuneration systems), whereas for the franchisee, increasing sales beyond a certain limit involves additional costs of mantaining the structure (enlargement of facilities, increasing the number of employees). The franchisee does not want to go beyond a certain volume of sales because for him the resources have a decreasing trend: the higher the revenues, the higher the structural costs. The interests of the parties are therefore conflicting: franchisees tend to maximize their profit function while the franchisor push them to maximize sales.

We can better understand this relationship thanks to the graph below.

Relationship between profits and turnover in franchise systems[11]*:*

Figure 1.3.1



[11] Il controllo di gestione nel franchising (2011), Marisa Amoroso

But as we've seen before for a franchisor profits is not the only important element to evaluate. A rational franchisor, when choosing a franchisee who will drive his business, will have to consider his financial capacity, experience and quality of management of the organization, demographic characteristics, attitudes and personality and of course this process of selection and observation will need time and to make an appropriate appraisal.

These times can also be very long and together represent the network implementation costs. It may be summarized as follows [12]:

< 60 days	43%
> 60 < 120 days	33%
>120 < 180 days	8%
> 180 < 240 days	13%
> 240 days	3%
Total	**100%**

From the table can be deduced that the recruitment times are for the most part less than two months, the maximum is between two and five months but must be taken care because in this example the networks in question are extremely dissimilar to each other and only a sectoral analysis will better explain this statement (the variances are actually pretty high).

That analysis will also result very useful in order to have a complete understanding about the fashion industry and its connection (that we'll see in the following pages) with international franchising.

[12] Osservatorio Permanente sul Franchising (2010)

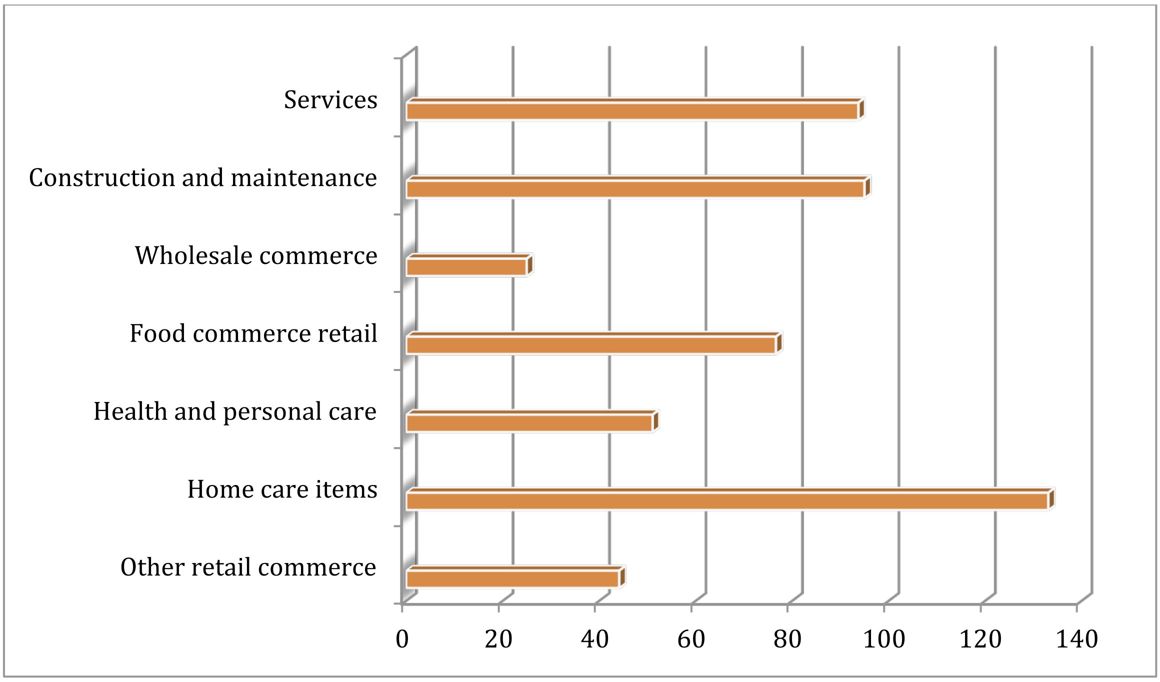
The results obtained from the given questionnaires by sector were as follows (absolute values)[13]:

	Other retail commerce	Home care items	Health and personal care items	Food commerce retail	Wholesale commerce	Construction and maintenance	Services	**Total**
< 60 days	9	3	14	2	1	1	13	**43**
> 60 < 120 days	3	1	5			1	23	**33**
>120 < 180 days		2	2				4	**8**
> 180 < 240 days		1	2	1		1	8	**13**

13 *Ivi*

Time needed for the franchisee's recruitment (average days)[14].

Figure 1.3.2



However, a complete measurement must take into account the time it will take to the recruited franchisees to become economically performing.

Such an interpretation recovers some important theoretical spaces. In fact this temporal measurement indicates the time necessary for the franchisee to obtain a certain economic performance, which is the time to create value from the investments made and that would be lost in case of breakage of the relationship.

Starting from this assumption we can distinguish four possible situations, putting as variables the franchisee's history (if the franchisee is starting a new business or if he's already existent in the sector) and the point of sale (if it's a new or an old one):

A) a **new** franchisee in a **new** point of sale (this case includes so the time necessary for a new franchisee to learn the know-how and the time required for a new store to be economically performing);

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14 Ivi

B) a **new** franchisee in an **already existing** point of sale (this case always includes the time necessary for a new franchisee to acquire the know-how but not more than the necessary to let the point of sale be economically peformant);
C) an **already existing** franchisee in a **new** point of sale (this case includes the time required for a new store to be powerful but not more than necessary for the franchisee to acquire the know-how);
D) a franchisee **already existing** in the network, settled in an **already existing** point of sale (here the only cost we have is a transition or performance cost that corresponds to the familiarization with the existing customers).

For each one of these situations we can connect four different strategies decided from the franchisor, whose choice of the best franchisee that will drive his business will of course be influenced by the aim he wants to reach and by the ways he finds more adaptable to his business. Let's see and analyze them individually:

A) Penetration strategy: new franchisee, new store

The franchisor develops its network through cumulative addition of resources both human and localtion ones. A new unit is assigned to a new franchisee. This strategy is the most common practice at the launch and growth phase of franchise networks because it uses both the human-type resources and external capital.
It results the most expensive strategy as concerns the unit, because it cumulates all expectations: time of adaptation and acquisition of know-how and the point of sale performance.
The risk type of this strategy is therefor very well know by the franchisor: it excludes all other forms of organizations due to a process which takes into account the slowness of the potential profits.

B) Strenghtening strategy: old franchisee, new store

The franchisor improves its geographical coverage with the opening of new units through existing franchisees in its network within the limits or to the extention of their initial exclusivity

area. This strategy allows to densify the network thanks to the multiplication of locations. This alternative avoids the loss of capitals (without adding new franchisees) but tends to alter the division of roles and powers in favor of the franchisee control that becomes multi franchisee network.
The densification strategy economizes the costs of acquiring the know-how. This assumes an excellent initial acquisition of know-how from these franchisees.

C) Regeneration strategy: new franchisee, existing store

The franchisor partially renews his franchisees set. In this case, because of the sale or the non-renewal of the contract, the franchisor renovates his human resources while maintaining the stability of the localization resources. This strategy is willing to be adopted at the network maturity. This alternative grants cost savings related to the store but not on the acquisition of know-how and adaptation costs (the average time is five months).

D) Concentration strategy: old franchisee, existing store

The franchisor reinforces both its human resources and those of site. He grants a lot of existing stores to franchisees already existent in the network.
This strategy allows, thanks to the effort of franchisees, to concentrate both the human resources and those of the site. It also facilitates the coordination and control.
This alternative is the most economical for the costs of obtaining economic performance. The only costs in which this strategy will have to face are the franchisee adaptation costs (on average one and a half months).
This strategy can not be undertaken in any time except in a very advanced stage of the life cycle of the franchise.
Summarizing and trying to better understand the relationship between franchisee and point of sale:
- the *penetration strategy* is more useful for franchisors who want to build his activity from zero, but is very expensive in terms of capital and HR;
- the *strenghtening strategy* helps franchisors who want to expand their business geographically, is economically very favorable but may alter the division of roles and powers in favor of the franchisee control;

- the *regeneration strategy* is instead very expensive for what concerns the acquisition of know-how but grants cost savings to the store;
- the *concentration strategy* facilitates the coordination and control through but has to face franchisee adaptation costs.

	NEW FRANCHISEE	OLD FRANCHISEE
NEW POINT OF SALE	Penetration strategy	Strenghtening strategy
EXISTING POINT OF SALE	Regeneration strategy	Concentration strategy

1.4 Franchising vs. other forms of contracts

In this chapter we've analyzed all the franchise contract's characteristics, its origins and key elements, but the most important thing was to have a total understanding about the reasons why parties sign this contract, explaining in particular which are the advantages and disadvantages connected both to franchisor and franchisee. Finally we've also seen how many different strategies may result from a franchise agreement and which situations are connected to them, using as variables the point of sale and the franchisee's change.

In order to keep this analysis going the last question we have to answer now is: "why franchise rather than other forms of contracts?"

To answer to this question we will so use, as basis for comparison, two other contracts typologies (which are apparently very similar but actually have some important differences that must be mentioned): licensing and joint venture.

Licensing:

The licensing agreement is considered as an atypical contract by which a person (the licensee) assumes on the task of stably handling the commercialization of the products of another party (the lessor), with the particularity that the licensee is linked to the licensor by a set of constraints, that not necessarily coincide in the other different licensing agreements, but which can be summarized as:

-the duty to submit the hallmarks of the licensor

-the duty to undergo the interference of the latter in the management of the company, such to achieve an effective integration between the contracting parties.

Despite the franchise represents an updated version of the license agreement, we must remember that there are substantial differences between the two contracts.

The franchise contract, since it has been stipulated by two entrepreneurs operating on different levels of the market, like that of the trademark license, could be considered as a trade contract, or rather, a bilateral management agreement.

Within it, the main task is that of the licensee, which is committed to promoting the commercialization of products of the licensor. In order to let the licensee carry out the activity

there is a regulation in relation with the grantor’s trademark in advertising and for what concerns signs, as well as technical support duties in favor of the lichensee.
Special attention, with the aim of granting a greater protection to the parties, ha salso been given also paid to the exclusivity clause.

Upon completion of this thinking we can say that the licensing, with which the licensor sells its products to the licensee with the purpose to resale to third parties, doesn’t take into account the presence of the a store, both in the image and in commercial methods of the licensor as well the use of distinctive signs.

From the evidences coming from the licensing in its details and in its methods of execution, we got to see that the two contracts, with the exception of some common elements, show differences that can be summarized as follows:

a) the licensee can not be required to exhibit signs or other distinctive signs of the licensor, except for what concerns brand exposure;
b) in the franchise there is a transfer of commercial know-how, for which you pay a royalty that is often missing in the licensing agreemen;
c) the licencees can use their own brands and expose their own brand names, while this would instead be an anomaly in the franchise;
d) the dealer is not required to pay neither an entrance fee or a royalty;
e) finally, while in the licensing agreement there is only a sale of assets, in the franchise contract there's also a service.

However, despite the many differences, as mentioned before, the two institutions have some points in common and especially in the fact that the main company (licensor and franchisor) grants as warranties in favor of another autonomous enterprise (the lichensee and the franchisee), the right to lead a particular commercial activity over the long period.

Joint Venture:

With the term joint venture we substantially define an agreement between two or more companies which mutually undertake a partnership with the pursuit of common objectives.

Historically the origins of such agreement are to be found in the United States, with subsequent spread to Europe. Joint ventures are mainly used for the creation of industrial plants, for the participation in contracts, for technological research and development and for the creation of commercial networks.

The most important aspects to be consided when talking about a Joint Venture are:

a) the existence of a contract between two or more partners;
b) the definition of a common strategic objective;
c) the willingness to integrate part of their activities and resources;
d) the compatibility of the members;
e) mutual trust between the participants.

We can basically distinguish between two types of Joint Ventures:

i) the *contractual form*: agreement between undertakings which does not create a new distinct and separate legal entity from the participants, but through this contract is possible to set out the various aspects of cooperation and the sharing of profits or losses. The joint venture usually ends up with the achieving of the presetted objectives.

ii) the *corporate form*: agreement between companies which raises up a new legal entity, a company separated from the participants, used for carrying out the shared activity. The duration of the new company may also be open-ended.

We can summarize below the advantages and disadvantages connected to this specific contract:

ADVANTAGES	**DISADVANTAGES**
Reduction of time for realization	Limits for what concerns the decision-making
Sharing of risks	Possibility of internal conflicts
Sharing of costs	Individual interests
Greater bargaining power	Not appropriate partners
Sharing of knowledge and skills	

From the evidences analyzed above we can easily inderstand which are the differences between Joint Venture and franchising.

In facts the reasons why a franchise contract can be preferred to a joint venture is that the former grants advantages for what concerns the indipendence of the decision making and to drive a own business (even if under the control of the franchisor).

The joint venture is more recommended for those investors who don't want to assume the whole risk and for those who don't want to lose time and money on acquiring knowledges and knowhow. This is of course a common purpose of the two contracts, but for sure joint venture doesn't leave space for a professional figure like the franchisee's one.

1.5 International franchising: an instrument to enter new markets

Before going deeper our analysis and introducing the international franchising definition, we must first explain what does “internazionalise” means and which are the reasons why firms and entrepeneurs decide to do that.

"Internationalization" is a concept that encompasses many meanings and many are the ways for a company to go international.

More and more frequently we talk about internationalization as a way to escape from a domestic market in crisis or, some other times, with the belief of easily find fortune abroad through richer markets. But it is not always so.

Maybe the best definition of Internazionalization is given by the economists Johnatan L. Calof and Paul W. Beamish, who define it as “the process of adapting exchange transaction modality to international markets”[15].

Internationalize in any undertaking is to become in some way "international" and thus to create links with companies, consumers and institutions operating in foreign markets.

The term internationalization, therefore, identifies this process of creation of foreign business relationships, but does not define procedures to reach them, which can vary time by time, depending by the different situation.

After the process of internationalization, the company will sell its products abroad, or move its production abroad, or buy from foreign suppliers or find sources of financing in foreign markets.

As is evident then, there are many different roads which leads to the internationalization, as the process which brings to a company new sources that does not belong to the national reality and instead cross its borders.

After have given a definition of the concept of internationaization, it is also important to understand all the reasons that can lead a firms to the choice of bringing its activity abroad and so why do entrepeneurs find it a good ways to drive their business.

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[15] *Adapting to foreign markets: Explaining internationalization,* International Business Review (1995), Jonathan L. Calof and Paul W. Beamish

We can basically find four main reasons why firms choose to internationalize, which canbe summarized as follows:

a) *internationalization for commercial reasons:* takes place when the company decides to focus on expanding the potential demand in order to achieve higher production volumes and thereby to achieve better economic results through economies of scale; we have this model of internationalization also when the company is looking for new opportunities in emerging markets with the greatest commercial potential;

b) *internationalization in order to improve the supply:* takes place when the company is working to overcome the weak markets capacity for what concerns procurements, by sourcing at competitive prices in foreign markets from which will obtain raw materials, semi-finished products and components. This transaction will also facilitate a process of vertical integration;

c) *internationalization in order to improve production*: it takes place when the company decides to locate part of its manufacturing activities abroad as a result of policies made with the aim to attract foreign investments made by local authorities, or when the enterprise uses inputs available abroad on multiple conditions favorable than those possible at the national level; thus, the company exploits the comparative advantages of different countries and reduces the incidence of transportation costs and customs duties;

d) *internationalization in order to improve research and development*: takes place when the company decides to set up creative workshops concerning research and development in the most fertile geographical contexts compared with their working reality, to speed up the competitive evolution process or to discover innovations increasingly complex.

We also know that a firm doesn’t select a market in which to entry randomly, but this choice is made after a long prudent analysis, which must find out an economic advantage for the business.

The identification of the country in which to work is a phase of great importance: it is based on a careful strategy that should also lead to pre-define the extent of the competitive advantage that is expected to achieve.

The analysis conducted by the company to find the market in which to expand moving from assessments of the national environment's *attractiveness* of the foreign country identified and continues disclosing all potential opportunities and all possible risks associated with the decision to address their investment in a new market; in conclusion, there will be carried out considerations on the accessibility of the foreign country.

The process of selection of countries keeps going with a *screening* of the informations available to the enterprise. Screening consists of three levels: the analysis starts from the countries for which we can certainly expresse a positive opinion (acceptable countries); the list of "acceptable countries" is subject to an evaluation of the existing market potential in each of these countries, that leads to the definition of the so-called "industry-specific potential"; the final phase of screening aims to analyze the overall and specific attractiveness of the market object of investigation and establishes the so-called "firm-specific potential."

After having completed the analysis of the attractiveness of the country in question, the company must assess the degree of accessibility of the same, trying to identify the artificial barriers that foreign firms face in placing their offer, as well as the characteristic features of competitiveness in that country .
The analysis of target countries is completed with the identification of the competitive position that can be acquired by the company in these countries. To achieve this result, we can use familiar tools such as, for example, the matrix General Electric / McKinsey, that just puts in relation the attractiveness of the selected countries with the competitive position that the company can acquire in these areas.

From the evidences coming from the graph in the following page we can see that the portion located in the left part of the axes may result the most profitable for a business who wants to have a profit from a foreign market.

Going to the right there will be less actractiveness for businesses and less will also be the competitive position that the company can acquire in these areas[16].

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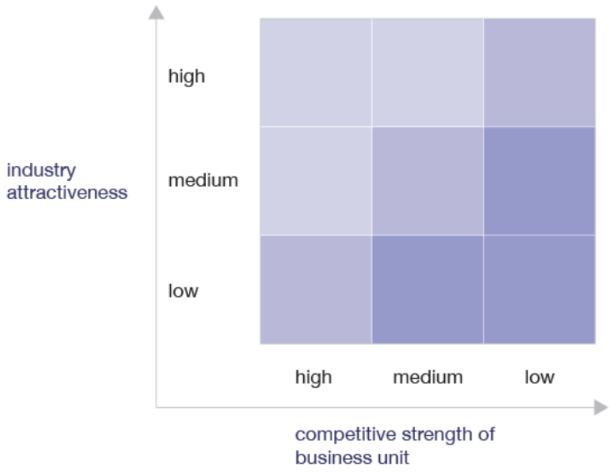
[16] Enduring Ideas: The GE-McKinsey nine-box matrix

Figure 1.5.1



Another important contribute comes from the business magazine *Forbes*, which, talking about the choice of internationalise, gives five useful tips to care at when a business is entering into an international market. Can be summarized as follows:

1) "*Educate yourself on the customs and business etiquette of the international market*"[17]*:* when a business is entering into a new market is important to get to know country's habits and attitudes;

2) "*Gather historical data on the country's currency value fluctuation and import/export timelines*"[18]*:* this is very important in oder not to make mistakes for what concerns economic future evaluations. It may also be fundamental so to understand the future currency's flow of a country;

3) "*Become an expert on the country's laws governing business*"[19]*:* before starting a business in a foreign country it's helpful toget to know all the country's issues and rules, in order to have a fool comprehension of all the possible barriers to entry that an entrepeneur could find as obstacle for his own activity;

17 http://www.forbes.com/sites/yec/2011/09/22/a-5-step-primer-for-entering-an-international-market/#34b9947d3845

18 Ibidem

19 Ibidem

4) "*Conduct focus groups to test the waters in the prospective international market"*[20]*:* in order to create a product or service adaptabla to the new market it is essential to learn and understand the foreign culture. That may lead to an adaptation process. This way in one hand may appear more expensive, in the other hand let the new customers feel closer to your business and to get involved with it;

5) "*Find out what your competition has done in the same territory"*[21]*:* another way to enter a new market is to get a look at the work done by your competitors. Infact it may result easyer and less expensive to see how they entered in the market before and how they faced the obstacles that a business can find there.

As we've seen in this paragraph the choice of a new market in which to enter is difficult and must be taken after a rational study and thinking.
This study must of course start with the opportunities and the advantages of bringing a business abroad. Therefore the most important element which a business cannot forget is rapresented by threats and obtacles to entry (as alreasy mentioned before), that can be summarized in two word sas *country risks*.

"Country risk refers primarily to the stability of the political, social, and economic conditions. Firms tend to avoid or to limit their resource commitment in areas of high country risk. Exporting and contractual agreements offer low resource commitment options in markets that have high country risk. However, contractual agreements are increasingly used in countries marked by high risk of intellectual property violation (as part of country-risk analysis) in which the legislation and enforcement standards are weak[22]".

We can basically find four typologies of country risks: *country risk*, *monetary risk*, *technical risk* and *legal risk*.

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20 Ivi

21 Ibidem

22 T*rust and Performance in Cross-Border Marketing Partnerships: A Behavioral Approach*, Journal of International Business Studies, 1996, vol. 27, issue 4, pages 1005-1032, Preet S Aulakh, Masaaki Kotabe and Arvind Sahay

a) *Country risk*: operating abroad, a company is subjected to the laws of the foreign country with the possibility of incurring economic losses due to events that can not be controlled by the company.
To avoid dangerous inconveniences that may threaten the investments made, it is necessary, in the project start-up phase, to select the geographic market in which the firm will operate and maintain a constant monitoring of the situation.
For this purpose chambers of commerce publish effective country profiles which identify risks from a political, economic and social point of view of the individual states.
The strategic tool to use in this case is the PEST Analysis.

b) *Monetary risk*: the company operating abroad, may face the risk of reduction of the transaction value due to foreign currency devaluation.
This may occur in the presence of significant payment deferrals, since the price and the currency in which the payment must be made are established at the time of conclusion of the international agreement.
To avoid these problems it is important to carry out insurance on exchange rates.
Obviously, this problem normally occurs at a later date, when the company already operates on the market with extended contracts with deferred payment systems. During the first supplies it is always best to protect themselves with advance payments or guaranteed letters of credit;

c) *Technical risk*: incurs when the products manufactured by the company don’t meet the local technical regulations of the foreign country.
This is a much more common situation than it might seem. The history of the internationalization of enterprises is full of stories about transactions stopped by the customs of the country because they did not comply with regulatory or legislative requirements of the country where the customer is located.
Also to avoid this kind of problems, before to start any business transaction, it is important to make an analytical research about market and products;

d) *Legal risk*: it's very common to run into legal disputes because of a lack of or no detailed knowledge of the different legislation on such contracts.

Before the conclusion of any trade agreement, it is required a careful verification of the local legislation, through the help of experts of the foreign legislation in that country.

After having made a focus on the internationalization process and after having analyzed all the issues connected to countries attractiveness, it is central in our research the role of international franchising. For this reason, in order to fully understand this process, we must answer to two important questions:
1) why do firms adopt international franchising as a way to internationalize instead of other forms?
2) which are the critical factors of success that firms have to follow in order to have a successful franchising?
We will give the appropriate answers of those two questions below.

Reasons supporting international franchising instead of other forms

- the first advantage of the franchise contract is of course, as mentioned in the previous paragraphs, connected to the *risk* factor. In fact in the international franchising form, unlike what happens for example with Foreign Direct Investments, the bigger portion of the risk is transfered to the franchisee, and in this way the franchisor has the possibility to have just a very limited loss. The main drawback in this reasoning is that the firm may lose attractiveness in terms of brand image;

- the *choice of the individuals* is another point to take into consideration: in fact, we can make all the possible markets and firms evaluations, but the individuals will finally be the one who will tak decisions. Those individuals may be recognized in the professional figures of Top Managers and Organizational Managers, and so their choice will also depend on their subjective characteristics as age, education, experience;

- the *brand's strenght* is a decisive factor to decide if to use franchising or other forms of foreign markets entry. It is reasonable "that a company will initially use non-franchising entry modes during initial or early stages of internationalization and only later employ franchising when the brand name and concept has been developed"[23]. The company will basically take advantage of its popularity reached during the long experience made in the home country.

- It may not be easy for companies to operate in countries with a huge variety of cultures and languages. In some countries firms may not have the possibility to standardize their services or products. "For such companies, one way to reduce adaptation costs is to employ franchising. This type of expansion is evident across other sectors and industries"[24];

- Another important element is the *the granting of exclusive territorial rights or the right to subfranchise* . That's another element that characterizes the franchising contract and let it distinguishes itself from the others. In the joint venture for example the franchisor makes a sort of partnership with the foreign franchisee, but the territorial exclusive territorial right is not granted.

Critical factors of success

- the "*market potential* [is seen] as the main [factor of] influence on franchise internationalization"[25]. This theory has also been led by famous academics like Hackett (1976), Tranckiem (1979), Walker and Cross (1989), Aydin and Kacker (1990) and Hopkins (1996). This factor is also connected to the demonstration exposed in the previuous lines, through the Mc Kinsey matrix, about a country attractiveness;

- the *firm's size* may be an influent factor, both as reason to internationalize and as factor of success. In fact, following the studies of Aydin and Kacker in their book "International outlook for US-based franchisors" (1990), the evidences show not only that, on average, firms tend to internationalize just after having reached a certain size in terms of operations in the domestic country, but also that the likelihood and nature of the foreign entry was affected by the learning process inherent in the expansion of the market in question;

23 *Towards a framework for the study of franchising as an operating mode for international retail companies*, The International Review of Retail, Distribution and Consumer Research (1998), Barry Quinn

24 *The Times*, 20 April,p. 20 (1994), Harris, D.

25 *Towards a framework for the study of franchising as an operating mode for international retail companies*, The International Review of Retail, Distribution and Consumer Research (1998), Barry Quinn

- *firm's orientation* and *risk adversion* also affect a franchising success. "There is an implicit assumption that the basic goal of any franchising system is to survive by striving to increase long-term profitability and keeping risks at a low level. These two competing forces […] determine the strength of top manage- ment's intentions to internationalize"[26].

- as we already mentioned for what concerns reasons supporting international franchising, *standardization* must also be considered as a critical factor of success. In fact companies in some countires, both for social, economical or political factors, may need to adopt a standardization strategy in order not to incur in excessive costs. This does not mean that firms have not to change in any way. Adaptation must still be made but in staff recruitment, training, marketing methods, management and accounting procedures and methods rather than at the product or service level;

- the *franchisee's satisfaction* is another important element, especially if considered in terms of franchisor's control. In fact if the franchisee considers the support received from the franchisor adequate, it will result easier for this one to make effetive control mechanisms;

- finally, still remaining in the topic of the relationship between frenchisor and franchisee, the *communication* factor can result decisive for the avoidance of conflicts between the two parties.

In conclusion this chapter was helpful to understand all the characteristics of a franchise agreement and to have a complete knowledge about the topic that we are going to discuss further. Our aim is to be prepared for introducing our study on the main topic, the international franchising, and applying it to the fashion industry, trying to evaluate if this particular agreement is profitable or not for this specific sector and if it's always the right choice to make.

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[26] Ivi

Chapter 2: the fashion industry: analysis and trends through years

2.1 Introduction and history

The word "fashion" appears for the first time in Italy in the middle of the seventeenth century. It was a translation of the term "mode" already in use in France, derived from the Latin "modus" (way, choice) but expressed the concept of "right fit". Therefore it is considered "fashionable" everything that is perceived as "fair" in a certain historical moment and in a given context.

Till the end of Middle Ages, the way of dressing of the people has remained basically unchanged, and this was because society was static and the past represented the supreme value, the reference model for all behaviors.

The fashion development was thus made possible by the simultaneous development of modern culture in the Western world and its democratic principles. The two crucial aspects for the appearance of fashion were primarily the idealization of the new through the myth of social progress, then the individual's cability to break free from traditional social ties and to feel free to express their power of choice. This explains why fashion can not longer exist without changing constantly.

At the beginning of the twentieth century, with the crucial role played by fashion magazines, there was a further upgrade of the clothing system quality, which has been driven by a greater internal organization of fashion companies, that started presenting the collections every six months. The magazine "Vogue", existing from the late nineteenth century, has gradually become the most important publication to present new clothes thanks to the massive field of photography.

The birth of high fashion

The First World War was a crucial factor for the acceleration of this process, because women often had to perform tasks usually carried out by men, who instead left their home to join the war. Women, replacing men in farms and factories, need to wear more comfortable and functional clothes, that were close to those used by men. Women could no longer appear fragile and weak like in the nineteenth century, but had to have a strong and dynamic image; it was thanks to the indissoluble link between body and dress that women took a decisive impetus to the liberation of the style of dress of themselves, exposing more body and also adopting a cut male hair (called *à la garçonne*, presented in Paris in 1924) which gave them a new teenage look, putting aside the usual female forms.

This process saw as most relevant protagonists personalities as Coco Chanel, Elsa Schiaparelli, Salvatore Ferragamo and Christian Dior (as you can see Italy and France has been the leading countries of this process).

2.2 The evolution of fashion industry nowadays: international trends and growth

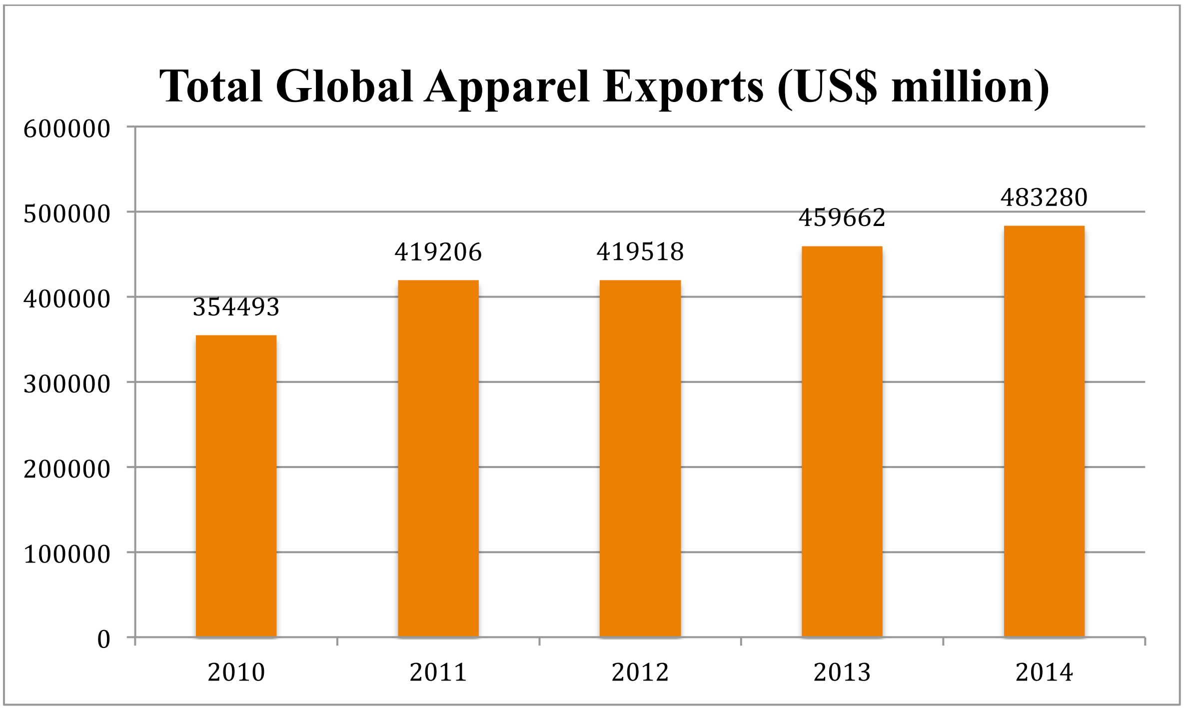
In order to better understand our analysis is important to comprehend why and how fashion firms decided to internationalize their business, and in particular why do they finally decided to choose the international franchising to actualize it.

As we already mentioned before, Italy and France have been pioneers in the fashion industry, and they're still taken nowadays as example as world fashion icons.

However twentieth century's globalization and twenty-first century's strong financial crysis pushed the market towards United States first (thanks to their strong competitive advantage in terms of economies of scale and to the massive supply) and towards Asian market then (on which we will focus more later, those markets have the possibility to manufacture at lower costs then other countries in Europe and US.

Export became so a very important element for fashion industry through years, especially nowadays[27].

Figure 2.2.1



[27] *Total Global Apparel Exports, World Trade Organization* (WTO)

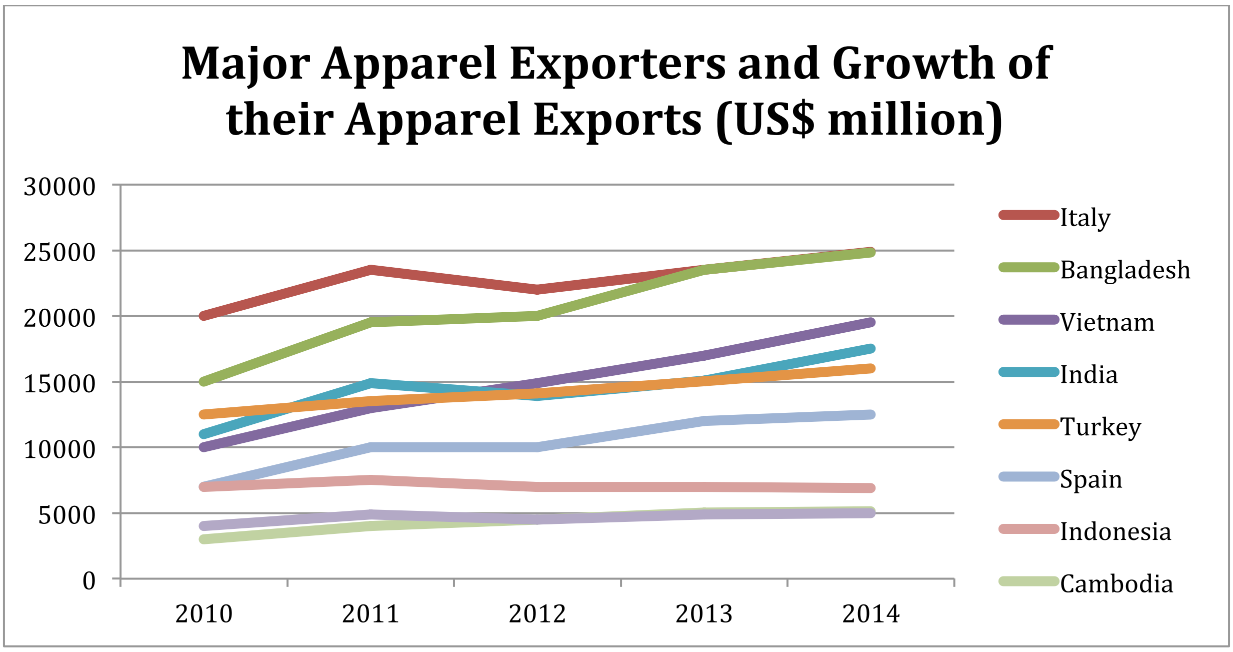
As we can see from the graph, nowadays the global apparel exports is having a steady growth, and it's so a profitable field in which a business can invest.

Another important trend which has to be mentioned is represented by the countries that are being the main characters in this process.
As we can see from the graph below all the emerging countries belong to the Asian market, in particular Bangladesh, Vietnam, India, Indonesia, Cambodia and Pakistan.
All this countries are facing a very consistent growth during the years, and became strong competitors for the Italian market (which has still a huge advantage on them).

But there's a very important element we still haven't mentioned in the graph: the hugest apparel exporter all over the world is *China*, which dominates the market and had a continuous and steady growth which led its exports till over 200 US$ million in 2014.

Cambodia, Pakistan and Indonesia are still a step behind than other exporting countries, whereas Spain exports are strongly increasing nowadays, especially because of the presence of the retailer giant Zara[28].

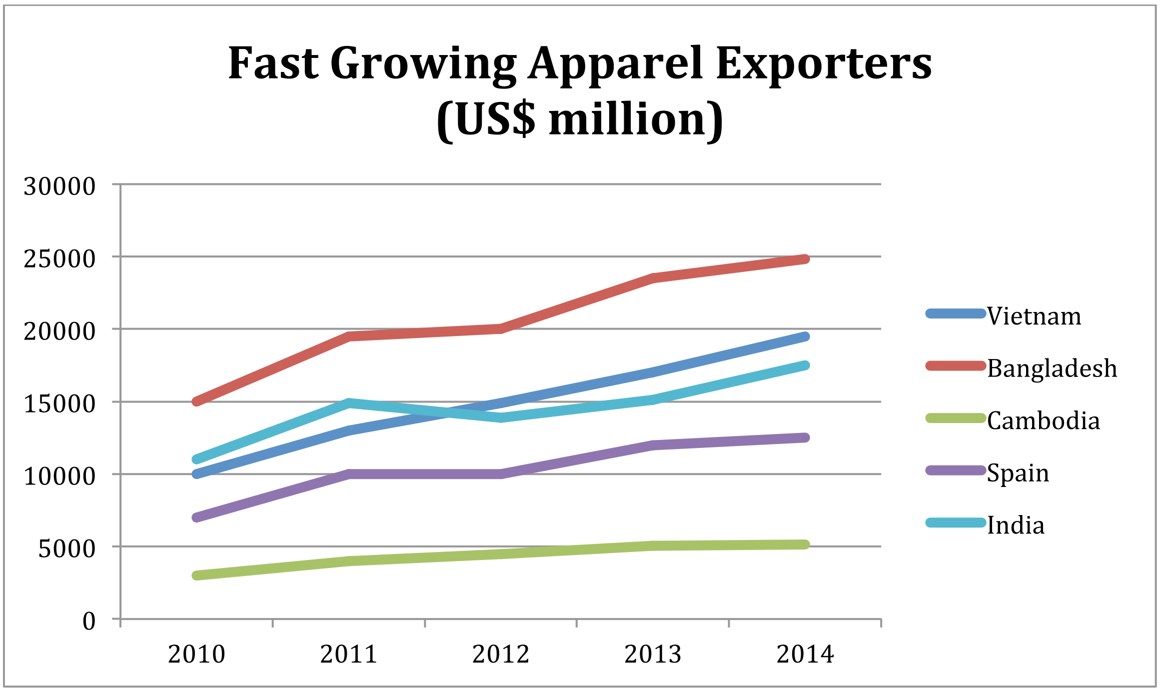
Figure 2.2.2



28 *Major Apparel Exporters and Growth of their Apparel Exports*, World Trade Organization (WTO)

We can so have a look at the countries that had the most significant growths during the recent years:

Figure 2.2.3

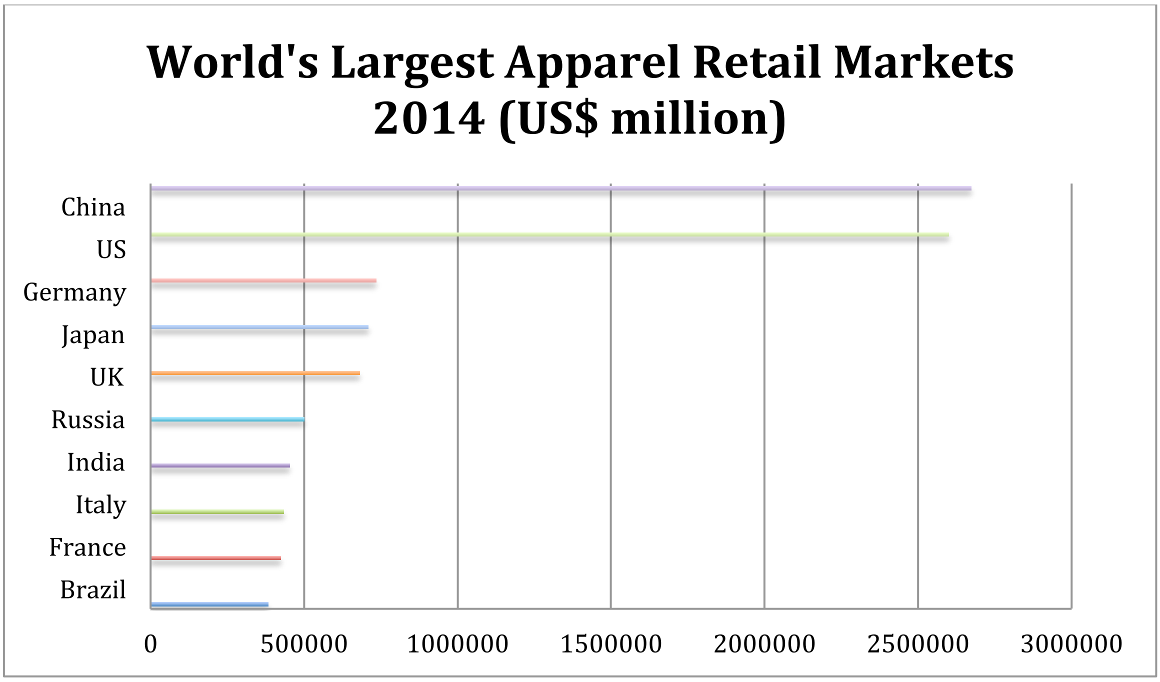


[29]

After having given a look to the world countries growth rates, in order to better understand where and why businesses choose a certain country when they decide to internationalize, it is useful to analyze which are the largest retail markets for the sector on which we're focusing.

[29] *Fast Growing Apparel Exporters*, World Trade Organization (WTO)

Figure 2.2.4



As we can see US and China, for distance, are the two markets with the largest apparel retail in the world[30].

United States

The US represents a key market for international business transactions and able to influence economic dynamics globally. It is a very broad market and, together with Canada, constitutes a real continent, always full of new interesting businesses and job opportunities, despite the difficult global economic situation. The United States are characterized by a form of market that rewards and supports private initiative, and it's not a coincidence that it's the country of origin of the myth of the self-made man, which started with the legendary pioneers that conquered the West. Even today, there are many points in favor of the foreign expansion in this market where labor costs, rental of premises and utilities are much lower than in Italy for example. Moreover the bureaucracy to open a store, that may result a bit complicated for Italians operators, is presented with precise and clear rules with immediate interpretation. Another point for the US market, compared to Italy, is erepresented by the widespread and systematic dissemination of the Internet and all that is connected to the virtual world and new technologies.

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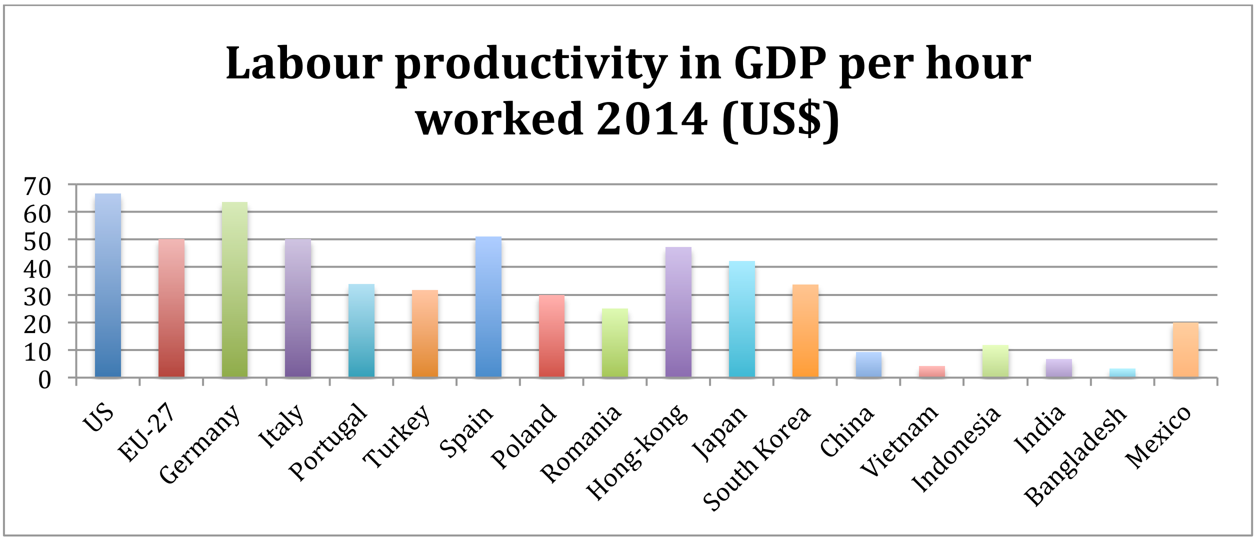
30 World's Largest Apparel Retail Markets 2014, *Euromonitor*

For franchisors and the Italian retailers the expansion in the US is of course an ambitious goal, but if approached in the right way it may certainly be a great satisfaction.

Another very important dominant factor to mention for US is represented by the labour productivity which is actually very high and largdly overtake all the other countries (it must be kept in count that Italy is the third best country in this trend) [31].

Figure 2.2.5



China

In 2013, China has really exceeded all expectations becoming the largest market in the world for what concerns food industry, luxury goods and e-commerce.

In addition to all this, there has been a significant increase in consumption of Chinese tourists abroad, because of the growing number of Chinese travelers (around 97 million) and because of their increasing spending capacity (both overall and per capita capacity), most part of which in the retail environment.

By the way, even if China per capita capacity is facing a steady growth during the recent years, isn't still at the level of other major spending citizens as them from United Arab Emirates, US, UK and other countries we can see from the graph below [32].

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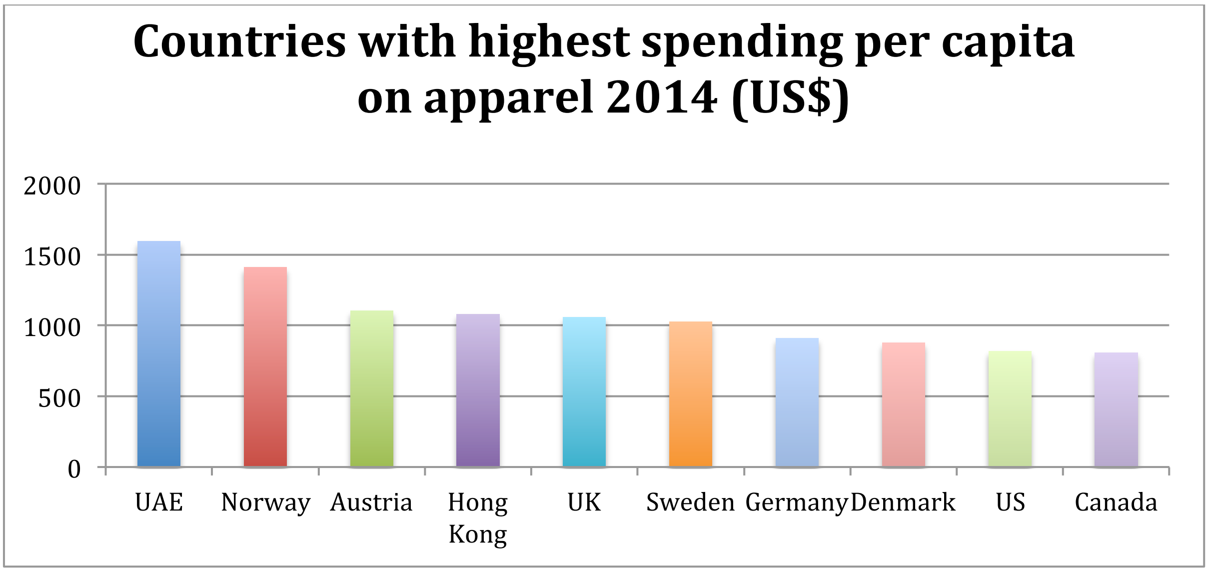
[31] *Labour productivity in GDP per hour worked 2014,* The conference board economic database

Figure 2.2.6



Going back to the retail analysis, international studies agree then on this market growth forecast: over the next 5 years, China will overtake the United States as the world's most powerful retail and, within 10 years, the share concerning the spending factor will cover about a quarter of global retail spending.

The decisive factors are the rapid urbanization, the ongoing reform of the social security system and the government's commitment in promoting domestic consumption.

The annual survey to retail CEOs around the world prepared by PwC shows that China is still considered, in the next 12 months, the fastest growing market[33]. More than a quarter of CEOs surveyed the fact lists among the top three growth markets.

Despite this, China also demonstrates to be a difficult market in many aspects. The retail growth is slowing down, the number of players for what concerns internal competition is increasing and the online sales channels are growing rapidly thus threatening the traditional channels.

In fact, China is no longer considered a market where the mere opening of new stores automatically guarantee its success, as it was in the past. Consequently, while some retailers are still continuing their ambitious expansions plans or are implementing complex entry strategies,

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32 Countries with highest spending per capita on apparel 2014, Euromonitor

33 Annual Global Survey to Retail, (2014)

the pioneers are already consolidating their procedures, slowing down the process of opening of new stores or signing agreements with local partners to share and thus reduce the risk.
Also other players are dropping out of the market or are converting their businesses to the online channel, which have huge potential expectations.
However, despite the uncertainties which reguard also s the short term, the potential of the Chinese market is aspired by the whole world. For example, the expected volume of sales for the retail sector in China over the next five years is a growth of 8% per annum. Definitely a “failure” if compared to double-figures growth rates of previous years, but still represents a huge attractiveness of this market worldwide.

2.3 Fashion industry nowadays: a focus on the Italian market

Putting aside the analysis made about China and US, the textile and apparel industry has instead different trend, which is actually dominated by Italy.
As we said in the previous paragraphs Italy is the cradle of the fashion industry. In fact, this market must be thankful to Italy both for its origins and for the know-how which represents today a very important part of our culture

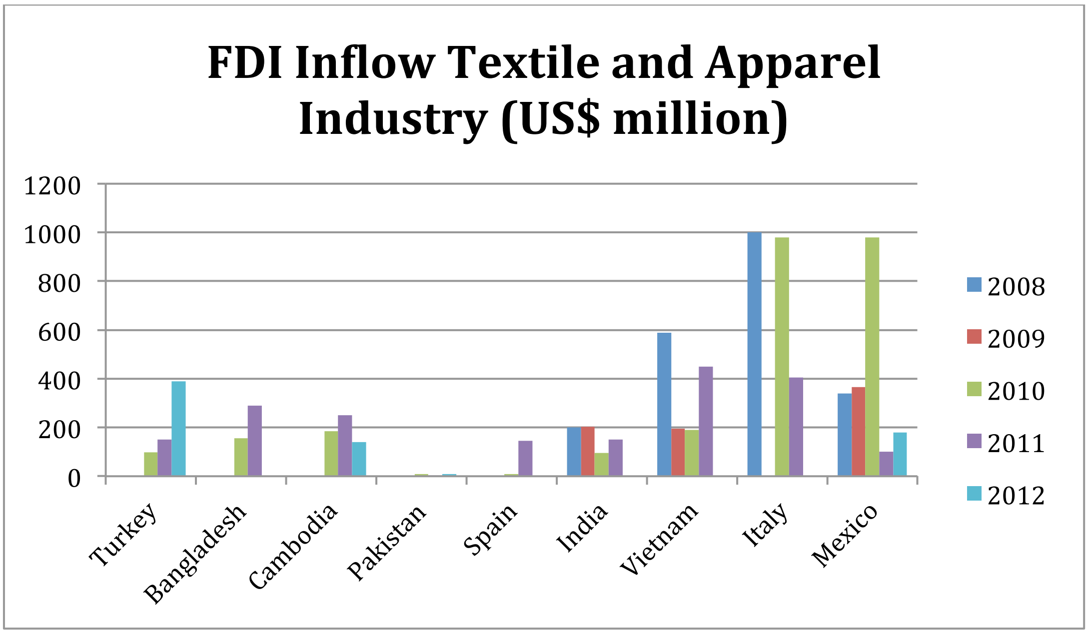
The Italian textile and fashion industry is a productive sector of huge importance for the economy of our country. We talk about figures which reach 52.4 billion of production in 2015, 402,700 of employees and a balance of trade of more than 8.5 billion. This industry traditionally generates a trade surplus second only to that of mechanics engineering. The secret of the system's international competitiveness are investments in innovation, research and product development, tradition, know-how and synergistic collaboration between the various stages of the supply chain until the integration with the retail.

The Italian supply is placed on high-end products and will appeal to both the traditional markets as Europe, Russia, the US and Japan, and to new emerging realities: particular importance must be given to the role played in the recent growth of exports by Asian markets , in particular the countries of Asia and China, and of course Japan. On these markets a huge number of companies, medium and large, are generally managed to achieve excellent results thanks to a continuous process of qualification of the product and to a supply positioning on segments with higher added value.

Despite a slower growth rate of the mature markets, we can predict very interesting opportunities in the emerging markets, under the condition that businesses are able to reach a competitive advantage from the broad consumer income opportunities of the growth process coming from these countries, letting them feel closer to our Made in Italy.

The figures show that in this field Italy is world-excellence, with an increase in both production and exports. Unfortunately, the numbers of the previous years, not influenced by the global financial crisis, are different[34].

Figure 2.3.1



And this has led to a huge decrease of companies and, subsequently, employment. First of all the 2015, from the datas collected by the SMI (Italian Fashion System), has a thin growth in turnover (+ 0.6%) compared to the same figure for 2014. There are about 330 million more divided between the textile (an increase of 0,4%) and clothing-fashion (which increases by 0.8%), with many sectors which make up the articulated national production chain that close the year with a loss[35].

34 *FDI Inflow Textile and Apparel Industry,* OECD

35 *Internal survey*, SMI (Sistema Moda Italia) on ISTAT.

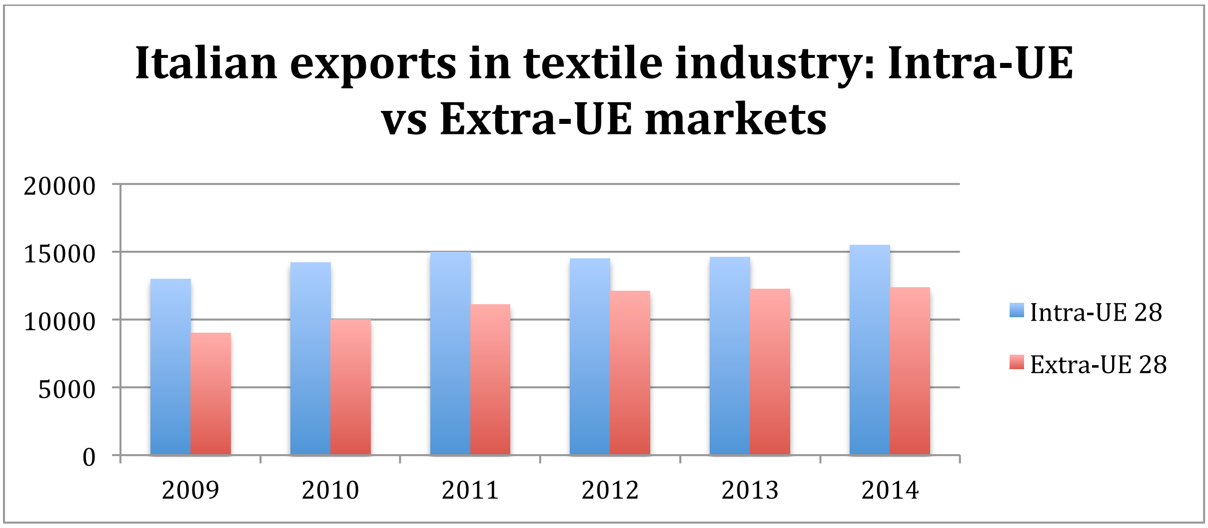
ITALIAN TEXTILE INDUSTRY (MLN/€)

	2010	2011	2012	2013	2014	2015
Sales volume	49960	52.768 +6,3%	51.090 -3,2%	50.720 -0,7%	53066 +2,7%	52.399 +0,6%
Value of the production	34.846	36.239 +4,0%	35.520 -2,0%	35.433 -0,2%	35.134 -0,8%	34.502 -1,8%
export	24.604	26.911 +9,4%	26.958 +0,2%	27.414 +1,7%	28.467 +3,8%	29.056 +2,1%
import	18.566	20.342 +9,6%	18.126 -10,9%	17.868 -1,4%	19.299 +8,0%	20.344 +5,4%
Trade balance	6.039	6.569 +8,8%	8.832 +34,5%	9.545 +8,1%	9.168 -3,9%	8.712 -5,0%
Apparent consumption	28.807	29.670 +3,0%	26.688 -10,1%	25.887 -3,0%	25.965 +0,3%	25.790 -0,7%
n. firms	53.085	51.873 -2,3%	50.039 -3,5%	48.589 -2,9%	47.619 -2,0%	47.079 -1,1%
Employees (thousand)	458,6	446,9 -2,6%	423,3 -5,3%	412,3 -2,6%	406,4 -1,4%	402,8 -0,9%
Structural indicators (%)	49,5	51,0	52,8	54,0	54,7	55,5

In the same year exports, grew by 2.1% despite a sharp decline in the third trimester, is at 29.056 billion euro, thus ensuring an incidence of 55.5% on total revenues. Italy is the third largest exporter in the textile-clothing sector after China and Germany. The trade within the EU showed a more intense increase of + 2.5%, while the non-EU one has grown on an average of 1.6%.

We can here look at the evidences below, which are useful first to show the bulk of italian exports in detail, and second compare exports trends in UE and non-UE countries[36].

Figure 2.3.2



The import growth is confirmed in the not irrelevant rate of + 5.4%; imports of textile products grows up at a rate of + 2.7%, while the one of finished garments at + 6.7%. The most important fall was the one of the domestic market, that in the internal textile-clothing sector (relative therefore to the resident families) recorded a new decline, although less than in recent years, corresponding to -2.0% in current terms.

The SMI statistical processing tell us that the number of companies shows an average annual contraction of -1.1% (ie corresponding to 540 units that stopped the business), which leads to estimate 47,079 active enterprises (industrial and not). If we focus on the job numbers, the employed decreased to approximately 402,770, recording a decline of -0.9%, which corresponds to a job loss of over 3,600 workers.

In the period from January to March 2016, exports are characterized by a low growth, about 0.8%, while imports reversed the trend and marked a setback, equal to -0.7% (growing trend if compared with the 8.2% in the first trimester of 2015). Talking about exports, the two macro-

[36] *(Le esportazioni di Tessile-Moda italiano: mercati UE ed extra-UE a confronto (*2009-2014*),* SMI (Sistema Moda Italia) on ISTAT

supply chains, that are textiles and clothing-fashion, they respectively mark an increase of + 3.5% and a slowdown of 0.5%. On the other hand, the import of semi-finished textiles grows by 3% while that of finished garments loses 2.5%.

For what concerns the revenues, the major Italian players in the 2015 have been Luxottica (with 8.8 billion euro), Prada (with 3.5 billion euro) and Salvatore Ferragamo (1.4 billion). Moncler has the highest percentage of increase, with a turnover increased by 26.8%, that correspond to 880 million euro.

2.4 A better understanding of the fashion world: market tastes and habits

After having analyzed all the markets (Italian and foreign) characteristics, in order to understand not only which are the trends and the economic opportunities, but also what customers want and how do firms can influence (or beeing influenced by) the supply.

The first thing we have to know is that we can basically distinguish few kinds of market in which a firm operates. Each market has got its own characteristics, depending on factors as supply, consumers tastes, socip-political conditions, variety of customers clusters and development of the fashion in a certain country.

They can be summarized as follows:

- *accessible market*: fashion after having been reserved to a certain the elite for many years, so unreachable for many consumers, it is now extended to all the social groups, transforming itself from a cultural and privileged phenomenon in a consumer phenomenon. the success of many brands has been to make fashion accessible to all the clusters of consumers;

- *consumer oriented market:* fashion is made by consumers once they decidw to acquire and wear a suit. A look becomes fashionable only if there are consumers who decide to buy it and wear it in;

- *conditioned market*: there are aspects that strongly limit the market, as like politics, economy, technology, culture, psychology, human behavior, ideological movements, lifestyles, etc. For example, we want to highlight the conditioning process made across the years by the street-style (hippies, punk, dark, underground...), movements (Ecomoda, ecologists…), from geographical and historical characterizations (country-style, Hawaiian style ...) by particular styles (glamour, adlib, trash…)

- *current market*: fashion must meet a current market; this means that the offer must match precise and present needs of consumers. The modernity of the products offered, is the factor that guarantees first of all that these are taken into account by the mass, then accepted and purchased;

- *differentiated market*: very often the designers in their products range apparently reveal few differences. However the market, over time, shows to be highly differentiated and very prone to accept differences;

- *segmented market*: many consumers have very specific and sophisticated life-styles, so that they give rise to specific market niches, within which there are special fashion trends;

- *gradual market*: fashion development happens by degrees; the consumer is not likely to completely renew his wardrobe every season. This process happens gradually, introducing some new article time by time. Therefore fashion proposals can not be too radical, otherwise they would be denied by consumers behavior;

- *global market*: fashion as culture, music and cinema can communicate universal and multicultural messages. If certain products can be sold all over the world from Japan to south Africa, from the USA to Finland means that fashion industry can satisfy all the needs of a wide audience. The fashion market nowadays can cross every possible border. Consumers that the offer has to reach are those of the global village, so that products, policies and strategies have to be addressed in respect of the globalization of markets;

- *dynamic market*: fashion is something that passes. We can not think of clothing, fashion products that last forever (rather they can come back, as we will see in the next pages).

The fashion life-cycle

By experiencing the historical evolution of fashion, it is possible to assert the existence of the characteristic of variability over time, which gives rise to a process of continuous change, significant in economic terms, in one hand due to the intrinsic cycle of the seasons, in the other hand due to the fashion cycle in the strict sense.

The change linked to the seasons has substantially functional reasons that depend largely on the weather and usage occasions, with implications on methods, materials and colors; instead, the change linked to the fashion in the narrow sense, is explained in one hand as a phenomenon resulting by the industrial system, which uses the "forced obsolescence" as tool to feed always new demand for products, in the other hand as a natural evolution of companies, which reply to the growing needs of the consumers through a wide supply.

Let's now try to give a definition of fashion cycle, thanks to the studies made by the Indian Journal of Research: "the ways fashion changes are described as the *Fashion Cycle*. A cycle: Is the period of time or life span during which fashion exists. Style: is a particular look, shape or type of apparel. The fashion cycle is usually depicted as a bell- shaped curve encompassing ve stages: *Introduction*, *Rise in popularity*, *Peak*, *Decline in popularity*, and *Rejection*[37].

Before helping ourselves with the use of an appropriate graph, it may result useful for our research to give the definition of each part that contributes to form the lyfe cycle:

a) *introduction*: designers and companies, after having related with the market through a constant and focused action research and monitoring, give a creative interpretation of their needs in a fashion that is reflected in clothing, collections and styles that are offered as emerging fashion.
During the first stage, the new style is adopted by *opinion leaders*, that is a small group of consumers and distributors who want to stand out from the others and who want to reach a "differentiation class", or just want to identify with a system of values or taste.

b) rise in popularity: the fashion acceptance is confirmed by the purchase of products that represent it; growth also occurs because of the disclosure made by media and trade. In this stage, in which not all fashion firms are lucky enough to get in, there is a process of diffusion and adoption of much wider segments of the market. At the core of this distribution there is often an aspirational dimension, that is the willingness to follow the trend promoted by opinion leaders, from those who pursue an imitative behavior model. In this sense of the word, opinion leaders are represented by those who perceive first the trendy phenomena and adopt them.

c) *peak*: when fashion reaches the maximum of popularity it means that it is having a mass diffusion.

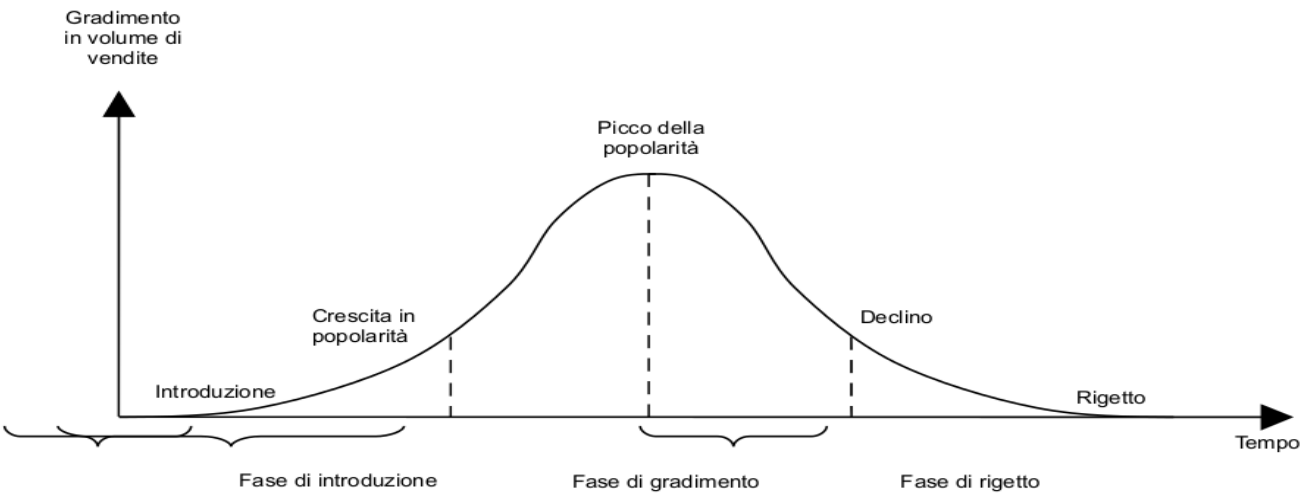
d) *decline in popularity*: at this stage the fashion begins to decrease the number of its followers, even if still a huge number of consumers keep wearing the heads that characterize it; there's not, however, more intention of buying them unless they are offered at very attractive prices. This

37 *The Fashion Cycle and Theories of Fashion,* Indian Journal of Research, Sana Mahmoud Abbasi (2013)

stage charaterizes all styles intended to have a for short life (fashions) or, in a medium-long term projection, structural changes (the use of hats, coats, scarfs, ie products that decline without introducing appropriate substitutes)

e) *rejection*: at this stage fashion becomes outdated, so that consumers not only does not show any interest for it, but reject it and don't want to appear in its likeness anymore[38].

Figure 2.4.1



[38] *Il marketing della moda*, Milano, Franco Angeli (2001), A. Foglio

2.5 Where is it worthwhile to invest?

After having analyzed all the factors we may be interested in our study (like markets trends, textile manufactures, fashion industry and its products life-cycle..), and after having fully explained the franchising typologies and the reasons why firms decide to internationalize, a question will arise spontaneously: where is it worthwhile to invest?

It's not a simple question to answer, and there's not a unique way of doing business for all kind of brands.
For this reason it is more effective to compare brands with different positioning between each other, or to compare brands that offer different products slots.

In this analysis, it wouldn't be correct to just consider a certain market (or area) or a certain specifically positioned firm. Considering all this aspects we decided to expand our analysis to a wider range of firms, covering different areas of the "positioning maps" which sell different product categories (even if we're moving across the fashion industry borders) between each other, matching them with different markets inside and outside Europe.
In particular we will see in details the markets entries (obviously through the penetration tool of the international franchising, already analyzed in chapter 1) of MaxMara in China, Furla in Spain, Calzedonia group (thanks to the Brand *Intimissimi*) in USA, and finally Original Marines in the United Arab Emirates UAE).
In this way we have not just the possibility to compare the market entry in three different continents, but we also can understand how a fashion firm should behave when penetrating through internationalisation.
The elements we are going to analyze are the histories of each firm, the organizational structure, the distribution chain, factors describing a country attractiveness (like the system strenghts-weaknesses-opportunities-threats through the SWOT analysis), brand positioning, customers tastes and, last but maybe the most important factor, future economic benefits.

An important role in this process may also be played by the company profile and its history. In fact, these two factors incur on creating a brand vision and may affect customers in their choices and evaluations, especially when considering brand loyalty, brand awareness and brand identity.

Another question we will need to give an explenation is: why to use international franchising as instrument to penetrate the market instead other forms? After having finished our analysis it must be clear how and why the firms specifically observed in the fashion industry did not use for example forms of market entry like joint venture or licensing.

But the most important topic we have to focus on is: will the choice of the firms mentioned before to internationalise in the respective countires in questions be profitable or not? Will it bring an added value or a competitive advantage to the firms?
We are going to answer to all this questions in the next pages, trying to understand why the answer to all this questions is "yes".

To do this we also have to consider all the variables that may affect this choice.
We've already seen in the previous pages (paragraph 1.5), helped by the Quinn's theories, all the critical factors of success that can help to have a winning franchise strategy. In particular we underlined market potential, firm's size, risk orientation, standardization and relationship with the franchisee as key elements.
But there's another, and maybe most important factor that we are still missing and that will be fundamental in order to answer to all our questions: the *country-of-origin-effect (*also meant as COO or *made-in-effect*).
A great definition about the country-of-origin-effect is provided by Roth and Romeo. They intend COO as the general perception that consumers develop about the products coming from a given country, based on preconceptions regarding their production and on strengths and weaknesses of their marketing campaigns[39].
Country-of-origin-effect is essentially an association that consumers make between products and their origin. In particular this association will influence their attitude to buy those products or not.

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39 *Matching Product Category and Country Image Perceptions: A Framework for Managing Country-of-Origin Effects*, Martin S Roth and Jean B Romeo, Journal of International Business Studies (1992)

This is a very important factor for our specific study about the Italian fashion industry, which is perceived as the most important from the foreign customers.
Our purpose is in fact to evaluate if the COO really effects customers behaviour (American and Chinese ones in the specific case) and how (or if) Italian firms operating abroad react to this information.
This choice is obviously connected to the brand image and perception, and we will talk about it further, specifically at the end of this dissertation, when we will have to deduce our conclusions and to answer all the questions we made.

Chapter 3: International franchising in foreign markets

3.1 Country analysis

3.1.1 PEST analysis

China

Political: China is the most populous country in the world (over 1.35 billion of citizens) and it covers nearly ten million square kilometres.
China is officially a Popular Republic. Since the first Xinhai revolution in 1912 China has always had shapes of nationalism in its political systems. Today the majority is represented by the Communist party from the 1949, and it's the most joined party in the world with its over 85 billion members. The political scene is so very stable, characterized by high barriers to entry (planned economies are used to impose strong tariffs in order to protect their home industry) and by very differentiated labour laws, which could also vary from city to city.

Economical: today China is considered a favourable and profitable economical environment for several reasons. The first one is the cheaper labour cost, which gives to the country a considerable competitive advantage on their world competitors. That's one of the secrets which lead China to invest more in fixed assets during the recent years, also thanks to its government policy that tries to improve foreign investments trend and also China's tax policy is more foreign investments oriented (positive point for our analysis). All those reasons brought China to become the country with the most important export activity in the world.
A primary role is also played by the Central Bank which holds a lot of foreign exchange rate reserves, and in particular it is the main USD holder all over the world, and tries to keep the inflation rate high, in order to keep consumption high.

Here we have some stats about the economical parameters of the country[40]:

	2010	2011	2012	2013
Real GDP Growth (annual)	10,6%	9,5%	7,8%	7,7%
Unemployment rate (%)	4,1%	4,1%	4,1%	4,05%
GDP per capita (current US$)	$ 4.514,9	$ 5.574,2	$ 6.624,6	$ 6.991,9
Intern. Import in goods and services (on GDP)	25,63 %	25,91 %	24,5 %	23,76 %
Intern. Export in goods and services (on GDP)	29,4 %	28,49 %	27,32 %	26,25 %
Inflation rate (annual %)	+ 3,3 %	+ 5,4 %	+ 2,7 %	+ 2,6 %
Inflow FDI (US mln/$)	$243.703,44	$ 280.000	$ 253.400	$ 258.200
Outflow FDI (US mln/$)	$ 57.953,60	$ 48.400	$ 62.400	73.200

40 *China, country statistical profile*, OECD

Social: To make a social analysis of China we must consider multiple aspects that affect this particular country. The first one is the huge population we mentioned previously (over 1.35 billion of citizens) and the connection with the population growth rate (around 0.5%), which is kept fixed by the Chinese Government in order to have a stable population policy in the first half of 21st century.

This huge population is a powerful element for Chinese economy, because it grants a constant (and low cost) workforce for the country and it is one of the secrets of the expansion of Technology Businesses in China.

The unemployment rate (also mentioned in the previous paragraph's graph) is another element, which shows country's health and its job opportunities.

Other elements which have to be mentioned are the young age structure (around 70% of population is between 15 and 60 y.o.) and the very high and growing literacy rate (92%).

Technological: in the last 20 years China succeded on creating innovation in fields like biotechnology and informatics becoming one of the most important technology's world leader.

One of the secrets has been the bilateral agreement made by China and USA in 2006 and regarding all the scientific area.

In the middle of 2006, this agreement has been extended to 60 protocols and with a length of 5 years. The Agreement covers cooperation in areas such as marine conservation, renewable energy, and health. Biennial Joint Commission Meetings on Science and Technology bring together policymakers from both sides to coordinate joint science and technology cooperation. Executive Secretaries meetings are held biennially to implement specific cooperation programs. Japan and the European Union also have high profile science and technology cooperative relationships with China.[41]

United States

Political: The United States is a federal republic made up of fifty states and a federal district. The law of the country are based on the Constitution, and the sources are issued by the Congress, like

[41] US Department of State

regulations and rulings interpretation of federal regulations. The federal system is divided into three powers ("branches"): executive, legislative and judicial.

The governments of every State have, on the daily lives of American citizens, a greater influence than the one of the federal authorities. Each State has a written Constitution, its own system of government and its own code of laws.

The differences between the laws of the various States can be substantial, even in matters as important as property, health, education and law criminal.

In each state, the highest authority is the Governor, elected directly from the people. All States have a legislative authority (bicameral in every State except in Nebraska, where there is a unicameral parliament), whose members represent the State's voters. Finally, each State has its own judicial system that in general consists, starting from a lower level, on County Courts and reaches up to a State Supreme Court. In some states judges are elected, in others they are appointed, as it happens in the federal system.

Economical: The economy of the United States of America is the largest in the world by value, with an estimate of the gross domestic product (GDP) in 2013 to about 13 billion dollars. It is the largest state of the world economy in terms of GDP. The GDP per capita is the eighth in nominal terms and the fourth largest in terms of purchasing power parity. The US economy began to strongly take off only after the Second World War, and it has now a mixed capitalist system, with a large contribution of private enterprises in the micro-economic decisions, however, regulated by the government's choices. The country accounts for 39% of world military spending, being the first economic and military power, political power and cultural prominent in the world and a leader in the field of scientific research and technological innovation. The economy is fueled by an abundance of natural resources, developed infrastructures and high productivity. The United States is the largest importer of commodities (primarily vehicles) and the third largest exporter (in particular electrical machinery), although exports per capita are relatively low. The main trading partners are Canada, China, Mexico, Japan and Germania. The symbol of US economic power is Manhattan. Wall Streetis the home of the New York Stock Exchange, the largest stock exchange in the world. One of US strengths is represented by monetary currency meter: The US dollar. Official currency in 1792, also represents the worldwide reference: the raw materials are traded in dollars, and some countries use the US dollar as their national currency. This allows the United States to issue more money than needed to meet the national needs resulting in increased seigniorage forfeited by the Central Bank. The real benefit is from having a greater freedom to use monetary policy instruments to stabilize internally. The leading sectors are the service sectors (banking, insurance, transports, commerce, publishing, entertainment) and industry (oil, weapons, consumer products, aerospace, automobiles, electronics, information technology, telematics). Also important is the weight of the primary sector, especially in soybean and cereal production (corn, wheat) and zootechnics, despite the small number of employees. The main sector in terms of turnover is that of the wholesale and retail trade; in terms of net income is that of finance and insurance. USA is the third largest producer of oil in the world, as well as the largest importer of this commodity. It is a leader in power and nuclear power production, the extraction of natural gas, sulfur, phosphates, and salt. Even if agriculture is just under 1% of GDP, the United States are the world's top producers of corn and soybeans. The area where the US has less competition at the international level is that of telecommunications, despite government incentives also. Domestic trade is driven by wide and powerful distribution networks, which largely sell through shopping centers (department stores) and are spread all over the territory. Because of the lack of control over the banks and because of the strong speculation activity the US stock market, United States has had an economic collapse started in 2009, which followed most of the nations on this planet. Trade deficit problems started in 1985. The United States have, since 1981, a current account deficit that has gone deepening with time up to 6% of GDP in 2006. In the following years, even for the arrival of the economic crisis, the deficit was nearly halved by touching the 2.94% of GDP in 2009. However, according to estimates of the international Monetary Fund, the external deficit is expected to deteriorate again in the coming years; In fact, in September 2012 it amounted to 16.000 billion dollars, the highest in the world. In particular, this deficit is due to a strong trade deficit.

At the contrary, in the service sector exports are greater than imports by around 1% of GDP. The main causes of this thirty-year deficit is the very low household saving levels, which correspond to very high consumption (around 70% of GDP). The US public debt reached in 2009, 11.863 billion US dollars, about 83% of GDP, more than doubling compared to 2000, when it was less than 5.5 trillion (54% of GDP). In particular, the growth of debt has had a strong acceleration in the 2008-2009 two-year period, coinciding with the measures taken by the Government to combat the financial and economic crisis. In fact, in these two years, the public deficit was very high (6.6% and 12.5% respectively). On the other hand, in the early years of the decade, the

United States had recorded back budget deficits, ending the policy of budget surpluses and fiscal consolidation that characterized the 90s[42].

	2010	**2011**	**2012**	**2013**
Nominal GDP (mln/€)	10.934,39	11.148,3	12.547.039	12.546,31
Real GDP (∂%)	2,4	1,6	2,2	1,5
Population (mln)	309,4	311,6	314	316,4
GDP per capita ($)	4.685	498	5.146	5.267
Unemployment rate (%)	9,6	89	8,1	7,4
Public debt (% GDP)	62,9	65,9	70,4	72,6
Inflation (%)	1,4	3,1	2,1	1,5
Volume of imports for goods and services (∂%)	12,53	5,47	2,23	1,05

Social: with an area of over 9 million km² and with more than 300 million people, the United States is the fourth largest country in the world and the third largest population after China and India. It is one of the most ethnically diverse and multicultural nations in the world, as result of a large influx. According to official estimates of 2009, 79.6% of the population is white (including a 15% Hispanic), 12.9% Black or African American, 4.6% Asian, and only 1% of origin Amerindian. Today, about 6% of the population is Italian-American. The group commonly identified as WASP (white, Anglo-Saxon, Protestant) while still owning the political and economic power, it is no longer the largest population of the country. The census of 2010 has indeed found that only 23% of children under 15 has white parents, percentage also set to decline further. Furthermore, the Affirmative Action, a policy in favor of minority groups, has allowed in

42 *Italian Embassy elaborations,* datas provided by EIU (Economist Intelligence Unit) and IMF (International Monetary Fund)

recent decades to ethnic minorities easier access to universities, to many jobs that were previously closed to them, and to positions of great responsibility in the world politics and high finance. The US population is growing (increased by 9.7% over the period 2000-2010), mainly thanks to a strong immigration, coming mostly from Latin America and East Asia. Although citizens are very numerous, the population density is around 30 cit./ km², which means that most of the land is sparsely inhabited. The main urban centers are concentrated on the East Coast (where there are large cities like New York, Boston, Philadelphia, Washington, Baltimore, Miami), Continental part (Chicago Detroit), California Coasts (San Diego, Los Angeles and San Francisco). According to the 2012 statistics, 24% of Americans is rich (ie, has an income of over $ 200,000 per year), 61% belongs to the middle class (have an income ranging between 199,999 and $ 28,000) and 15% is poor (ie earns in a year, less than $ 28,000). Poverty mainly affects a part of African Americans and immigrants. The unemployment rate is stable around 8.4%.

Technological: The industry sector is another area where the US is extremely competitive, even though since 1970 is constantly down, replaced by the services and value-added products, and many industries have been relocated. It has been favored since the nineteenth century by the rich mineral resources that have made developing the industries. The "manufacturing belt" extends across the northeast, but is expanding to the south and west. The US industry is mainly driven by three factors: abundant capital, advanced technologies and spread worldwide by the end of the nineteenth century. The most important productions concerning automobiles, aerospace vehicles, chemicals, pharmaceuticals and especially petroleum products, appliances, electronics, food, high fashion and sportswear, the tobacco industry, the bricks and weapons.

3.1.2 Customers tastes in the fashion industry

China

According to Nicola Pianon, senior partner and managing director of the Boston Consulting Group (BCG) who spoke at a conference organized by the Italian magazine *Il Sole 24 Ore,* Chinese customers represent the 30% of the world luxury market, which keeps growing by attracting every day new customers.

Before trying to understand chinese customer tastes in fashion industry is important to evaluate a singular statistic: even confirming the information previously given by Mr. Pianon, China is the country with the highest rate of savings all over the world (Chinese people save approximatelly the 30% of their income, and Americans around 6%).

That factor shows the controversial elements from which is characterized this country.

The first trend we must mention is about media: Chinese customers spend each year less time watching television (43% of customers approximatelly) and reading newspapers (sales trend is -10% per year)[43].

The brand addiction is another distinctive element of Chinese people (which in general include all Asian customers) and this trend is continuously evolving over years. In fact just two years ago 38% of those surveyed by *McKinsey* declared himself willing to buy counterfeit products. Now the share has fallen to 12%. Others argue that it makes no sense to buy a branded product, then if it is false.

In general the Chinese are more likely to believe that brand and price are effective quality assurance (and this rule is not valid just for the luxury market).

In particular, the 45% of people have the certainty that if a product has higher prices, it actually means that it is a better one. If we want to try to make a comparison with a county not so far from China, in Japan the percentage drops to 8%. But we have to take into account all the context behind it. In fact this trend can be explained by the fact that the Chinese market is flooded with low-priced and poor quality products.

There's another element which must be considered: the Chinese customer's Brand loyalty is very weak. And that's another factor to be considered when proceding in our analysis about fashion

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43 *CTR China, DCCI (2010)*

industry, cause customization may result a good opportunity in order to satisfy Chinese (and in general Asian) clients.

United States

American society may be considered consumer-oriented. All the companies that compete for the share the US market have increasingly paid attention to meet the demands of consumers who can consequently now be considered as "spoiled" ones. For this reason it is often much better to directly create the right and geographically customized product to the consumer rather than simply offer the consumer the right product whatever it is.

Another element which contributes to create differences in tastes and styles is represented by the ethnici group of belonging.

The purpose for which a garment is purchased and the characteristics of the tissue-need in question is another factor that influences customers choices.

Despite all, comfort remains always the main factor in the clothing selection process. This is of course mainly due to the very high obesity rate in the US (which grew up from 32% to 38% in the last decade).

For what concerns instead the Brand loyalty, American consumers are (just like Chinese) definitely brand-oriented and, in fact, they tend to buy what appears successful to the mass. For this reason, having a brand that is well advertised definitely increases the chances of success of a certain product. It's also important that these advertising campaigns establish emotional contacts with the buyer. That’s why in the United States the precence of a well developed after-sales service is fundamental.

When dealing with the american market a good distributor must also consider the cost-quality factor, and the time at which they operate.

The quality (as said before) is a very important prerequisite for american customers, and it is nowadays seen as a norm for them. Clients will not tolerate clothes made up of poor quality materials, which easily break or that do not handle the passing of time.

The cost must remain affordable and there’s no more space for speculations (as it happened in 90’s and before the crisis) due to the extreme competition in every sector.

Finally the time element don't just include the delivery period, but also the time at which a firm is able to change its styles and fornitures (following the market trends and tastes) and satisfy its customers.

3.1.3 Direct distribution formats

We are arrived into a deeper level of our analysis. It is important now not to forget our initial question: why should a firm choose the international franchising instead of other forms?
We've already seen in the previous chapters why franchising is preferable to the other entry modes, analyzing its advantages and disadvantages.
It is important now, in order to give an answer to our final question, to switch our work to the distribution channels, focusing on their benefits and costs.
We can basically distinguish between five main typologies of point of sales, put in a decreasing order regard to the replicability of their format and to the cost of doing it: flagship store, monobrand store, franchising store, shop in shop and corner in multibrand store. We're going to specify all of them in the space below:

- *flagship store*: it is a huge *monobrand store* (see below) located in the main centers of the cosmopolitan metropolis. It is made up of a wide assortment and through a flagship store a firm has gotthe possibility to present all the collection to the potential customers. In fact, it is defined "flagship store" because it not only represents a commercial tool, but it means that the firm takes the commitment to present the style and the brand values to the public. Given this role of the brand communication, the flagship store is always been handled directly by the firm. Because of its size and its importance, fashion firms invest considerable resources to make flagship stores places of experiential shopping, where during the purchase process or a simple simple visit, the multisensory of consumer is so stimulated to let him feel the brand experience and awareness;

- *monobrand store*: is a store that sells only products coming from a particular brand.
This distribution channel is having particular success in recent years into the fashion industry, during which brands are using the store to promote their image and differentiate itself from competitors with the aim of gaining a competitive advantage by increasing the brand image.
In particular in 2015 Ernst & Young recorded the following trends in the segment of luxury goods and lifestyle, dicovering that "monobrand stores now represent close to 30% of the overall market, while monobrand distribution across formats already claims 52%"[44].

[44] *Seeking sustainable growth*, *The luxury and cosmetics financial factbook* (2015), Ernst & Young

The new openings of flagship stores are concentrated especially in emerging markets such as the Middle East and South America. In US the last single-brand stores were opened in secondary cities than large metropoli. In Europe, instead, the main activity consists in renewals and renovations of existing stores;

- *franchising store*: we've discuss a lot about this distribution format, put in the centre of our study, in the pages above (see 1.1, 1.2, 1.3);

- *shop in shop (department stores)*: have recently faced a restyling that has boosted the image, thus promoting also the entrance of luxury brands. They offer a huge variety of brands and products, like branded, unbranded and private label products and products belonging higher market levels, medium-high and medium. Typically located in the counties capitals, they may be considered a great selling point for all companies in the fashion industry. They have very large areas, and the main entry mode for a fashion firm is through the corner (dedicated to a specific brand). They constitute a great alternative for businesses that can not afford to create a monobrand store;

- *e-commerce:* it is of course the main opportunity of the new millennium for a fashion industry. But it doesn't give an immediate and automatic competitive advantage. In fact, if on one hand e-commerce guarantees fast profits and lower costs (especially the one connected to the personnel), on the other hand, through this channel, a firm has not the possibility to express its brand image and values.

Nevertheless it represents a very profitable distribution format. Mc Kinsey evaluations "expect the share of online sales to double in the next 5 years – from the 6 percent today to 12 percent in 2020. And by 2025, it will triple to 18 percent, or €70 billion, making e-commerce the world's third largest luxury market, after China and the U.S."[45].

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45 *Digital inside: Get wired for the ultimate luxury experience*, July 2015, McKinsey&Company

3.2 Max Mara

3.2.1 History and company profile

Max Mara

Max Mara was founded in 1947 in the italian region of Emilie Romagna by Achille Maramotti, whose purpose was (after having reached his degree in law) to broadcast french *haute couture* across Italy, in order to change and renovate the concept of “beauty”, efen if the firm was officially born just in 1951.
The origin of the name is very simple: “Mara” is a diminutive of the name of the founder Achille, “Max” is a superlative used on one hand to make the brand more international, on the other hand to add a superlative meaning to the brand’name.
Achille Maramotti’s idea was so to ask for help to the best hands coming from the tailoring school of his mother Giulia Fontanesi, a lady who taught women to be independent as well as chic.
The bourgeois woman of that era no longer had the time to try a clothing article before wearing it. It was a first step for the future revolution: in 1955 the lab take the name of Max Mara. Even today, in order to realize a coat, it takes 73 steps (some of them mechanized but still many manuals) and three hours of work. What changed was instead communication: the passage from the fashion-plates of 1953 to the photos is huge, and the company also used to organize competitions between the enthusiastic readers to suggest new models.
In 1960’s the strategy of Max Mara was to discover textiles that were fashionable at tha time in other cities (like London and Dublin Over all) and bring that new culture to Italy. It is in that period that the styilish Laura Lusuardi takes part of the project (1964) and this choice will be decisive for the destiny of the firm. In the same year Max Mara also opened its first store in Milan.
In the 70’s Max Mara’s importance across international borders keeps growing up, especially thanks to the launch of *Sportmax*, a more determined, contemporary and international brand, which today is still very important for the firm.

In 1980’s the stylish Anne Marie Beretta creates the icon-coat 101801, which became a simble for all the business women around the world. The brand sold 140.000 units of this coat from its birth, and acquired so much popularity that the sculptor Carlos Martinez made it object of an artist exposition.

In 1990’s the firm strenghten its name in the world thanks to promotional campaigns with famous models and seen from the public as women with a strong personality (like for example *Carla Bruni* and *Christy Turlington*),and with the help of great photographers (*Mario Sorrenti* and *Arthur Elgort* over all).

In those years, Max Mara was also the first female Italian brand to debut in China. It also opened in 1987 in Hong Kong and since 1997, the single-brand boutiques are 286.

In 2000’s Max Mara reaches 105 countries, with 2,279 stores worldwide and 5,144 employees. The global expansion, however, does not mean the loss the values of all time: rigor, quality and consistency. The leaders of the company are always and only represented the Maramotti family: the brothers Luigi, Ignazio and Maria Ludovica.

Max Mara represent the brand for those who want that a dress remains a dress and have no time or desire to experiment all the trends that emerge from various fields, such as the internet or blogs. In the modern wave of the fast fashions, garments that last over time and at the rational price of Max Mara keep beeing appreciated from the customers.

3.2.2 Brand positioning and SWOT analysis

Before analyzing the specific competitive advantages connected with the choices that Max Mara made for what concerns the distribution format used, it is essential to introduce and understand the firm's values. To do that we must so have a clear image of how and where the brand is positioned and which other trademarks can be found under the same "umbrella".

"MaxMara is elegance, class, timeless quality pieces, dinamic style life, fun…"[46]. The interview made by Mariacristina Ascolese, company's Brand Manager for the magazine *Livincool* gives an idea of what Max Mara is today and how the brand always tries to mantain a continuous line between the past and the present.

In particular the company's aim is to renovate and create new ideas and styles, but always keeping in mind the old Max Mara's image, which led the firm to its international success.

To do this, Max Mara had to take the commitment to renovate and to get closer to a wider range of people. That has been possible thanks to the creation of new brands under the big original umbrella. We're talking in particular of: *Persona*, *Penny Black*, *i Blues*, *Marina Rinaldi*, *Weekend Max Mara*, *Max & Co.*, *SPORTMAX*, *MARELLA* and *Max Mara*. The most important (and most profitable for the company in term economical returns and clusters of customers) for the brand are of course *Max Mara*, *SPORTMAX* and *Max & Co*.

The *Max Mara* collection is dedicated to glamour chic women who enjoy rediscovering a refined yet dynamic and practical look in everyday life. A modern and contemporary woman with a sophisticated and refined image, a look in line with the trends and suitable for the different occasions of modern life.

Sartorial tradition, luxury materials, experimentation, international feel, modernity and status: these are the distinctive traits of the Max Mara mood[47].

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46 Mariacristina Ascolese, Max Mara Brand Manager for livincool.com

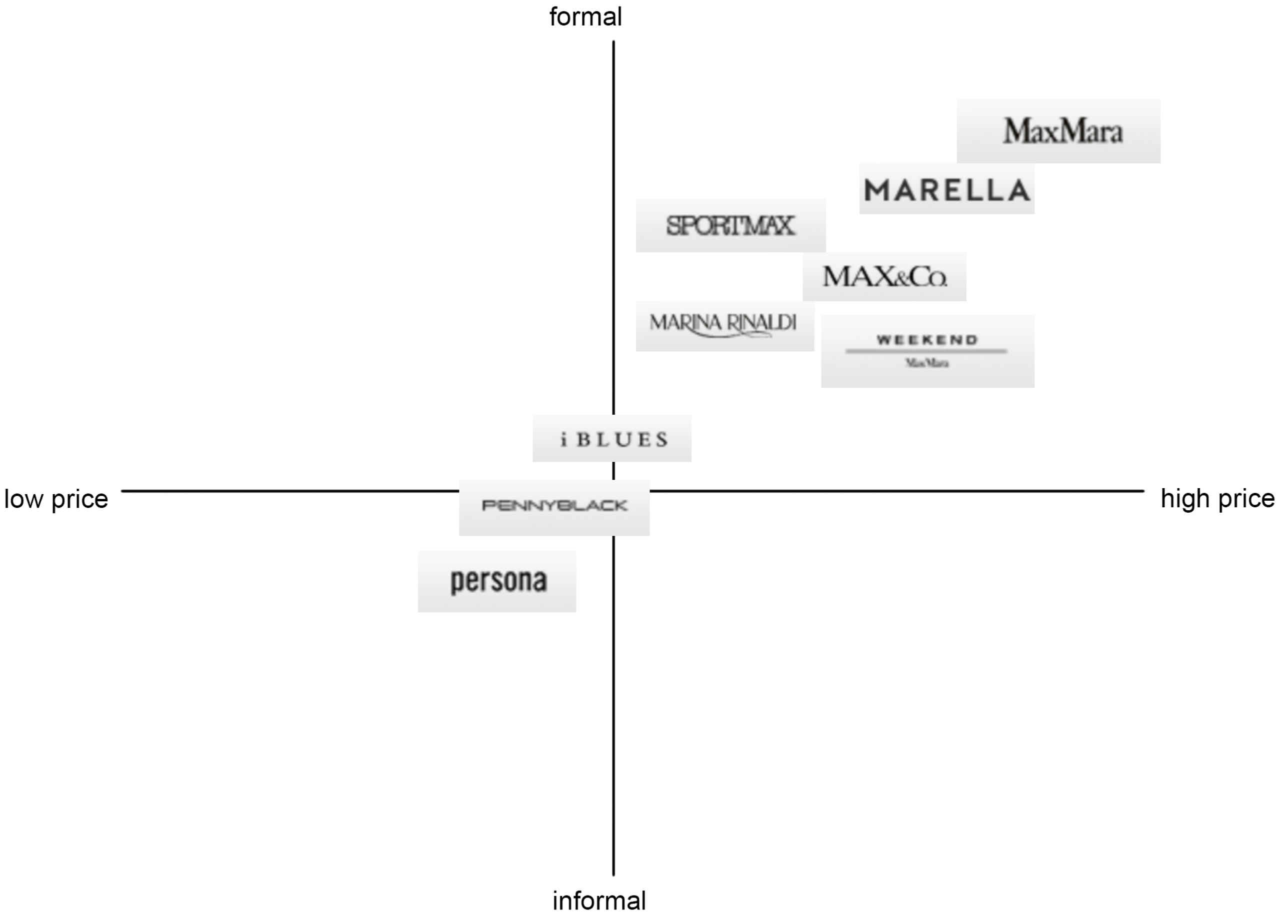
47 www.maxmarafashiongroup.com

"*MAX&Co*. is a project dedicated to young women searching for a personal style made of dresses, accessories and ideas to be freely mixed creating new and transversal languages and codes.
A dynamic, curious, eclectic, playful and conscious way of being, where sartorial tradition is combined with creative and technological experimentation of shapes, materials and colours: Made in Italy quality combined with style, glamour and intelligent design"[48].

"The *Sportmax* collection was conceived in 1969 by Max Mara's creative team as a more practical and eclectic proposal compared to the company's stylistic tradition.
Achille Maramotti […] fascinated by the innovative "Swinging London" atmosphere, identified the coordinates of a new youth movement which was soon to cross the Channel.
[…] Every season Sportmax anticipates and represents the main fashion themes with a collection characterised by an international feel for women who passionately follow the evolution of style and appreciate the search for new materials and shapes.
A collection that - together with Sportmax Code - still today maintains unchanged those traits of dynamic uniqueness which marked its debut"[49].
We can now have an overview about the brand's umbrella, by positioning its line in two variable axes, depending on the average price put for every collection and the formality of the situation connected to the clothes weared[50]:

48 Ivi
49 Ibidem
50 Fashion Digital Marketing Conference 2015, Coventry University London Campus

Figure 3.2.1



As we can see from the graph *Max Mara* is not only the brand with the highest prices and level of formality, but it i salso the onw which reflects the company's profile and image.

It is now fondamental to understand how Max Mara can take advantage of the Chinese and the North American market, just after that we can analyze the competitive advantage of using or not a specific distribution strategy.
The instrument to do that is the SWOT analysis, which can be defined as a strategic planning tool used to evaluate the strengths, weaknesses, opportunities and threats of a project, both in a business or in any other situation where an organization or an individual should take a decision in order to achieve a certain objective.

Strengths:

- Max Mara has a strong competitive advantage linked to its brand, that is a symbol of luxury, quality, elegance and Italian style in the collective imagination, and especially in the asian emulation fashion society. The business model's value and resilience resides in its ability to offer niche lines and brands while pooling costs and expertise in production, distribution and geographical expansion[51];
- The new slimer group structure allows a wider freedom of choice and greater speed of action and reaction to a changing environment;
- The Group has a long tradition and holds a highly specialized know-how in the processing of using the tissues;
- The franchise agreements enable rapid expansion in the market, without an excessive use of resources, both economical, human and phisical. The firm has so the possibility of reduced labour costs in China thanks to this distribution strategy.

Weaknesses

- The affection for the tradition and the consequent low investments in research and development may represent a restriction in terms of target market;
- Max Mara's Small Business Units may represent a weakness for the firm. In fact, small SBUs may create fewer embedded systems and processes that constrain flexibility, impede a fast decision-making and can slow the speed or impede experimentation and execution;
- The family structure generally involves a limited availability of capital;
- The Group's production activity is almost entirely carried out in Italy and this, that on one hand is synonymous of quality of their products, on the other hand may compromise the possibility to maintain high profit margins;
- Max Mara, as high-level brand, is in a privileged position, but it could be difficult to compare with the stronger mid-level brands such as Zara and H&M, which offer trendy products at a contained price thanks to the well-developed economies of scale.

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51 *Growing in mature economies by developing innovative business models* , Jean Berg (2009)

Opportunities

- The potential demand for luxury goods by Chinese and American consumers, as already seen in the previous chapters, appears to have a growing trend, and this allows for a consolidation of the Max Mara brand in China and US and a strengthening of its offer;
- The entry of China into the WTO and its gradual opening to the foreign market have introduced a series of norms that have facilitated the entry of foreign companies into the Chinese market;
- The latest report of the World Luxury Association reveals that China and US are respectively the second and the third largest markets for luxury goods, even if the consumption has strongly been affected by the financial crisis;
- Despite the impact of the global financial crisis on consumption in China, it is believed that this period of economic slowdown might be a good opportunity to further foreign expansion in the chinese territory;

Threats

- China's and North American's know how developments have contributed to lower the qualitative differences between their productions and the Italian one;
- There is a strong competition between Western companies regarding investments in emerging countries. For example China is one of those countries;
- Max Mara stil have to adequate to the new "fur-free" standards required by the target market. Today customers are exigent for what concerns environmental sustainability, especially American ones, and this could be significantly weakening for the image of the Max Mara Fashion Group.

3.2.3 Strategy, distribution formats and made-in-effect

After having supported all the possible advantages connected to the franchising contract, and after having explained modes of entries, distribution formats and the characteristics connected to North American and Chinese territories and their fashion industries, it is fundamental not to take distance from our main topic and from the questions we want to answer: why should a firm choose the international franchising instead of other forms? And in our specific case: why should Italian fashion enterprises prefer the international franchising instead of other direct distribution formats for what concerns US and China?

To answer this questions we took as example the Italian firms Max Mara, Diesel, Furla and Salvatore Ferragamo.

We used those specific brands because we found interesting to compare how four similar companies (not in terms of economic turnover or sizes but operating in the same sector and all serving the same two markets we want to focus on), even if adopting the same distribution channels, gave them different importance through years, and especially for what concerns the particular case of franchising.

In fact all companies utilize this distribution format in China and US (with the exception of Salvatore Ferragamo in China, but we will see it further), but we will see as it is adopted in opposite ways and as this choice affects economic results.

Starting with the assumption that the international franchising is nowadays a very profitable way for firms to expand abroad, especially in the fashion sector, we will try to give motivations to support this statement.

Our methodology will be to analyze one by one every format (as made in paragraph 3.1.3), in order to understand for each one of them Max Mara's, Diesel's, Furla's and Salvatore Ferragamo's different strategies and results.

Even if it may seem unuseful, it is instead fundamental to analyze all the distribution formats to understand franchising. This is because franchising is a way to operate in foreign markets but not the only one, and it doesn't mean that this strategy must be driven alone. It should instead be a part of a full internationalization mechanism.

Another objective of this dissertation is to explain which are the variables that can influence the firms in their choice to adopt international franchising or not.

In chapter 1.5 we mentioned all the critical factors of success finded by the studies of Quinn (market potential, firm's size, risk orientation, standardization and relationship with the franchisee).
But we want to add an element that can result decisive for a fashion brand (especially when belonging to the Italian tradition) that wants to internationalize and penetrate new markets: the *made-in-effect*. We already mentioned this factor in chapter 2.5 and explained how it works.
Our aim now is to try to understand if the choice of switching the production abroad or not, may influence the customers choice, and how this influence is directly proportional to firms strategies.
For this reason we will add, at the end of every company's distribution formats paragraph, a focus on the made-in-effect, and we will answer if the choosen firms decided or not to switch their production abroad on the basis of this assumption.
The finded results will help us to deduce our answer in the conclusions of this dissertation.
We can see now in the space below how do Max Mara operate:

Flagship store

For what concerns China, Luigi Maramotti (current chairman of the company) affirmed, in conjunction with the opening of the new prestigious flagship store at Beijing plaza, that the Group has already opened more than 60 stores around the nation with this distribution format.
In this case the reason behind this choice is <u>the aim of increasing turnover in the same location, instead of adding more stores</u>[52].
Max Mara entered in the Chinese market through the Joint Venture format in 2009 with the help of the large distributor GBMax ltd. From that year the company has tryed to "educate" the Asian customers, with the aim of making them every day more similar to the target market woman, which still remains the European one.
In general we can say that Flagship stores are a signal of a brand's maturity where it has the possibility to support, economically and managerially speaking, its important international

52 *Max Mara brings a touch of Italian style*, www.chinadaily.com

markets. It means that the brand can handle the control within a retail setting and that it has a depth of product and a depth to its reputation to sustain a major retail store[53].

Max Mara's situation in the US market is totally different than the one in China. In fact, if in the Chinese territory the company has already finished its strong investments through the creation of flagship stores with the purpose of better understanding customers behaviour, in the US Max Mara counts just 17 stores, equally distributed between monobrand boutiques and flagship stores. This strategy adopted in the US is coherent with what we already said when talking about China. In fact, the company's objective is to settle into new markets through joint ventures (as flagship stores creation is) in order to learn from the foreign countries, and just after this to expand through the wide open of stores and the use of other formats.

Monobrand boutiques

For what concerns Max Mara, we can concretely affirm that the company's strategy in China is not really focused on the creation of monobrand boutiques. In fact the position of the Group in China is to expand in the territory and to increase the brand perception, but mainly through flagship stores (which give the possibility to strenghten the brand image and to expose all the collections) and through the franchising form (which we will see later and which represent the fastest form of market expansion).
Monobrand stores are so a resource for Max Mara, especially for what concerns the presence into the most traffic congestes airports, but not the most important ones.

The consideration about Max Mara's monobrand boutiques in the US are very similar to those made for flagship stores. This is a good way to enter a new market with very large cities like the United States.
This company's strategy is very different but also very coherent with the Chinese one. In fact, whereas in China the company wants to enlarge its presence and so its recognizability through

53 *Flagship stores as a market entry method: the perspective of luxury fashion retailing*, European Journal of Marketing (2010), Christopher M. Moore, Anne Marie Doherty, Stephen A. Doyle,

flagship stores or franchising, in the US Max Mara still want to study the sector and discover the possible opportunities.

Department store

For the brand characteristics, culture and heritage, department stores are not really the field in which and Max Mara wants to compete. Even if the Group still uses this distribution format (e.g. the one into the Jinge Department Store in), it tends to disappear for the better positioned brands.
In addition, as results from the study conducted by The China Commerce Association for General Merchandise (CCAGM), the overall sales performance of the sampled department stores witnessed a drastic drop in 2015[54].
Department store format so doesn't seem to be the best way to enter the Chinese market for high branded companies like Max Mara.

The same argument can be considered valid for North America.
In fact, given that the company is new in the market, its aim is to strenghten its image and to build a customer base, conscious about Max Mara's image and prestige.
For this reasons Max Mara doesn't have department stores in the US.

E-commerce

The ecommerce channel is a great opportunity for firms belonging to any sector, but it is important to understand why, and to make relevant distinctions for what concerns the luxury industry.
Online sales of luxury goods, in the last five years, overtook the ones of the total global market, growing almost four times faster with a growth rate of 27% against the 7% of offline sales[55].
Max Mara debut on the e-commerce happened in 2010, and used as first item the Iconic 101801, probably the well known coat in the world. Created by Max Mara in 1981, almost thirty years

54 *China's Department Stores Report*, China Commerce Association for General Merchandise (2015)
55 *Digital Inside: get wired for the ultimate luxury experience* (2015), McKinsey&Company,

later this outerwear continues to be an absolute best seller, thanks to its simplicity and balance of proportions.
The Group accumulated a fast experience in the online sector, that big that it represents today from 5% to 10% of the total revenues.

Nevertheless, as confirmed by the chairman Luigi Maramonti during the presentation of the new Whitney Museum in the District of Manhattan, the company's e-commerce is still limited to Europe and Japan, but in 2016 is going to debut in the North American market[56].

Franchising

We are finally arrived to the core topic of our research: the franchising of Max Mara in the Chinese and North American territory.
Our purpose is to understand why franchising is a preferable distribution format, and why our chosen firms decided to adopt it.
The main reason why we chose Max Mara, Diesel, Furla and Salvatore Ferragamo as cases of study is to show that international franchising (and in this particular cases applied to the Chinese and North American market) is not only a great opportunity to enter a new market, but can also be applied in many different ways.
What we already said in previous pages (chapter 1) is that the main advantages of the franchise contracts are connected to the possibility of making an investment (in this case we are talking about a foreign one) at less costs, with less risks and in a very fast period of time.
The disadvantages are instead mainly connected to the choice of the partner. In fact, a company that have to select a good franchisee, especially when we talk about high branded firms involved in the fashion industry like the four we chose, runs the risk to loose credibility towards its client base if the partner results unreliable, threatening so the brand reputation.
After this short introduction it is the moment now to give a look at Max Mara's strategies.

56 *Max Mara negli Usa cresce del 25%,* Il Sole 24 Ore (April 24th, 2015)

Max Mara entered the Chinese market for the first time in 1991 through a local distributor, in Beijing's China World Mall. The company has today 320 stores in China, also considering Taiwan and Hong Kong.
As also said said from Luigi Maramotti, "his brand would focus on expansion in the mainland's second- and third-tier cities once the company secured strong market shares in top-tier cities including Shanghai and Beijing"[57].
Starting from this assumption, and considering what we said before in the monobrand boutiques paragraph, we can affirm that Max Mara wants to expand in China using strongly the franchising distribution form.
This process of betting hard on franchising started in 2007, when Max Mara had to deal with the Chinese regulatory agency, which considered the company's exporting standards under the minimum threshold.
For this reason the company decided to operate in two directions: settling in the Chinese territories through flagship stores (joint ventures) in order to learn more about the country and its citizens (potential customers), and strongly expanding through the help of well selected franchisees. The strategy of the company is so to create a central monitoring base, and to strenghten its presence in the territory by developing a wide network of franchising contracts, especially in smaller and less known cities, in order to avoid the waste of capitals and all the risks connected to an area's lack of knowledges.

For what concerns the North American territory we must say that Max Mara does not adopt the franchise format. Nevertheless this choice is coherent with Max Mara's recent history.
In fact, even in China the company has first penetrated the market through flagship stores and monobrand boutiques, and just then started an expansion strategy through the franchise stores, and the help of third parties.
The aim of Max Mara is so to open a wide set of franchise stores in the US, but just after having studied its market and customers. Right now the company has in fact still a lack of knowledges in the North American territory.

57 South China Morning Post

Made-in-effect

For Max Mara the made-in-effect is a very important critical factor of success. The company in fact has not any intention to switch its production abroad, in order to keep the made in Italy factor (very appreciated by its clients).

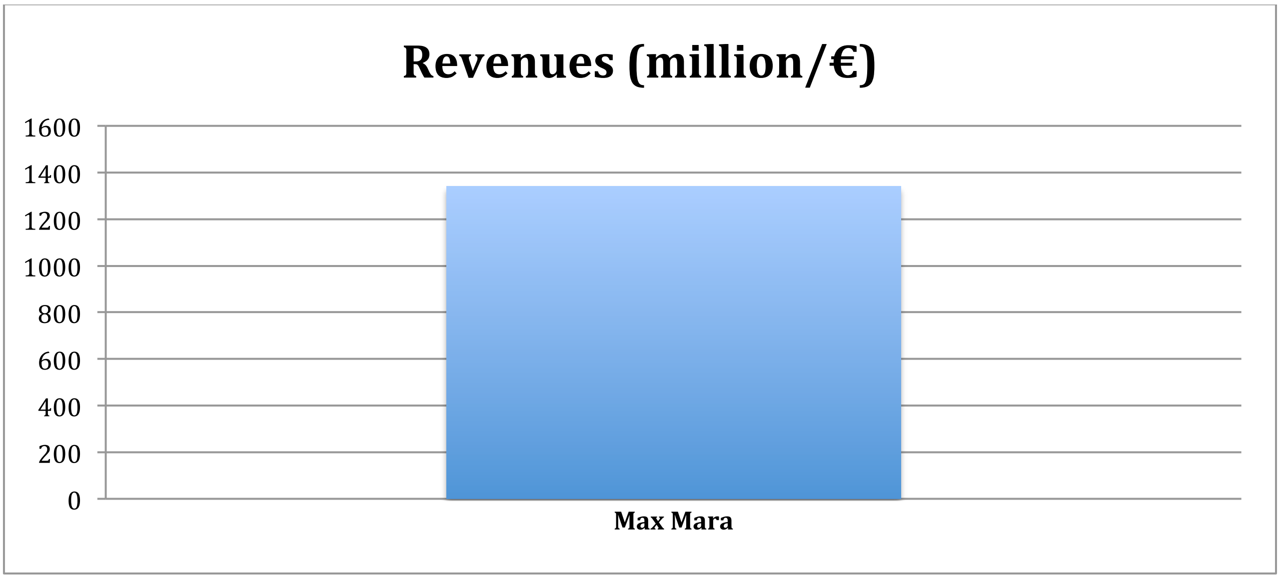
As said by the chairman Luigi Maramonti "even young people want to know the origin of a product, of a company. We must draw attention by telling our story, with the echo of the past, not only with the sirens of the future"[58].

[58] *Max Mara negli Usa cresce del 25%,* Il Sole 24 Ore (April 24th, 2015)

3.2.4 Expectations and future economic benefits

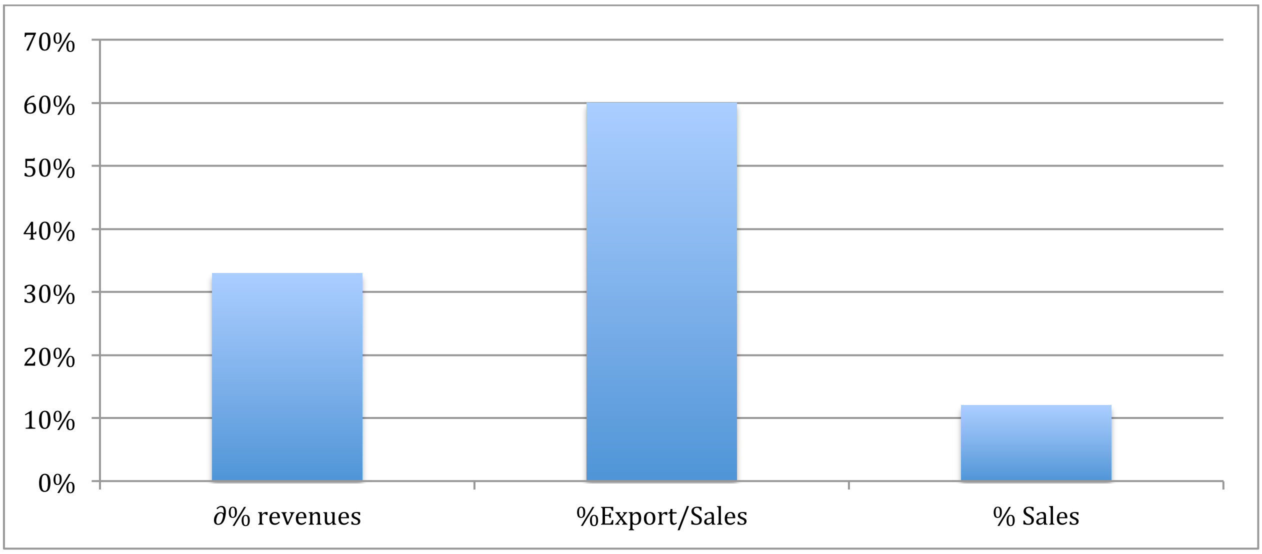
Max Mara is a big and powerful brand, which can count on a wide client base and, above all, on a brand name and image well known as fashion leader all over the world.
All this reasons represent a base to explain the wealthy situation of the company.
In fact, even if the global markets are facing a period of strong financial crisis (and the fashion sector can be included in this matter), Max Mara is managing a virtuous circle that made it one of the leading companies in the world fashion industry.
It can be useful to give a look and then compare and discuss some data (year 2015), in order to have an empirical evidence about what we want to say[59]:

Figure 3.2.2



[59] *Ivi*

Figure 3.2.3



6061

As we can see from the graphs above, the datas give us a well defined idea about the company's economic trend.

Max Mara's revenues reached 1.334 against million euros (a considerable sum if we look at its competitors, for example Furla). The company handled by the family Maramotti can also count positive variations in all the most important economic indicators. It is a real pride for all the Group, that has reached the result of +33% of revenues (44 million) compared to the last year, despite the uncertain global economic situation.

Max Mara also excels for what concerns export (60% on total revenues) and sales (+12%) the previous year.

For what concerns the export we must mention the fact that Max Mara has a similar and homogeneous trend in all its 100 countries (and this is a reason for the company to be very proud of the work done).

The export datas about both Max Mara must be considered a victory, especially in a market where a lot of brands are slowing down (this year the global fashion industry average amounts to +10%, against the +13% of the previous year).

60 Ivi

61 Ibidem

3.3 DIESEL

3.3.1 History and company profile

Diesel

The brand Diesel was founded in 1978 in Italy by the designer Renzo Rosso, who created a unique and innovative style that gave to the company an international dimension.
The name of the brand has not been chose randomly, but the purpose was to develop something that was easy to remember and especially easy to repeat in all languages.
The brand has not a specific target market, especially when the basis of Diesel's design are focused on individuality and authenticity.
The brand offers a style for some people considered bizarre or extravagant but for many others instead very trendy and especially through the help of marketing choices, promoting originality and creativity.
It is not a total look but a mix & match of styles that allows the customer to create a look for himself that it is also always in step with the times.
The history of the brand began from the denim, with which Diesel succeeded very well on making himself know to the rest of the world. After the success has been reached, the brand has covered all clothing items, becoming a spokesman for a luxury casual style that attracts millions of fashion addicted.
Passed into the hands of the only Renzo Rosso just since 1985, the company, already leader in the world, has built its history on clothing, but also and especially, on the image. This vision has been given by Renzo Rosso, who understood that the message i sas much important as it is the product.
From its quality and innovation are born additional lines like Diesel Black Gold, 55DSL, Diesel Kids and Home Collection, but not only: the brand, as well as sells bags and shoes, has a line of underwear and accessories like watches, sunglasses and perfumes as well as numerous collaborations in other areas like the world of engines and hi-tech. In fact, even if Diesel was born as a leader of the jeans industry, the company began to consolidate itself as a fashion brand

in every possible form, including the production of accessories, perfumes, underwear and beachwear, as well as, recently, the design of a car, the Fiat 500 Designed By Diesel.
Since 1978 the brand has driven fast, arriving in 2007 to reach 1.3 billion euro revenues.
Passed into the hands of the only Renzo Rosso just since 1985, the company, already leader in the world, has built its history on clothing, but also and especially, on the image. This vision has been given by Renzo Rosso, who understood that the message i sas much important as it is the product[62].

62 Vogue Italia

3.3.2 Brand positioning and SWOT analysis

It is important now, as made for the case of Max Mara before, to understand how Diesel can be positioned. After that we will analyze its strenghts, weaknesses, opportunities and threats in order to have a full compehension of the wide North American and Chinese markets.

But before starting to analyze with the positioning and the SWOT of Diesel, it is important to understand lines and brand portfolio. Diesel s.p.a. is divided in two different brands: Diesel, Diesel Black Gold and Diesel Kid:

- *Diesel:* it is considered a "premium casual" brand, for both men and women, and each collection has unique details. The main line is always represented by the "5-pockets" Denim;

- *Diesel Black Gold:* it is the line at which Diesel charges the highest prices. This is in order to reflect the quality and the brand identity;

- *Diesel Kid*: it is a line dedicated to babies (3-24 months), kids (2-10 years old) and teens (6-16 years old).

We can now give a look at how the brand Diesel is positioned. It is considered a premium quality brand and is "positioned at the upper end of the "denim and leisure clothes" segment. It competed with Armani Jeans, Levi's, Mustang, and Calvin Klein Jeans. StyleLab was positioned at the lower end of the "high casual wear" segment, competing with the likes of Miu Miu, Prada Sport, CP Company and D&G"[63].
Some fashion industry experts accused the company to be to expensive (a denim has an average price that goes from 100€ to 300€)[64]. But the company's executives argued that "it was not unreasonable to pay three figures for a pair of jeans likely to last forever" [65]
The Diesel SWOT analysis for the US market can be summarized as follows:

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63 *Diesel for Successful Living*, INSEAD Business School (2004)
64 store.diesel.com
65 Wall Street Journal, December 9, 1998

Strenghts:

- Diesel can count on an experienced and winning internationalization strategy. It was mainly because "Rosso proposed innovative product technology that led to the successful transformation of denim into an elegant and refined fabric"[66].
- Diesel is a pioneer for what concerns the presence on internet, and the company invests strongly on the e-commerce;
- The product diversification strategy is a strenght for the company, and represents an important competitive advantage against other competitors.

Weaknesses:

- Diesel products, especially for what concerns jeans, are considered expensive from the mass. As we said previously, a pair of Diesel jeans costs from 100€ to 300€, but for example "the average price paid for a pair of jeans in the U.S. is well under $50"[67];
- The consistent presence of fake products represents a wakness for the company. In fact luxury items are the most counterfeit in US and in China.

Opportunities:

- Diesel, if compared to many other competitors, is closer to eco-sustainability. Potential customers may respond to it with unconditional trust;
- The brand can count on strong economies of scale and experience.

Threats:

- US and Chinese markets are famous for their low customers loyalty to a particular brand for what concerns the luxury sector. Diesel, in order to be competitive in these markets, must work a lot on this point;
- Diesel have to consider the strong competition in the world Denim sector (i.e. Giorgio Armani, Chip and Pepper, Levis).

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66 *Fashion Brand Internationalization: Opportunities and Challenges,* Byoungho Jin, Elena Cedrola (2016)

67 *10 Things That Cost Way More Outside The U.S.*, TIME, July 13, 2012

3.3.3 Strategy, distribution formats and made-in-effect

Flagship store

Diesel have two Flagship stores in the US: the first in San Francisco and the second in New York (which, with its 1.800 square metres, is also the biggestflagship of all the Group) and in the end of 2016 the company expects to open another one in Miami.
For Diesel, as said by Renzo Rosso, it is a big step towards the positioning of the company in the world and a big opportunity to compete with the greatest groups of the clothing market and accessories.
This strategy is not only an opportunity to show all the lines (the exclusive 55DSL included), but it has also been integrated with the decision to make partnerships with famous personalities coming from the world of music and sport.
Opening a Flagship store in the US for Diesel is so a way for the company to increase its visibility in the American market, in orden to strenghten both the brand image and the customers loyalty, by passing down the company's values and experience.

For what concerns the chinese market, Diesel's experience is not that rooted like the one in the United States. In fact, in this market, the company has planned a future expansion, that will be developed through a slow and very structured process.
As already seen before for Max Mara, flagship stores can be considered a very good way for a firm to enter a new market. And Diesel definitelly followed this input, by opening its first flagship store in Hong Kong, with a size of 1.000 square metres and presenting all the brand's collections.
Another plan in China in order to develop the creation of new flagship stores is connected with the line Diesel Kid. The aim of the company is in fact to renew this line's positioning, making it in a few years the leader of the *kids segment* all over the world. This strategy has been possible thanks to the partnership with the giant Evergreen Intl. The company has reached immediate results with the opening of the first flagship store (for the line Diesel Kids) in the commercial area of Qingdao.

Monobrand Boutiques

Diesel has an important presence in the US. The Group has in fact 40 monobrand boutiques (that, as said by the company's headquarters, are going to become 48 in the next years) and the most important are the ones settled in New York, where the main monobrand stores are located in Lexington Avenue, Union Square and Fifth avenue (this one replaced Gucci, and this represents an important evidence of how the brand is growing). This distribution channel is very important, actually the most profitable one today (it covers the 80% of sales in the US) and the oldest and most consolidared format for Diesel. But we will see later how the company has planned multiple ways to grow.

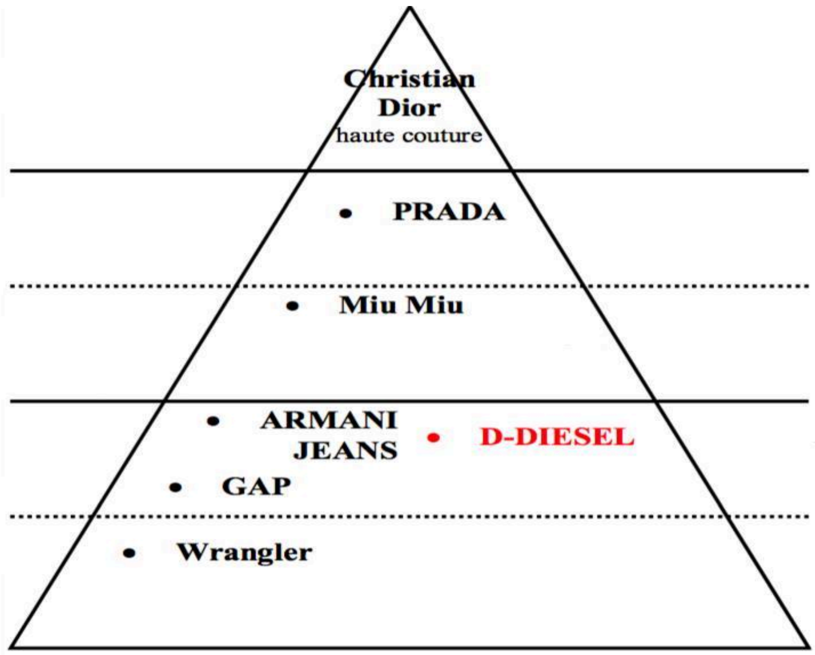
As we said in the Diesel's flagship stores paragraph, the aim of the company is to have a slow but significant slow in the next years.
This process will pass through the creation of monobrand boutiques, which are not present today in the US , but will represent an important phase of this process in the future.

Department Stores

For what concerns the choice of expanding through Department Stores, Diesel has always been favorable to adopt this strategy all over the world, United States included. As we can see from the graph below, for its characteristics of Denim & casual wear, Diesel seems to be a proper brand for this distribution strategy[68].

68 *Diesel for Successful Living*, INSEAD Business School (2004)

Figure 3.3.1



The upper extremity of the pyramid represents the Haute Couture (the very high level of fashion) and designer stores are more suitable with those kind of brands;

In the middle we can find brands connected with the High Casual Wear and to the Designer Fashion. For those firms the proper distribution channels are fashion boutiques and multi-nrand casual stores;

Finally at the base of the pyramid we find the Denim & casual wear (as said previously). For those brands like Diesel the low-end department stores and superstores are conceptually the best way of growth.

Important department stores in which Diesel is settled are in Dallas and Sacramento.

By the way, from 2005, the company owner Renzo Rosso started a repositioning strategy towards the top. This process starts from the Management and also involves stores locations and products prices.

The situation is very different in China.

In fact, the company has few department stores in China today (that however represents the majority of Diesel's activities in the territory) but, due to its repositioning strategy, this trend is going to slow down in the next years.

E-commerce

Diesel's presence on e-commerce is still very weak but the plans of the company are to increase the online revenues in few years. In fact, Diesel has just abandoned the partner Yoox (with whom has still strong relationships in Europe and Japan) and entrusted its ecommerce strategy in the US to Ebay.

The plan of Ebay is to launch a new online retail project in the North American market by offering a multichannel integration, due to its long experience with the ecommerce for other leaders operating in the fashion industry (Ralph Lauren, Levi's, Quicksilver, Speedo, Timberland).

This strategy has the aim to increase revenues in the nex 5 years.

E-commerce for Diesel represents today just the 2% of total revenues coming from sales, and the company counts a 43% online customers less than its competitors.

Franchising

What we already said in previous pages (see chapter 1) is that the main advantages of the franchise contract are connected to the possibility of making an investment (in this case weare talking about a foreign one) at less costs, with less risks and in a very fast period of time.

United States represents the second most profitable foreign market for Diesel (after China).

As we have already seen (paragraph 1.5), a critical factor of success connected to the franchise contract is the high market potential, and this is the specific case of the US. It is so a good point of start for the company.

Franchising represents for Diesel just around the 20% of its total activities in North America, and that's because the Italian company's first objective in foreign markets is to expand first through directly owned monobrand stores, so that, before strongly enlarging its presence in the terrotory, has the possibility to learn and grow.

Diesel basically adopts two international franchise contracts typologies in the US:

- the first typology has the peculiarity to charge a very low franchising fee, which is derived by applying a percentage on salaes. Doing so, most of the value of the sale is absorbed by the wholesale price, the same that is applied to the independent stores.
This first form of franchising is the less utilized than the directly own stores because of its low marginality;
- the second typology (the most used form of franchising for the Group) has a strategic function, and is adopted in specific geographic areas, in order to penetrate new markets in which Diesel has a lack of control.
As we already said in the previous chapters (paragraph 1.5), in geographic areas characterized by a huge variety of ethnic groups, languages and cultures (as like in the US), it is essential to have very well prepared vendors, and that's the strategy adopted by Diesel.
This second form of franchising finally represents for Diesel a valid alternative to monobrand boutiques, especially when penetrating new markets.
We can finally say that Diesel used "franchising as a contractual mode of entry for opening a branch with [a] foreign direct investment that guarantees maximum control of the retail networks and the image of the company"[69].

As we said before, the company is new in the Chinese markets and it counts just 15 total stores across the country.
That's why it still hasn't had the time to develop a well designed franchising strategy.
This reasoning is totally coherent with the strategy in the US.
Diesel in fact, even if its success outside the Italian boundaries is considerable, isn't in an economical situation in which can make new experiments.
As made in the US, in which the company has some franchising but stil wants to get a full market knowledge before expanding, it consistently happen in the same way in China, in which Diesel has important plans but tryes to develop a monobrand stores strategy before doing it.

69 *Fashion Brand Internationalization: Opportunities and Challenges,* Byoungho Jin, Elena Cedrola (2016)

Made-in-effect

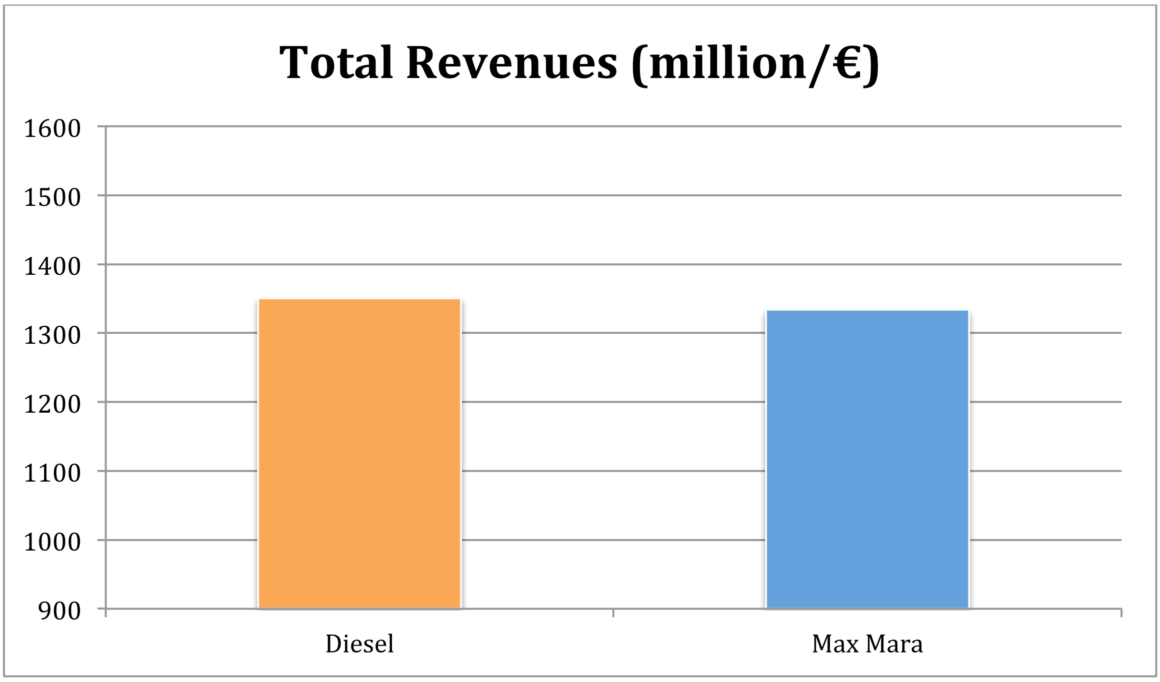
The results of Diesel about the made-in-effect are very interesting.
The history of the brand already tells us a part of the truth about this specific study. In fact, the founders were looking for a name that expressed the internalization of the brand and that can make it recognizability aborad possible. “Diesel” was a good deal to do that.
Connecting this information to our actual theory, we can say that Diesel, when internationalizing in a new market, leaves the commitment of the production to its subcontractors[70].
Doing so the company leaves also the benefits of being perceived as an exclusive Italian brand by its potential customers.

70 *International Business, the new realities,* S. Tamer Cavusgil Gary Knight John R. Riesenberger Hussain G. Rammal Elizabeth L. Rose (2014)

3.3.4 Expectations and future economic benefits

As we've made for the cases of Max Mara, it is our purpose now to analyze the economic datasof Diesel s.p.a.
What we will discover below is that Diesel is not facing one of the best moments of its history.
The evidences, showing the data that we collected, can help us on underlining these controversial trend[71].

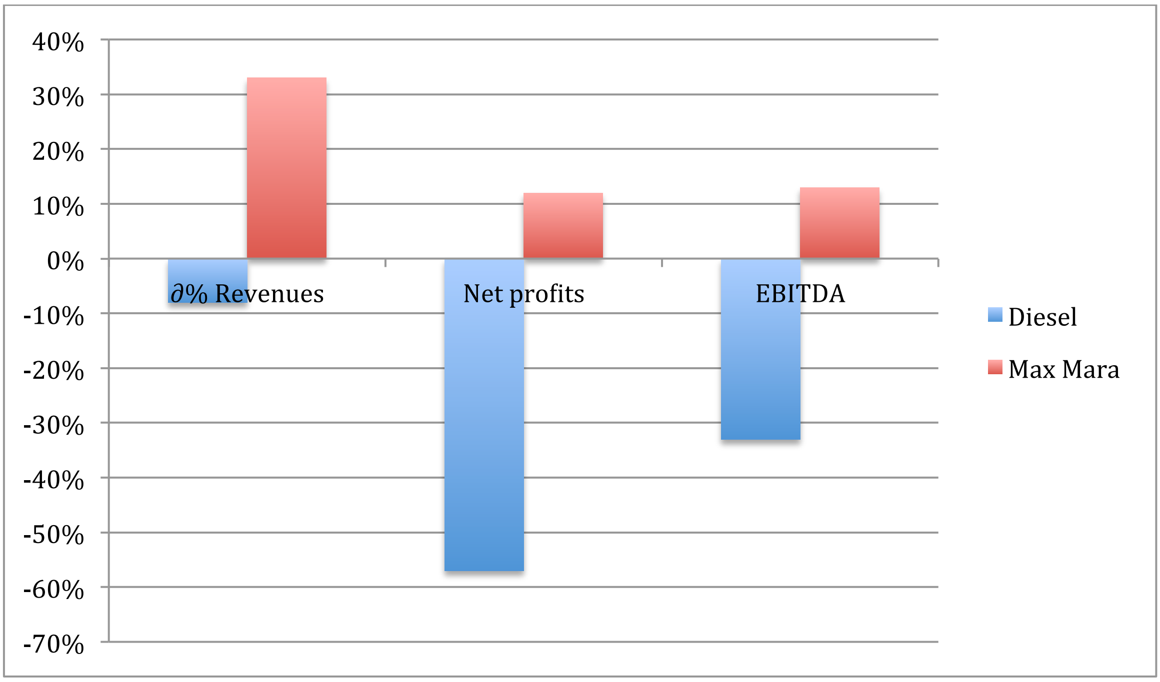
Figure 3.3.2



As we can see from the first graph Diesel has a considerable amount of total revenues: 1.350 million/€, very similar to the company seen before, Max Mara, which counts 1.334 million/€.
Nevertheless, how we are going to see below, Diesel is facing a strong recession period, instead of Max Mara, that is reaching great results.[72]

[71] *Board of Directors, Company Statutory Financial Statement and Consolidated Financial Statement*, Salvtore Ferragamo s.p.a. (2013)
[72] Finegil Editoriale s.p.a

Figure 3.3.3



Diesel has negative results in all the main economic indicators. In fact, the company has ahieved a Revenues Variation of -8%, a decrease on profits for 26,9 million (-57%) and a decrease on EBITDA of -33%.

As answer to this negative shocks Diesel is examining its approach both towards the market and for what concerns its organizational structure.

A very interesting data for our analysis about the US market is that Diesel's revenues are dicreasing both in the Italian home market (-21%) and in European overall market (-8%) but are strongly increasing outside the US (+59%).

3.4 FURLA

3.4.1 History and company profile

Furla was founded in 1927 from Aldo and Margherita Furlanetto, who used to work as distributors in the fashion industry (accessories sector), and led the brand to be one of the most famous Italian fashion brands, both across our national borders and abroad.
In 1950's Furlanetto family open their first stores, and the brand starts creating not just simple accessories but also bags, shoes and leather accessories.
In 1970's Carlo and Paolo, Giovanna's sons, become the company's leaders and they succeed on launching the first bags collection with the Furla logo.
In 1980's and 1990's the company's main objective (and it will be successful) is to strenghten the brand image in a new and more international perspective across markets, especially in Europe, Asia and United States.
In 2002 Furla tries to get close to the teenagers world through the line *Furlina,* which is a comic character that will appear on bags, accessories and watches.
In 2008 borns a bag collection totally dedicated to the men's world.
Furla is today all around the world in 64 countries with 296 monobrand stores in the main cities and metropoli.
The group's activities have been handled directly from Furlanetto's family till 2007, when the manager Paolo Fontanelli became the new CEO.

3.4.2 Brand positioning and SWOT analysis

Furla is a brand that looks to the future with a positive energy, one that fully embodies and kindles the desire for Italian style and lifestyle. A contemporary aesthetic and aspirational qualities engage and inspire men and women across the board, renewing their quest for value, beauty and creativity. When showmanship never overshadows craftsmanship[73].

The brand Furla, as much as Max Mara, can be considered as affordable luxury. It is so a brand located at the medium-high level, whom prices can still be considered affordable (even if not cheap) from the mass.

But the first (and probably main) difference between Furla and Max Mara is that the former hasn't got a huge and powerful brands umbrella. This factor doesn't allow Furla to develop a diversification strategy and the company hasn't so the possibility to attract a wide range of clusters by using a product diversification strategy. In this scenario we also have to consider the decreasing internal demand and an economical stagnation process, which led the company to broden in new markets, especially expanding in China, Russia and Japan.

Another strategic action made by the firm has been to strenghten the brand image and to switch the positioning closer to the "premium" segment. Furla had in fact the credit to growing by betting on innovation[74].

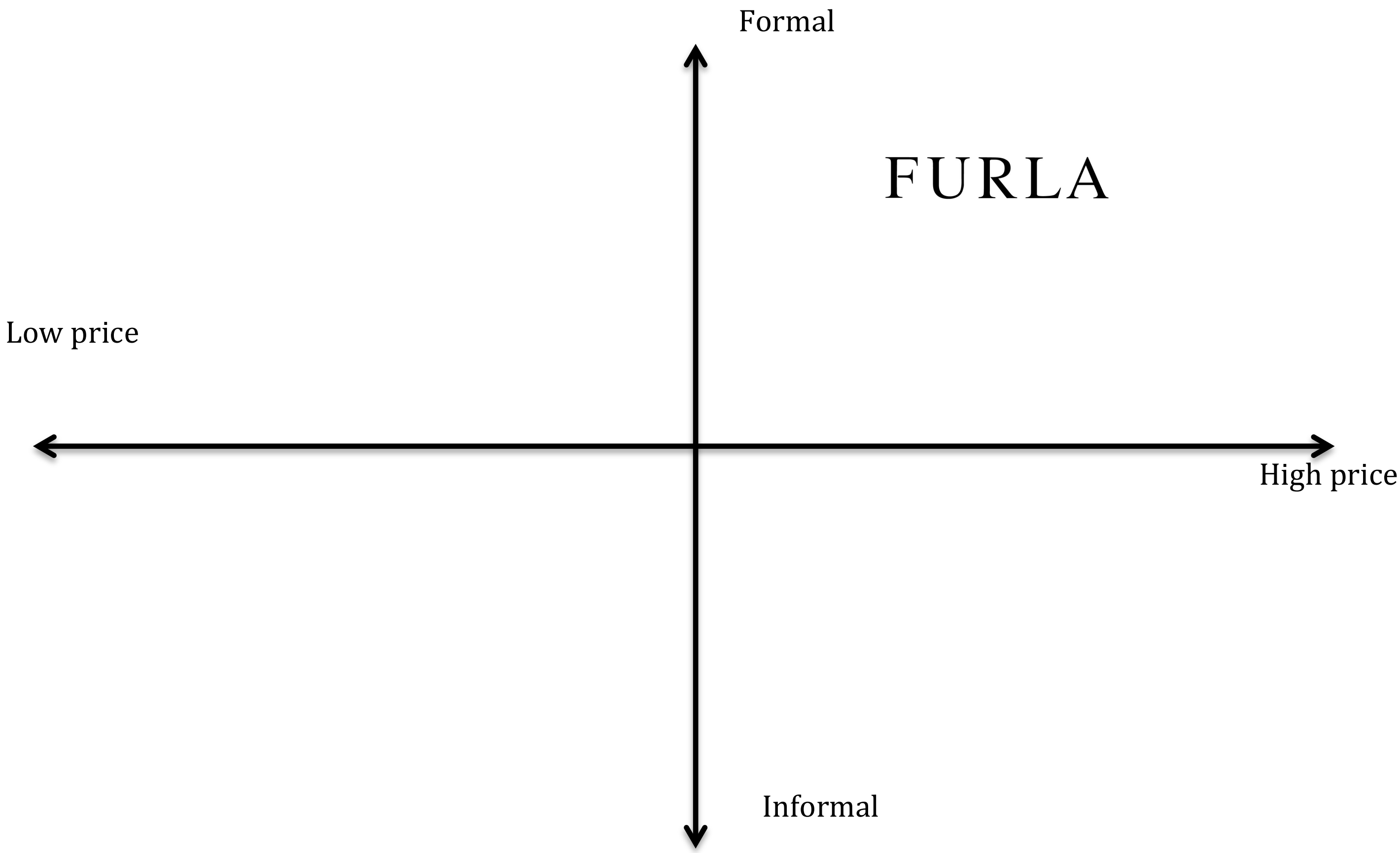
We can now have a look at Furla's positioning map, by using as helping tool for a better understanding the variables *formality* and *price*, as already done previously, with Max Mara's ones[75].

73 www.furla.com

74 *Furla Global Brand, l'innovazione cambia pelle*, SAS (Statistical Analysis System)

75 Own reference

Figure 3.4.1



As we can see from the graph above, Furla can be positioned in a step behind than the Max Mara's premium brand. In fact, if the brand of the family Maramotti embodies a set of values belonging to the business women life and their attitudes, Furla is a brand focused on women (and we never have to forget that bothfirms developed a men's line) who care more about beeing fashionable and following the modern trends instead of being useful and practicle.

The two companies visions are of course reflected on the price strategies. We can take as example the price of the bags of the two companies: in fact, if Furla's prices range goes from 195€ to 895€[76], Max Mara's ones start from 265€ and arrive till 1.200€[77].

76 estore furla.com

77 estore maxmara.com

For what concerns the SWOT analysis of the former company we can now try to better understand the Furla world and why the choice of enter the Chinese and the North American market has been profitable[78].

Strenghts

- Furla's cultural *heritage* is the first and great advantage for the company that, before entering in China and US, already knew how to get benefits from its competitive advantage;
- Furla can guarantee a a very well *quality of its products*, reflecting the image of a brand born in 1927 in the of the Italian fashion industry tradition;
- The *innovative culture* is a fondamental factor for Furla. In fact the firm decided to unique products in order to always consider the customers satisfacrton;
- Furla is very respectable for what concerns the environmental sustainability (it is a Max Mara's threat), both for the choice of the materials used and also for the optimization of its distribution strategy, which permits to the company not to have waists and unsold bags;
- Furla has a strong presence on social media. In order to increase and keep an high visibility the company also organizes online contexts between customers (a good example is the #FurlaPerfectMatch contest).

Weaknesses

- The main weakness for the Group is represented by the low degree of popularity, both of the products (Furla hasn't really driving products as Max Mara or for example Michael Kors, but gives more importance to the value of a full collection) and of the brand in general;
- Furla's campaigns and offers are made with the purpose of satisfying the old client base. As also said in the previous bullet point, the activity of reaching and attracting new customers is not really the best quality of this Group;
- Even though Furla is present in all the main social networks (Facebook, Twitter, Instagram), the strenght and the effectivity of the company's communication strategy are still very weak.

78 wikiwealth.com

Opportunities

- The big amount of income coming from the old clusters of customers, gave the possibility to the firm to spend and invest in emerging markets (China is one of those cases);
- The improvements of the productivity due to technological changes represent a great future opportunity for Furla, especially in the US;
- The partnership with the platform Green Box gave to Furla the opportunity to improve its e-commerce strategy, increasing so the company's income;
- Technology improvements are helping Furla to rise up the entry barriers against its competitors.

Threats

- The very high degree of competition in the fashion industry (also from its Italian "peers") may threaten the effectivity of Furla's strategies, especially for what concerns new markets like the Chinese and North American ones, which we're now analyzing;
- The strong sector competition is always reflected on the advertisement strategy. As we said before when talking about company's weaknesse, Furla's advertising is not very effective, and the presence of many other competitors may lower this trend more and more;
- The fashion market is mature and saturated, and the way for a firm to grow in such environment should be the increasing of the market share, but it is difficult and expensive result to reach;
- The last element to consider is the worldwide economic downturn: global conditions are nowadays continuously evolving, not giving the possibility to make certain long-term plans.

3.4.3 Strategy, distribution formats and made-in-effect

Flagship store

The experience of Furla in China with the flagship stores distribution format is still very weak. That's because the firm has launched its first flagship store just in June 2016 in Shanghai.
The move of the company is "to expand its presence in the Chinese market that has seen fast growth and significant opportunities in recent years.
The flagship store is located in CITIC Square, which is in the city's business district hub in Nanjing West Road. As the first duplex design store in the Chinese mainland, the Furla CITIC flagship store covers an area of 300 square meters with two levels, which include women's and men's leather collections and accessories, as well as flagship store exclusive collections.
In addition, the store has the first and the largest LED facade of Furla's global distribution, occupying 234 square meters"[79].
For the company the flagship store creation (which, we must mention, represents a form of Joint Venture) is an important step to grow and expand dinamically in the Chinese territory. The specific strategy of Furla has been so to maximize the brand's footprint in China, by choosing the best possible location (CITIC Square) and also trying to learn (instead of sell) more about the Chinese customers, whose behavior has already been mentioned in the previous chapters.

As in China, also in the United States Furla's experience with flagship stores is very weak.
The company is in fact very young in the market and today counts just 15 stores all over the North America.
The situation is so very similar to China: the first American flagship store has opened in 2015 between the 51st Street and Fifth Avenue.
According to the company's headquarters, this new entry represents a crucial step in the global expansion strategy made by Furla in the US, after the ones in Japan and Spain.
On the occasion of this new opening, Furla also launched a new limited edition line called "Fifth Avenue".

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[79] *Furla launches first China flagship store in Shanghai*, www.chinadaily.com

Monobrand boutiques

Furla has bet strongly on its monobrand boutiques in China. In fact the company is in the middle of a process, started in 2013, that will bring over 100 boutiques in 40 cities in the Chinese territory.

Furlanetto family made it happen thanks to partnership with the Fung Group in Asia, which gave the possibility to the company to increase the demand of Chinese consumers for high-end products.

The strategy of Furla connected to the monobrand storesi s the one to enlarge their presence in China through the help of a partner with similar values and ambitions, but well-known in the new market.

The company, as it happens for China, retains this distribution format fundamental for the future of the company in the US.

This channel is today the most used in North American martket for Furla, just after Deparment stores. The strategy of the company in the US is in fact to have a parallel growth, through monobrand boutiques and deparment stores.

Department store

For the brands characteristics, culture, heritage and territory, department stores are not really the field in which Furla (as like Max Mara) wants to compete in China. Even if the company still use this distribution format (e.g. the store into the Paradise Department Store in Hulunbuir), it tends to disappear for the better positioned brands.

Surprisingly the trend of Furla in the US is totally opposite of the one in China.

In the US the department store represents in fact the leading strategy for the Italian company, despite its characteristics of premium brand, its culture and heritage.

The reasons behind this choice are essentially connected to the market's characteristics and so to the big influence that department stores presence have in the US.

E-commerce

Furla has a good experience with this distribution format, because the company started the e-commerce project in 2008 in Italy and expanded it to the rest of the world in 2009.
E-commerce is for Furla a valid additional sales channel, thanks to the power of the internet to reach widely also potential customers living in centers not covered by the distribution network of the Furlanetto family's company.
The aim of the group, declared in 2015, is to try let e-commerce reach within 5 years the 10% of the total revenues (numbers that can so be compared with the Max Mara present e-commerce strategy).

Franchising

Furla counts strongly on international franchising both as distribution format and as way to enter new markets. For what concerns the Chinese market, Furla has been one of the first fashion Italian companies in the 1980's that can be considered innovators (together with Benetton) for what concerns international franchising[80]. The company is today present in 100 countries and (at the end of 2013) had 344 monobrand stores, 164 of which directly managed, which generate 59% of turnover, and 180 franchised.
But Furla administration finds this form of distribution not proper nowadays and is developing new methods to enter new markets. The current strategy for Furla is focused, more than using the franchising form, on an important partnership with the group Cegid, international group leader in the provision of management software for the retail sector, with a strong specialization in fashion and luxury industries. In fact, the company of the family Furlanetto, chose the Cegid Retail software Y2 to boost its international expansion and engage their customers a unique shopping experience. It consists in a European project started to expand in the world for a total of more than 340 stores that will benefit from this software. This innovative solution has allowed Furla to improve the processes of all sales channels, to know its customers better and to centralize all retail processes of the group in a single model.

So, even if Furla has got a considerable number of franchising stores, its strategy in China is today more focused on the customers learning, understanding and satisfaction. The purpose of the

[80] www.italtrade.com

company so is obviously to be careful about sales and economic perspectives, but it is also aware that to do that, is fundamental to have a complete understanding of the Chinese customer base.

For what concerns instead the US, as happened before with Max Mara, Furla's headquarters still find premature to adopt the franchising format. That's because the company hasn't yet a full knowledge of the market and its customers.
So, consistently with the strategy adopted in China, Furla wants, before strongly expand, to fully learn its customers.

Made-in-effect

Among the four brands we decided to study in this dissertation, for what concerns the made-in-affect, we can say that Furla is the only one placed "in the middle".
As affirmed by the company's headquarters, Furla, as like Max Mara (and as we will see later for Salvatore Ferragamo) is trying to defend its made in Italy, in order to try benefits from it in terms of competitive advantage against other foreign competitors.
Nevertheless they are also conscious about the fact that the market is changing and that the movement of the production abroad is a concrete possibility in an early future.
For this reason the company is trying to analyzing all the competitive advantages of producing abroad so that it can be possible in one hand to experiment to reproduce these winning factors, on the other hand to evaluate the disadvantages connected to the loss of the "made in".

3.4.4 Expectations and future economic benefits

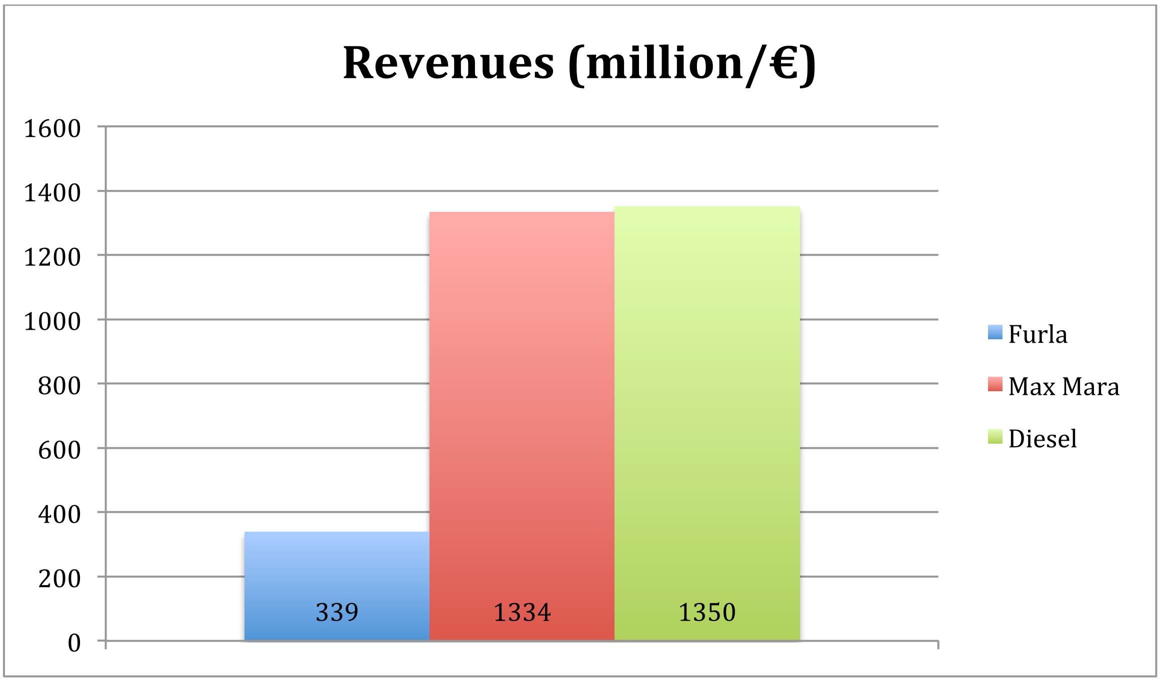
It is useful to start from an assumption: the dimensions of Furla and the other three firms we choose for this dissertation are not comparable. Max Mara, Diesel and Salvatore Ferragamo are bigger and more powerful brands, which can count on a wider client base and, above all, on a brand name and image well known as fashion leader all over the world.

For this reason we can also admit that also the numbers of the four companies are not even comparable.

But the common element about those Italian firms (with some exception regarding Diesel), is that even if the global markets are facing a period of strong financial crisis (and the fashion sector can be included in this matter), they are managing a virtuous circle that made them leading companies in the fashion industry.

It can be useful to give a look and then compare and discuss some data (year 2015), in order to have an empirical evidence about what we want to say[81][82][83]:

Figure 3.4.2

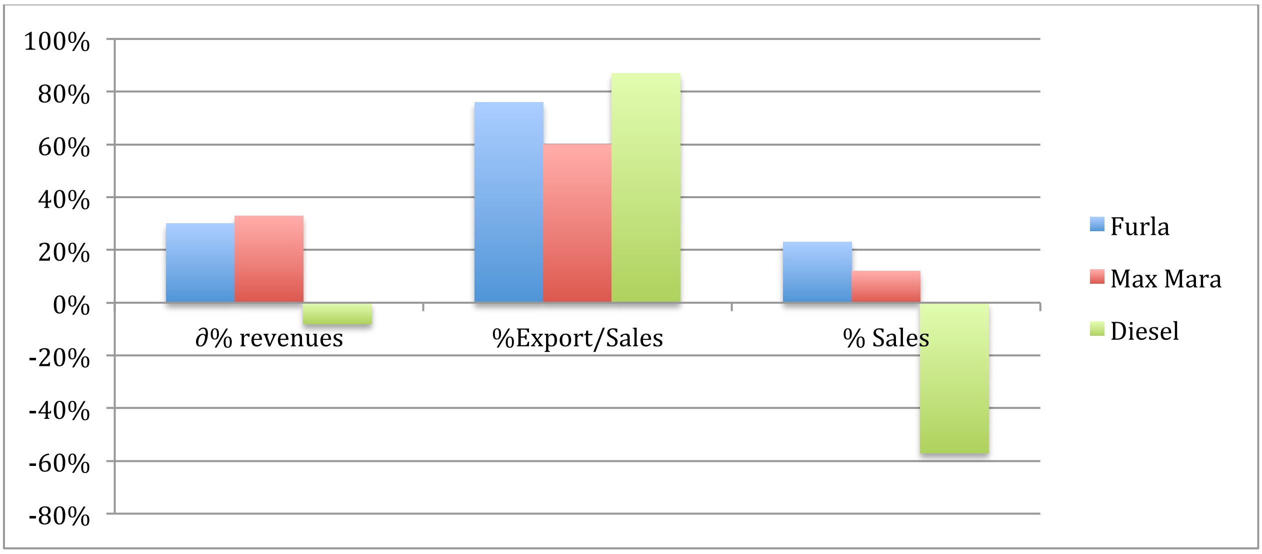


81 Repubblica

82 Il Sole 24 ore

83 Corriere

Figure 3.4.3



As we can see from the graphs above, and as we already said before several times, the datas of the companies choose are not comparable, but give us a well defined idea about their economic trends.

Max Mara's and Diesel's revenues are almost four times greater than Furla's ones (1.334 and 1.350 against 339 million/€).

For what concerns the revenues variation, even if it is a firm with a less structurized organization, also Furla reached great results with a variation in revenues of +30%, and the company has so doubled this data in the last 5 years.

But Furla excels for what concerns export (76% on total revenues) and sales (+23%) against Max Mara and Diesel that count rispectevely 60% and 87% for the former information and +12% and -57% for the latter one. About the brand created by the family Furlanetto we can also add that the weight of the Asian market on its total business volume is estimated at 19%.

For what concerns the export we must mention the fact that Max Mara has a similar and homogeneous trend in all its 100 countries (and this is a reason for the company to be very proud of the work done).

The export datas about Furla must be considered a victory, especially in a market where a lot of brands are slowing down (this year the global fashion industry average amounts to +10%, against the +13% of the previous year).

Furthermore Furla Group is thinking about reaching 500 million/€ of revenues in the next five years in order to try to compete with stronger competitors as Michael Kors and Tory Burch.

3.5 SALVATORE FERRAGAMO

3.5.1 History and company profile

Born in Bonito (Avellino) in 1898, Salvatore Ferragamo at already nine years old decides that he wants to ennoble the shoemaker job.

Like many other young Italians before him, in 1914 he emigrated to the United States on the ship "Stampalia". In Boston, thanks to brother Joseph Covelli, began working at the Queen Quality Shoes Company. Among thousands of pairs of shoes a day, the young Salvatore feels just one of the many gears of the assembly line. He will soon get tired of those creations considered "heavy, clumsy, stocky, with the tip bulbous and lead heel" and reached the brothers in Santa Barbara, California. Here he opened a small resoling workshop and repairs and works on behalf of America Film Company.

His American dream comes true on the West Coast, where the film industry crowns him as "the stars shoemaker"[84].

[84] Vogue Italia

3.5.2 Brand positioning and SWOT analysis

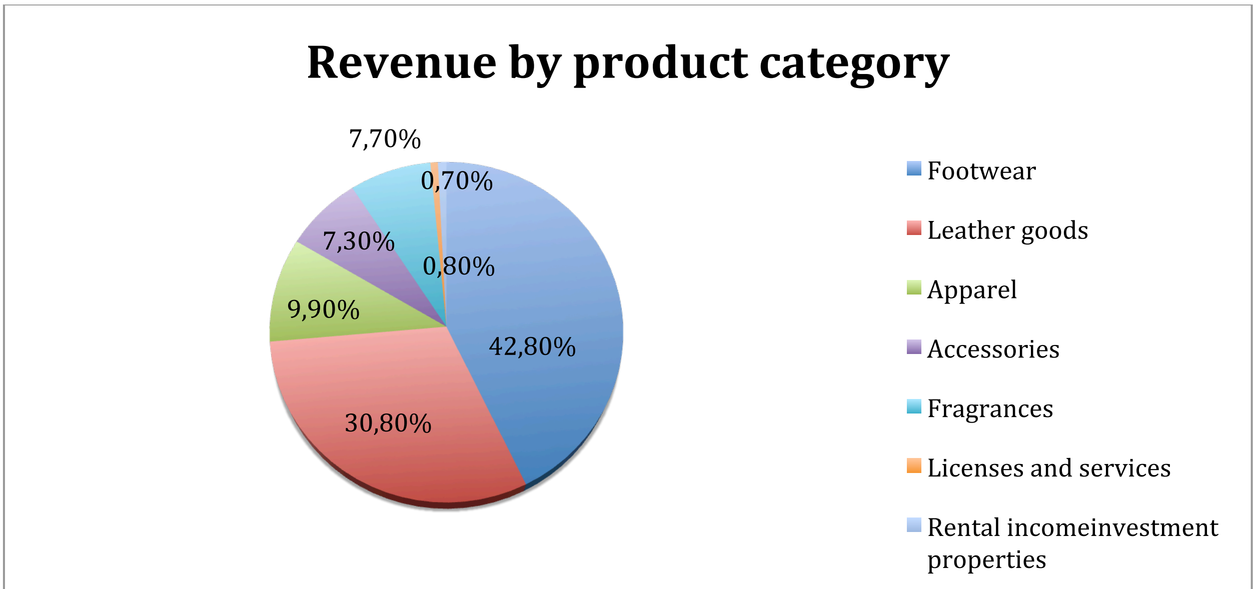
The first thing we can say about Salvatore Ferragamo[85] is that the company (unlike what happen for example before with Max Mara) drives one single brand and hasn't got a big umbrella.

"We are all flowing with the eternal tide, and of the eternal tide only is there no end"[86].

It is one of the leading players in the luxury sector, mainly active in the creation, production and sale of footwear, leather goods, clothing, silk products and accessories, as well as fragrances (for both men and women) and all strictly Made in Italy.

The range of products also includes eyewear and watches, manufactured by licensees granted by other companies in Italy and abroad, with the aim of developing the brand by exploiting the local excellence.The brand values are the attention to uniqueness and exclusivity, achieved by combining style, creativity and innovation with the quality and craftsmanship typical of Made in Italy. Those are the characteristics that has always distinguished Salvatore Ferragamo from the other groups[87]. It is specialized on a wide range product categories that can be summarized as follows[88]:

Figure 3.5.1



85 NB: starting from now every time that we will mention "Salvatore Ferragamo" we will be refered to the brand "Salvatore Ferragamo s.p.a." and not to the physical person of the founder "Salvatore Ferragamo".

86 *Shoemaker of Dreams,* autobiography of Salvatore Ferragamo (2010)

87 group.ferragamo.com

88 Salvatore Ferragamo S.p.A.: *Board of Directors, First Quarter 2012 Results*

As we can see from the graph above, the footwear is the driving sector for Ferragamo with the 42,80% of revenues. After that the second most important product category is represented by the Leather goods with the 30,80%. The remaining “peice of cake” is divided between Apparel, Accessories, Fragrances and Licenses.
As we said before Ferragamo is a single brand, distinguish several lines inside it:

- *Salvatore Ferragamo*: is the main line of the group. It includes shoes, clothes and high-end accessories for both men and women;

- *Ferragamo's creation*: is a re-editions of iconic models which made the history of the group. A perfect example may be the bag "Top-Hand" or the invisible sandal;

- *My Ferragamo*: is a more commercial line. Its target market is basically made up of youth, who generally look for more economic models;

- *Ferragamo World:* it is consists in Sustainable Ethics Line, it offers men's casual shoes;

- *Ferragamo Jewels*: limited editions of jewels;

- *Ferragamo Parfums*: line of fragrances;

- *Ferragamo Timpieces:* watches;

For what concerns the brand positioning compared to its competitors, Ferragamo offers luxury shoes and is considered a premium brand, and the prices for its shoes strart from around 500€ to 1.000€.
At this point is important try to make a SWOT analysis, in order to better understand Ferragamo’s strategy in the US and China.

Strenghts

- Ferragamo has got a strong distribution network, and it represents an important strenght for the firm, both in the US and also in other traditional markets like Europe and Japan or in the emerging markets like Asia-Pacific and Latin America;
- The high profitability and revenues of the Group (we will see it further when we will talk about the future economic benefits) are a great start to enter a foreign market;
- Ferragamo has strong and consolidated relationships with its suppliers;

Weaknesses

- The group is not very widespread in the US (we will discover different results about China). That may represent a weakness, especially if compared with its competitors.
- The Brand Strenght is weak, and for a firm like Ferragamo the brand perception may result complicates outside the Italian boundaries;

Opportunities

- The trend of the American fashion industry has grown up in the recent years;
- Renovate the brand and try to get closer to the younger cluster of customers;
- As premium brand, it is a perfect travel retail location;
- The company is strongly betting on the ecommerce. US counts a lot on this distribution channel.

Threats

- Increasing interest rates;
- Ferragamo have to face the strong competition of its similar brands, which also have the competitive advantage of the Brand Strenght worldwide (i.e. Chanel, Gucci, Hermès, LV).

3.5.3 Strategy, distribution formats and made-in-effect

The first thing we want to underline is that Salvatore Ferragamo does not adopt the international franchising for what concerns the US market. There are two main reasons behind the choice of this brand:

1) to show the complexity of opening a franchising in US connected to a premium brand;

2) to understand so why does it happen and why does Ferragamo (as like other similar brands) prefers other distribution formats instead of International Franchising for what concerns the complex American fashion industry.

Our methodology, as done in the previous paragraphs, will be to analyze one by one every format, in order to compare for each one of them the proper strategy adopted by Salvatore Ferragamo.

Let's see now in the space below how does the company operate:

Flagship store

Salvatore Ferragamo's Flagship Stores experience in the US started in 1948, and it still is going to expand in the next years. In fact the company is going to open its first Flagship in 2016, and will be settled in Fifth Avenue, New York.

As said by Ferruccio Ferragamo, President of the Salvatore Ferragamo s.p.a., the company is enthusiastic to have a flagship that will give prominence to their products, reflecting the characteristics of the brand: craftsmanship, style, tradition and innovation. Doing so it will be able to offer to current and future customers the opportunity to learn about the totality of the Ferragamo world under one roof.

The situation is totally different for what concerns China.

The first Salvatore Ferragamo's flagship store in the Chinese territory has in fact been opened thirty years ago, in 1986 in Hong Kong.

The store, large 350 square metres, became over the years a real landmark for the city, and a starting point for the company's future internalization strategies.

As it happens in the US, flagship stores are a great way for a premium brand like Ferragamo to build a name, an image and a customer base.

Monobrand Boutiques

Monobrand boutiques represent the core strategy for Salvatore Ferragamo in United States. In fact, as we will see later, the company, on one hand for its characteristic of premium brand, on the other hand because of the low degree of knowledge of the North American market, prefers to adopt this form of distribution istead of franchising (which consists on leaving the management of a premium brand like Ferragamo to a franchisee) or e-commerce (which, if utilized in the wrong way, may weaken the brand image).
The first Salvatore Ferragamo's monobrand boutique has been created in 1971 in New York.
In total the company can count 49 monobrand boutiques all over the United States, plus 2 other shops in Canada and, as already said they represent the most important resource in the American territory. Monobrand boutiques in fact absorb the 70% of the overall Ferragamo's business in the US.

As it happens in the US, also in China the main strategy is characterized by the creation of monobrand boutiques. As we saw before for the case of the flagship stores, also monobrand boutiques represents a very profitable way for Salvatore Ferragamo, both in terms of visibility and amount of sales.
It is in fact for the company the most important distribution format in China.

Department Stores

Because of its characteristics of premium brand (as said before for Max Mara and Furla) the company is not really focused on the growth through department stores in the US. Nevertheless the company, in the US territory, can trust on important partners like Saks, Neiman, Marcus and Nordstorm that are very loyal to Ferragamo. The activity that those partners make in the US is to give indication about clients and store traffic connected to Salvatore Ferragamo.

In China Salvatore Ferragamo's strategy, for what concerns the adoption of the department store format, can be considered opposite than the one in the US.
In fact, the company invested a lot on this distribution format tgrough years. The best examples can be represented by the shop into the department store "Forum 66" in Shenyang, or the one into the big "Deji Plaza" in Nanjing, or the one into the "International Plaza", in Wuhan.
All this examples demontrates how, despite its characteristics of premium brand, Salvatore Ferragamo has choosen to strongly invest on department stores in China.
The main reasons behind this choice can be found in the fact that Salvatore Ferragamo, in China, wants to let the brand become a mass phenomenon, making the customers feel part if it.

E-commerce

Salvatore Ferragamo starts its experience in the e-commers sector in 2005.
In the recent years the brand has tried to empower the fight against counterfeiting, especially for what concerns the Chinese market .
Ferragamo succeded on doing this by frequent controls and by the development of new technologies used to stop this trend (as for example a chip inserted into the shoes, which can't be seen by the outside and doesn't ruin the items outward appearance).
All this actions have had the result of strenghtening the brand image and empowering the e-commerce strategy of Salvatore Ferragamo.

Franchising

Confirming the assumption made at the beginning of this paragraph, Salvatore Ferragamo does not utilizes the franchising distribution form for what concerns the North American market.
The company invests more on franchising in other countries like Asia and South America or in the most trafficated airports.
Anyway it was a usefeul case to take as example for us, on one hand to understand the reasons behind this choice of preferring other forms in the US, on the other hand to analyze the disadvantages connected to the premium brands choice to use adopt franchising abroad.

Connecting this choice with the theory of the previous paragraphs, we can say that one main disadvantage for Salvatore Ferragamo to adopt franchising in the US is the strong tendency to the product adaptation.

Salvatore Ferragamo choose this product strategy in order to conciliate a wider group of customers, differentiating so itself from the potential competitors.

In addition, for a premium brand like Salvatore Ferragamo , the choice of the franchisee gets more difficult because of the excellence standards requested by the company.

At this point we might ask a logic question: why does Salvatore Ferragamo adopt international franchising in other countries and not in the US?

The answer is simple and strictly connected with the brand image and perception: in fact in markets like for example China Salvatore Ferragamo is perceived in a different way, and customers are conscious about the brand positioning and its exclusivity. Unfortunatelly in the US the image of Salvatore Ferragamo is still strictly associated with the production of the only leather goods.

In order to avoid this market distorsion, the company has planned an international expansion based on the acquisition of the fashion group *Ungaro*. The aim is in fact to separate the image of Salvatore Ferragamo from the only production of leather goods, and to push both men and women sales.

The aim of the Group in the US is so to reach an important expantion [also through the possibility of adopting franchising contracts], but just after having increased its contractual power, deriving from the sinergy with Ungaro[89].

Connecting our considerations already told before (when talking about the US) with the analysis of the Chinese market, we can say that Salvatore Ferragamo considers franchising a great opportunity when has to invest on emerging countries like China.

Nevertheless the main strategy connected to the franchising format is represented by the massive presence of Duty Free shops in the main Airport settled in the Chinese territory.

Made-in-effect

89 *Nuove tendenze nelle strategie di internazionalizzazione delle imprese minori*, Matteo G. Caroli, Luciano Fratocchi (2000)

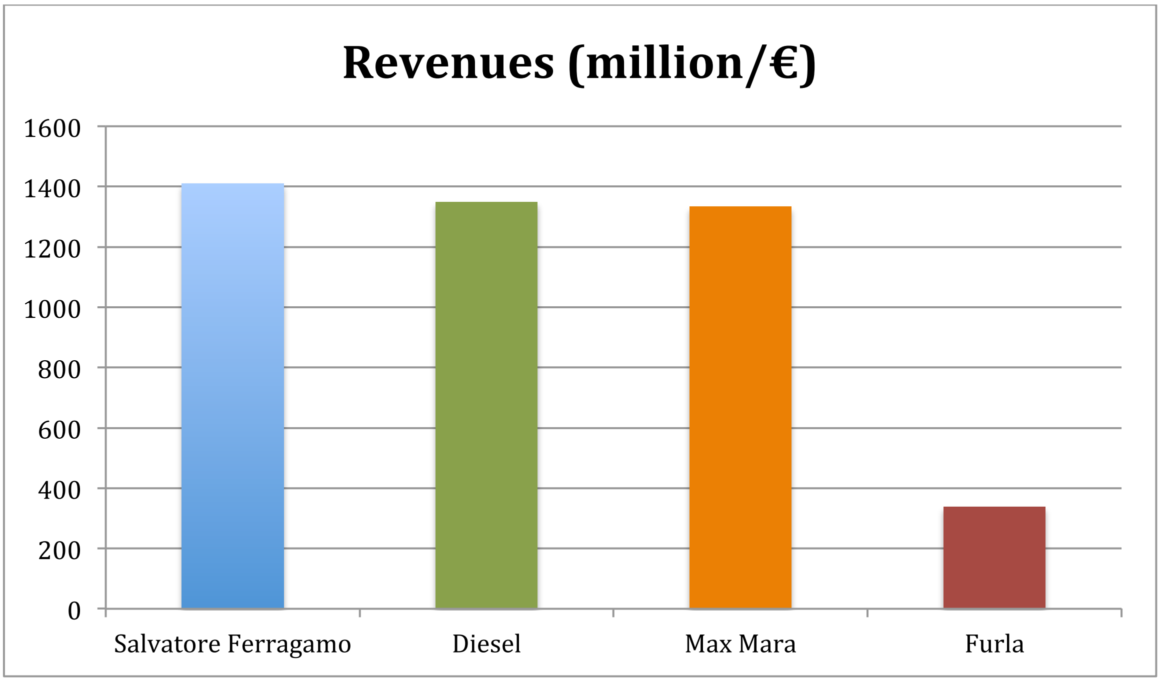
For Salvatore Ferragamo the production is strictly in Italy, from accessories to prèt-à-porter.
It is realized through Italian manufacturing partners, many of whom work from many years exclusively for the Florentine fashion house.
The ended products pass to Florence for the final quality control before being put into distribution. The only exception is represented by the glasses, but these are produced under license by Luxottica.
Salvatore Ferragamo so, as premium brand, is proud to preserve its made in Italy.

3.5.4 Expectations and future economic benefits

In fact, whereas Salvatore Ferragamo can be considered an healthy firm, Diesel is not facing one of the best moments of its history.

The evidences showing the data that we collected can help us on underline these two opposite trends[90].

Figure 3.5.2

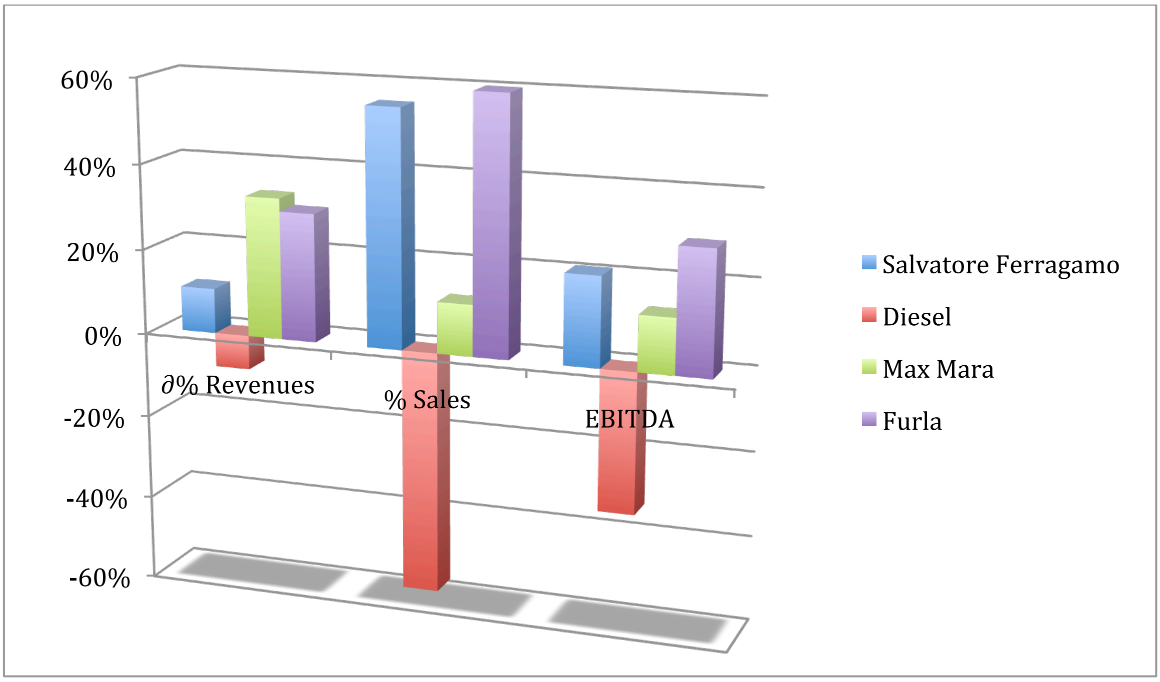


As we can see from the first graph the four firms (with the exception of Furla with 339 million) have similar total revenues: 1.410 million for Salvatore Ferragamo against the 1.350 million of Diesel and the 1.334 of Max Mara.

As we can see from the graph below, also Salvatore Ferragamo, if compared with Furla and Max Mara, is reaching great results.

[90] *Board of Directors, Company Statutory Financial Statement and Consolidated Financial Statement*, Salvtore Ferragamo s.p.a. (2013)

Figure 3.5.3



Salvatore Ferragamo is so facing a very important growth for its history. All the main economic data are increasing: Revenues +8%, EBITDA +21% (+131,5 million/€) and Net Profits +55,3% (86,8 million/€).

In addition there's another very useful information for our study: Salvatore Ferragamo counts 360 DOS (Directly Owned Stores) and 264 TPOS (Third Party Owned Stores). This last data is growing in the recent years and is a demonstration of how the company is considering every day more the possibility to expand in foreign countries through the franchising format.

Furthermore the Travel Retail Channel, as said before very important for Salvatore Ferragamo, has faced a +36,8% growth.

Conclusions

The first aim of this dissertation was to try to have a full comprehanding of the franchising agreement, and to understand why is it preferable to other forms of entry.
In Chapter 1 we described so all the franchising's characteristics, discovering that it may be a better opportunity than other forms of market entry for those who want to invest and expand their businesses. In particular the franchising contract, seen from the franchisor's perspective, grants a more rapid expansion than other modes of entry, reached with less risks, less capitals and with the opportunity to have a motivated person (the franchisee) that has the personal interest of leading the store to the success.

Our second aim was to find, in our work and in our cases of study, empirical proofs that can demonstrate the assumpions in support of franchising made by the economist Barry Quinn (Chapter 1.5).
We can say that our answers to these theories have all been fully satisfactory with the exception of the factor regarding the relationship with the franchisees. Our research has in fact been conducted trhough a macro view of the companies studied, and we don't have empirical evidences that can verify how franchisee's satisfaction and communication can represent critical factors of success.
On the other hand we succeeded on demonstrating the other assumptions made by Quinn: the *market potential*, the *firm's orientation* to risk and long term objectives, and the *products standardization*.
The firm's orientation factor is demonstrated by the fact that all the four companies we analyzed (Max Mara, Diesel, Salvatore Ferragamo and Furla) think about franchising as a long term orientation mode of entry;
The market potential factor is demonstrated by the countries datas collected in the Chapter 3.1, which showed a growing trend for both US and China, that, intersected with the fashion industry's informations and with the willingness of the selected companies to strongly invest in these countries, provide a positive set of answers to our question.
The products standardization factor is demonstrated by the reluctance of Salvatore Ferragamo to enter the US market through the franchising form. This difficulty is in fact caused by the strong product adaptation policy adopted by the Italian brand.

We can also make conclusions regarding the overall fashion industry.
Our study tells us that the fashion industry, especially for what concerns China and US, is going to be a saturated market. Therefore i twill be difficult for a firm without a strong organizational structure to survive.
Nevertheless all the brands we analyzed are facing a strong foreign expansion, so that's a demonstration of the great job of their headquarters.

Remaining in the fashion industry area we can concretely affirm that the formality of a brand is a directly proportional to the willingness to prefer monobrand boutique sas leading distribution strategy.
Despite the multiple proofs collected, we also found out that formal brands like Max Mara, Salvatore Ferragamo, Furla and Diesel (that, as said in Chapter 3.3, is facing a brand repositioning period), are choosing franchising stores as way of expansion, both in China and in the US.
We can also add that the Chinese market is, on average, better known than the North American one from the studied industries point ov view.
Remaining in the comparison between China and the US we can also confirm the assumption made by Harris, according to which the socio-cultural diversity of a country represents a drawback for a firm that wants to internationalize.

At the end of the Chapter 2 we also payed attention to another important question: does the made-in-effect, for what concerns the fashion industry, influence a firm's results?
Our answer, based just on the data collected and on logical association, is No. Our evidences showed how all the firms, whether they preserve the made in Italy or not, are facing consistent growths for what concerns foreign markets.
However we can also admit that the made-in-effect has a strong incidence on a firm's brand positioning. That is the case of Diesel, which is in fact trying to strenghten and build up its image from zero.

What emerges is that the adoption of international franchising, is not the best choice to penetrate a new market. However it is, as demonstrated especially by the China case (and confirming another thesis made by Quinn regarding the franchising as expansion strategy), the best and fastest way to consolidate a firm's presence in the market.

That happens because of the important speed that characterizes the franchising agreement, linked to the possibility of having a wide expansion without facing considerable efforts and risks, that are entrusted to the franchisee.

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ABSTRACT

This dissertation has the aim to explain, after having reached a full understanding of the subject and after having underlined all the connected advantages and disadvantages, why international franchising can be considered a profitable way to enter or expand in a foreign market and when it may result a preferable form, if compared to the others.
Before going further with our analysis it is fundamental to give a proper definition about the franchising contract: it is a form of collaboration between two firms, both giuridically and economically independent to each other, in which the former part (franchisor) transfers to the latter part (franchisee) the grant to become join of its franchising chain. The franchisor also tranfers to the franchisee the grant to take advantage of its patents, trademark, name and know-how under the payment of a certain amount of money.

The purpose of our study is basically to answer to two questions: why can franchising be preferred to other forms of contracts as mode of entry or expansion in a foreign market? And which are the drivers that influence this choice?

To do this, we must first understand which is the economic role played by franchising today and why it can be considered important.
We can affirm that a franchising contract has got three levels of effectivity: the *economic level*, the *social level* and the *efficiency level*.

- the economic importance must be attributed to the fact that, when negotiating a franchise agreement, the franchisor transfers to the franchisee his *know how*, which can be considered the element that guarantees a competitive advantage over the competitors;
- the social importance is granted by the franchising effectivity on globalization dynamics. This for of contract succeeds in fact on building and developing a wide and multicultural network of people running for the same objective;
- the efficiency importance is given by the time reduction in terms of bureaucracy. Through the franchising agreement the franchisor has also the possibility to learn new and more effective operative modalities.

The literature about the franchising contract is very wide. However we decided to focus our study on four theories, enunciated by the economists Quinn and Harris.
The former can be considered one of the most important exponents of the franchising literature, and its theories gave importance to three fundamental factors[91]:

- the *market potential* as the main factor of influence on franchise internationalization. This theory has also been led by famous academics like Hackett (1976), Tranckiem (1979), Walker and Cross (1989), Aydin and Kacker (1990) and Hopkins (1996). This theory is also supported by the McKinsey Matrix, a useful tool used to evaluate a country's attractiveness[92];
- the *orientation to the long term* is a fundamental goal for a firm that wants to have a winning franchising system;
- the franchising contract is not the best way to make a market entry (for which may be better to initially use a non-franchising form) but represents the most effective strategy for a company that has already developed a brand name and concept.

The latter economist's theories are instead based on one simple concept: it may not be easy for companies to operate in countries with a huge variety of cultures and languages. In some countries firms may not have the possibility to standardize their services or products. "For such companies, one way to reduce adaptation costs is to employ franchising"[93].

Our work will so consist on answering to our initial questions about franchising contract, by applying Quinn's and Harris theories to the world fashion industry. In particular our specific objective was to understand how can Italian firms take advantages from the international franchising.
To do that we took as example four companies as cases of study, all belonging to the Italian fashion industry and adopting an internationalization strategy: Max Mara, Diesel, Furla and Salvatore Ferragamo.
It is important to add that we limited our research to the North American (United States) and to the Chinese market, in order to get homogeneous results and to cover a wide world area.

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91 Barry Quinn, *Towards a framework for the study of franchising as an operating mode for international retail companies*, The International Review of Retail, Distribution and Consumer Research (1998)

92 *Enduring Ideas: The GE–McKinsey nine-box matrix*, McKinsey

93 Harris, D. *The Times*, 20 April,p. 20 (1994)

In addition we found useful to understand what is the different strategy used by each firm for every different direct distribution format. In this way, for each company and for each market in which it operates, we have analyzed and underlined the differences between the most important distribution formats used, in particular: *monobrand boutique*, *flagship store*, *department store*, *e-commerce* and, obviously, *franchising*.

- *monobrand boutique:* is a store that sells only products coming from a particular brand. This distribution channel is having particular success in recent years into the fashion industry, during which brands are using the store to promote their image and differentiate itself from competitors with the aim of gaining a competitive advantage by increasing the brand image;
- *flagship store* : it is a huge *monobrand store* (see above) located in the main centers of the cosmopolitan metropolis. It is made up of the full assortment and through the flagship store a firm has got the possibility to present all the collection to the potential customers. In fact, it is defined "flagship store" because it not only represents a commercial tool, but it means that the firm takes the commitment to present the style and the brand values to the public;
- *department store*: have recently faced a restyling that has boosted the image, thus promoting also the entrance of luxury brands. They offer a huge variety of brands and products, like branded, unbranded and private label products and products belonging higher market levels, medium-high and medium;
- *e-commerce :* it is of course the main opportunity of the new millennium for a fashion industry. But it doesn't give an immediate and automatic competitive advantage. In fact, if on one hand e-commerce guarantees fast profits and lower costs (especially the one connected to the personnel), on the other hand, through this channel, a firm has not the possibility to express its brand image and values;
- *franchising* we've discuss a lot about this distribution format, put in the centre of our study, in the pages above (see 1.1, 1.2, 1.3, and the beginning of this abstract).

Furthermore we found it useful to add an element that can result decisive for a fashion brand (especially when belonging to the Italian tradition) that wants to internationalize and penetrate new markets: the *made-in-effect*.

A great definition about the made-in-effect is provided by Roth and Romeo. They intend the made-in-effect as the general perception that consumers develop about the products coming from a given country, based on preconceptions regarding their production and on strengths and weaknesses of their marketing campaigns[94].

Country-of-origin-effect is essentially an association that consumers make between products and their origin. This is a very important factor for our specific study about the Italian fashion industry, which is perceived as the most important from the foreign customers.

Our aim now is to try to understand if the choice of switching the production abroad or not, may influence the customers choice, and how this influence is directly proportional to firms strategies.

For this reason we added, at the end of every company's distribution formats paragraph, a focus on the made-in-effect, and we explained how and why the choosen firms decided or not to switch their production abroad on the basis of this assumption.

The finded results helped us to deduce our answers in the conclusions of this dissertation.

We structured our work with the following criterion:

In the **first chapter** we described the origins and the definition of the franchising contract. It has also been useful to understand both the franchisor's and the franchisee's perspectives.

In particular we found out that the franchisor supports the franchising by essentially granting name, patents, trademark and know how. The franchisee has instead the possibility to exploit the trademark and to enlarge its business thanks to the franchisor's support. The franchisee, in exchange for the grantor's assets has to pay a fee to this one.

In our description of the franchising terms we also gave a great importance to the *Brand Name* and to the *Ongoing Support* guaranteed to the franchisee.

For what concerns the former, we said that "the franchise might have a brand name value that enables the franchisee to charge higher prices and attract more customers than an otherwise similar business". […] "This brand name value is augmented by the fact that the franchisor often provides the advertising for the product"[95].

The latter represents instead the creation of a technical and commercial support, created from the franchisor, in favor of the network of affiliates through technological tools and computer or its physical agents.

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94 *Matching Product Category and Country Image Perceptions: A Framework for Managing Country-of-Origin Effects*, Martin S Roth and Jean B Romeo, Journal of International Business Studies (1992)

95 Aswath Damodaran, Dealing with Intangibles: Valuing Brand Names, Flexibility and Patents, Stern School of Business (2006), pag. 7

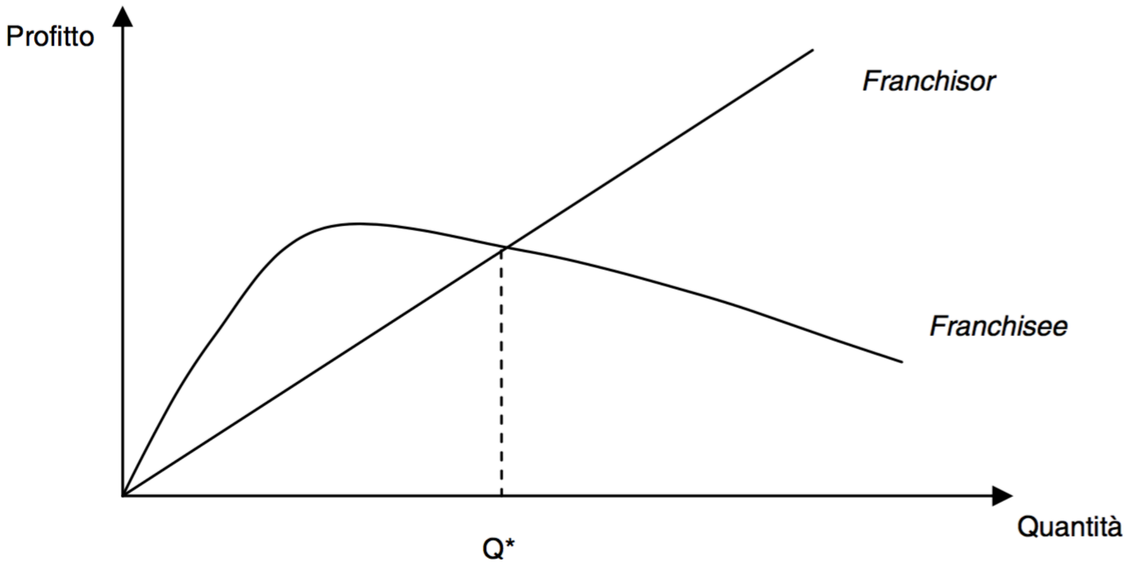
Then we showed all the advanteges and disadvantages, linked to both the franchisor's and franchisee's perspective, that can be summarized as follows:

	Franchisor	**Franchisee**
Advantages	- More rapid expansion - Motivated entrepreneurs - Less costs of entry	- Reputation - Less financial resources - Franchisor's experience - Assistance - Reasonable profit margin
Disadvantages	- Image may be threatened - Less profitability - Unexpected competitors	- Duties - Standardization - Less Independence

After that, we found out the relationship between profits and turnover in franchise systems[96].

96 Marisa Amoroso, Il controllo di gestione nel franchising (2011)

Figure 1



As we can see from the graph above, the interests of the two parties are conflicting: franchisees tend to maximize their profit function while the franchisor push them to maximize sales.

Then we compared franchising with the two other main forms of contracts: *licensing*, and joint *venture*.

The former is considered an atypical contract by which a person (the licensee) assumes on the task of stably handling the commercialization of the products of another party (the lessor), with the particularity that the licensee is linked to the licensor by a set of constraints, that not necessarily coincide in the other different licensing agreements, but which can be summarized as:

- the duty to submit the hallmarks of the licensor;
- the duty to undergo the interference of the latter in the management of the company, such to achieve an effective integration between the contracting parties.

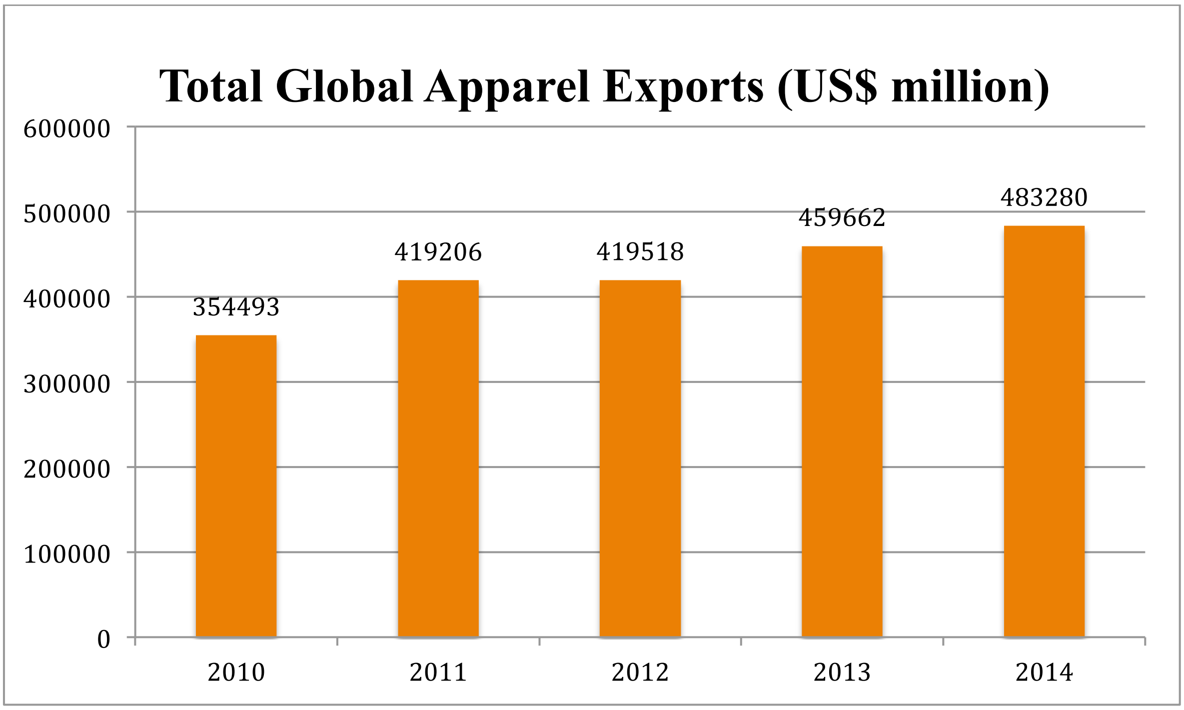
At the end we found out that the joint venture (more than licensing) can be considered the main alternative to a franchising contract, due to its sharing of knowledges and skills, reduction of time for realization and the sharing of risks. On the other hand it is limited for what concerns the decision-making and the possibility of internal conflicts with not appropriate partners is concrete.

In conclusion, before moving to the following chapter, we discused the theories made by Quinn and Harris, and previously seen at the beginning of this abstract, about the critical factors of success of a franchising contract.

In **chapter 2** we analyzed the world fashion industry, by studying its history, evolution and trends, both in Italy and in the rest of the world.

We discovered that Export became a very important element through years for the fashion industry, especially nowadays[97].

Figure 2



As we can see from the graph above, nowadays the global apparel export is having a steady growth nowadays, and it's so a profitable field in which a business can invest.

Then we discovered another important information. After having made an accurated study, and after having used the appropriate graphs, we found out not only that Italy is the major apparel exporter in the world, but also that its export growth rate is going faster than all its other competitors (followed by Bangladesh, Vietnam and India).

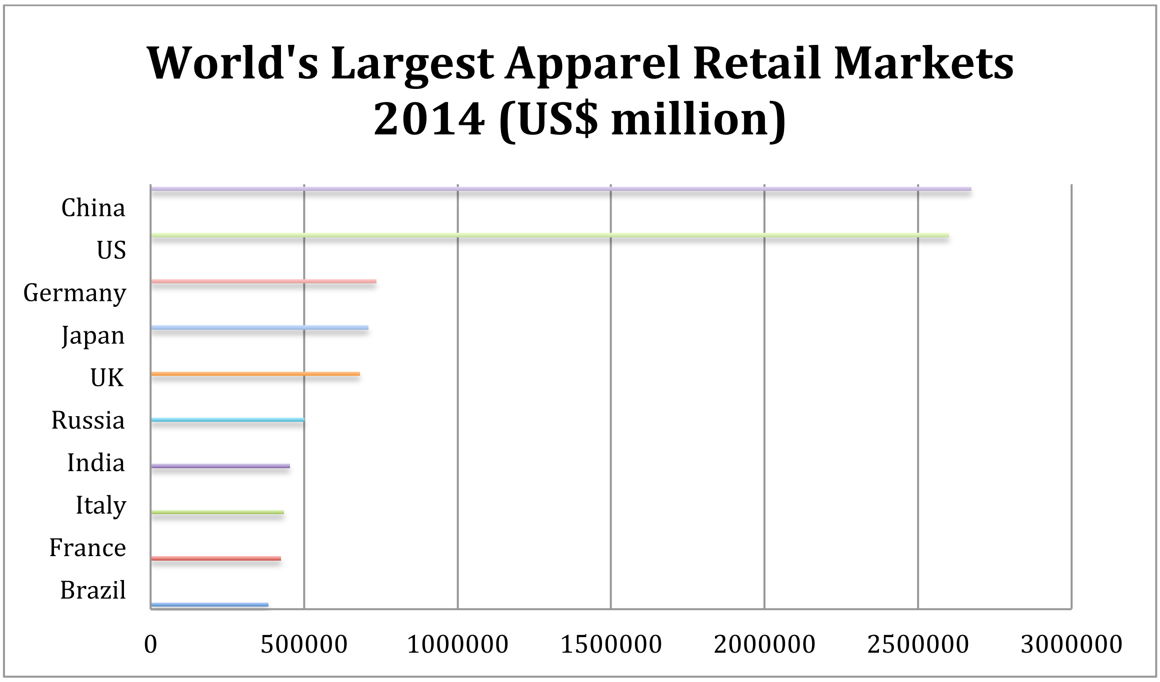
After that we also focused on the retail sistem.

By studying the world's largest apparel retail markets we found out that China and United States are, by far, the two main actors in this rank[98].

97 *Total Global Apparel Exports,* World Trade Organization (WTO)

98 *World's Largest Apparel Retail Markets 2014,* Euromonitor

Figure 3



All this reasons succeeded on strenghtening our intentions to make a specific study on the fashion industry, and to use as example the way at which Italian firms internationalize in China and the US.

After that, in order to conclude our overview about the fashion industry, we also explained the functioning of the *Fashion Cycle*.

We discovered that The fashion cycle is usually depicted as a bell- shaped curve encompassing five stages: *Introduction*, *Rise in popularity*, *Peak*, *Decline in popularity*, and *Rejection.*

In the introduction the new style is adopted by *opinion leaders*, that is a small group of consumers and distributors who want to stand out from the others and who want to reach a "differentiation class", or just want to identify with a system of values or taste;

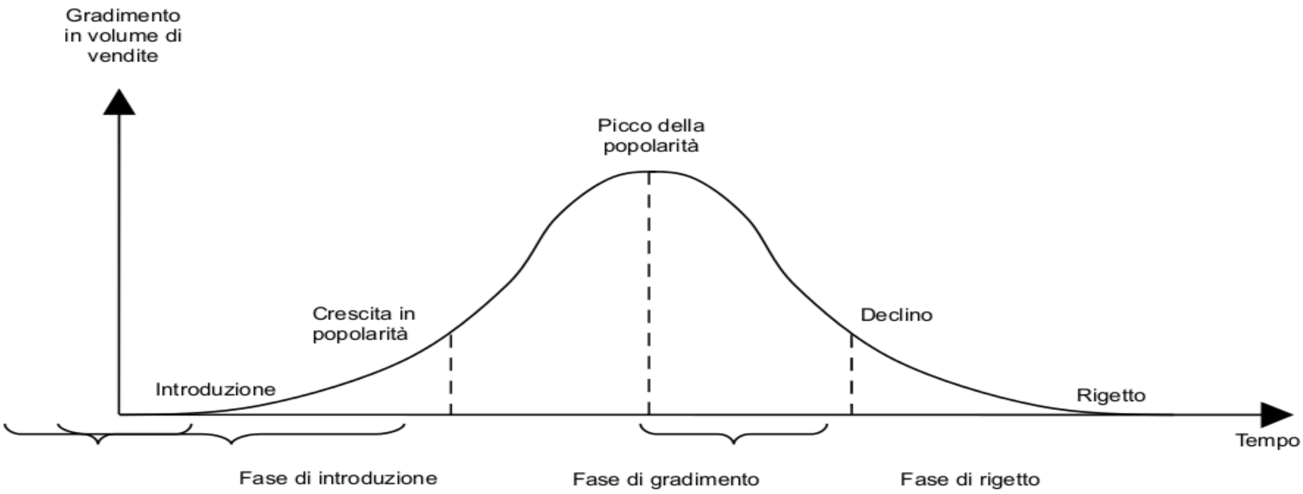
The rise in popularity is the fashion acceptance by the customers: it is confirmed by the purchase of products that represent it;

During the peak fashion reaches the maximum of popularity. It means that it is having a mass diffusion;

At the stage of the decline in popularity the fashion begins to decrease the number of its followers, even if still a huge number of consumers keep wearing the heads that characterize it; there's not, however, more intention of buying them unless they are offered at very attractive prices;

At the rejection stage fashion becomes outdated, so that consumers not only does not show any interest for it, but reject it and don't want to appear in its likeness anymore[99].

Figure 4



We concluded the chapter by explaining the theories of Roth and Romeo, already seen at the beginning of this abstract, about the made-in-effect, and we focused on its importance as driver in our research.

The **chapter 3** represents the core of our dissertation.

In the first paragraph (3.1.1, 3.1.2 and 3.1.3) we made a detailed study of the two countries we were interested in: Cina and the US.

China resulted a very favourable and profitable environment where to invest, and the reasons have to be found in its cheaper labour costs (which give to the country a considerable competitive advantage on their world competitors) and in its government policy that tries to improve foreign investments trend (and also China's tax policy is more foreign investments oriented).

As result, the internal import in goods and services (on GDP) has faced a significant growth in the recent years, reaching an average rate of around +25%[100].

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99 A. Foglio, *Il marketing della moda*, Milano, Franco Angeli (2001)

100 *China statistical profile*, OECD

Moreover we discovered that Chinese customers represent the 30% of the world luxury market, which keeps growing by attracting every day new customers.

The brand addiction is another distinctive element of Chinese people (which in general include all Asian customers) and this trend is continuously evolving over years. In fact just two years ago 38% of those surveyed by *McKinsey* declared himself willing to buy counterfeit products. Now the share has fallen to 12%.

In particular, the 45% of people have the certainty that if a brand charges highe prices for its products, it actually means that it is a better one.

There's another element which must be considered: the Chinese customer's Brand loyalty is very weak. And that's another factor to be considered when proceding in our analysis about fashion industry,

For what concerns the United States, it is the largest state of the world economy in terms of GDP. The GDP per capita is the eighth in nominal terms and the fourth largest in terms of purchasing power parity.

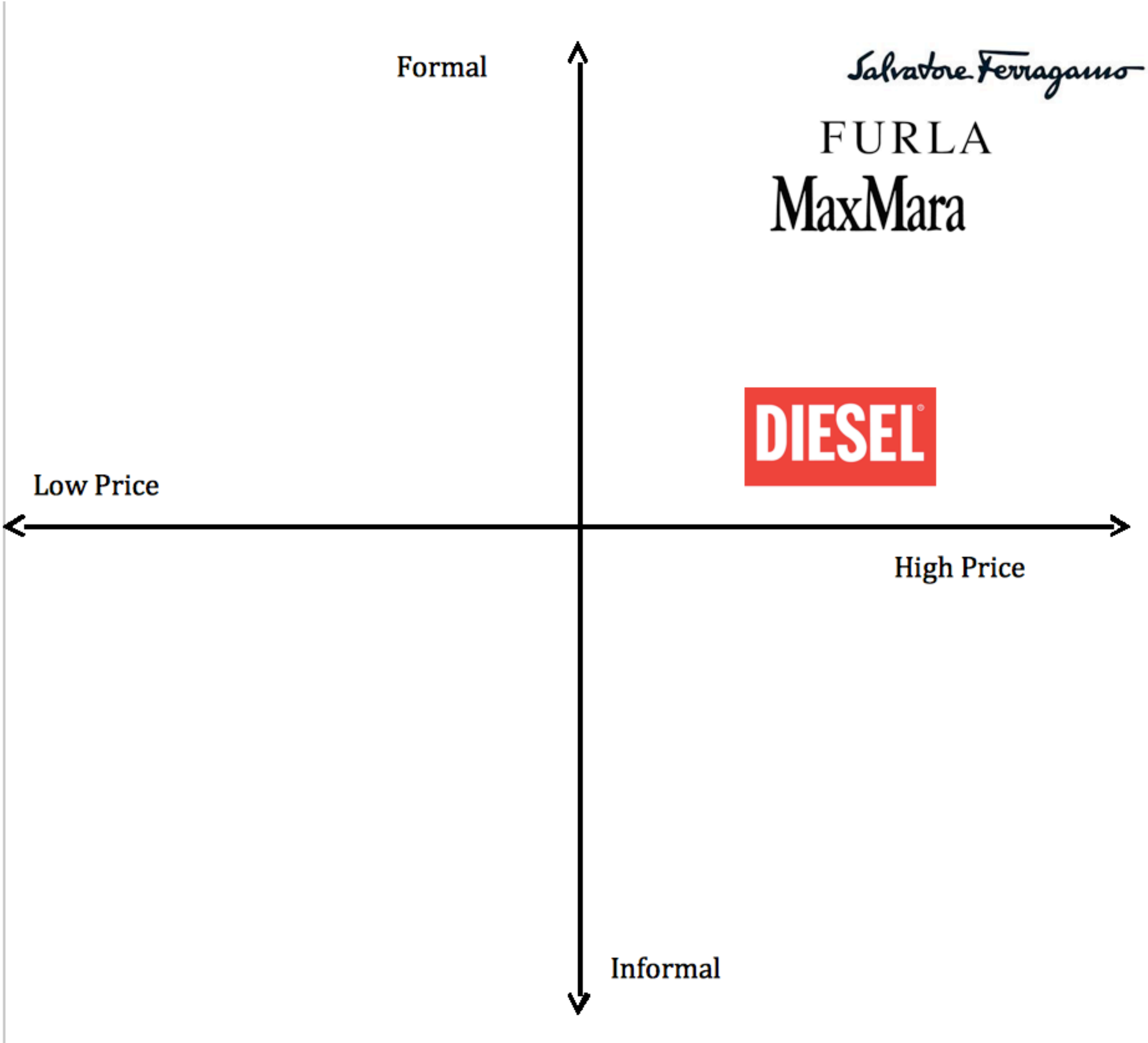
Domestic trade is driven by wide and powerful distribution networks, which largely sell through shopping centers (department stores) and are spread all over the territory. Because of the lack of control over the banks and because of the strong speculation activity the US stock market, United States has had an economic collapse started in 2009, which followed most of the nations on this planet.

In the following years, even for the arrival of the economic crisis, the deficit was nearly halved by touching the 2.94% of GDP in 2009. However, according to estimates of the international Monetary Fund, the external deficit is expected to deteriorate again in the coming years; In fact, in September 2012 it amounted to 16.000 billion dollars, the highest in the world. In particular, this deficit is due to a strong trade deficit.

In particular, the growth of debt has had a strong acceleration in the 2008-2009 two-year period, coinciding with the measures taken by the Government to combat the financial and economic crisis. In fact, in these two years, the public deficit was very high (6.6% and 12.5% respectively). On the other hand, in the early years of the decade, the United States had recorded back budget deficits, ending the policy of budget surpluses and fiscal consolidation that characterized the 90s.

After concentrating on the two markets analysis, we started examining our four chosen companies (Max Mara, Diesel, Furla and Salvatore Ferragamo) and, after having breathly introducted their histories and company profiles, we first studied their brand positioning (underlining their strenghts, weaknesses, opportunities and threats through the SWOT analysis, and then we analyzed their main distribution formats used in China and the US. We also gave an answer about the influence of the made-in-effect on their performance.

Basing our answer on a banchmark work, made by comparing the four companies websites, we can develop an overall *brand positioning map*[101].



The graph above combines two variables: the price of each company's products, and brands formality. Following this scheme we can say that:

101 Own sources based on the companies websites

- Diesel is positioned at the lowest level of formality, even if the company is trying to push for a strong repositioning strategy to try to relaunch the brand;
- Furla and Max Mara can be considered as *affordable luxury* and have a similar positioning, even if we must remembre that the latter company includes on its trademark a wide variety of brands. For this reason the price is calculated on an overall average;
- Salvatore Ferragamo is a premium luxury brand and the company is very proud about its products formal positioning.

After the focus on the brand positioning, we payed attention to the companies strategies in China and in the US, to the distribution formats used, to the year of their market entry and to their importance given to the made-in-effect. <u>We coloured in green the preferred strategy in the territory</u>. We can summarized the results found as follow, and then comment them:

CHINA:

	Market entry	**Flagship stores**	**Monobrand boutiques**	**Department Stores**	**Franchising**	**Production abroad**	**Made-in-effect**
Max Mara	1988					NO	YES
Diesel	2000's					YES	NO
Furla	1980's				More focused on customers	NO	YES
Salvatore Ferragamo	1986				Airports	NO	YES

What emerges from the graph above about Chinese market is that Max Mara prefers to use the franchising format, Diesel doesn't adopt it at all (yet) and Furla and Ferragamo can be considered in the middle. The reasons behind these answers are multiple and can be found on the theories showed at the beginning of this abstract, formulated by Quinn and Harris.

As said by Quinn, the best way to adopt franchising is as an expansion strategy. In fact, in this evidence we can see that the companies that entered later the Chinese market are the ones with the most successful franchising strategies. Max Mara is in fact the one that adopts it most, followed by Furla and Salvatore Ferragamo (this one is more oriented on other strategies because of its characteristics of premium brand). Diesel, which is the newest in the market, is instead try to penetrate it first through department stores (even if, on average and coming from the evidences we collected, the best way to enter a new market is by opening a flagship store or a monobrand boutique, which permits to a firm to get to know its customers).

Another element that comes from this graph is the importance attributed from the four firms to the made in Italy. In fact, if Max Mara, Furla and Salvatore Ferragamo try to keep their production in the domestic market, Diesel leaves this encumbrance to its subcontractors.

we payed attention to this factor at the end of Chapter 2, and we asked ourselves another important question: does the made-in-effect, for what concerns the fashion industry, influence a firm's results?

Our answer, based just on the data collected and on logical association, is No. Our evidences showed how all the firms, whether they preserve the made in Italy or not, are facing consistent growths for what concerns foreign markets.

However we can also admit that the made-in-effect has a strong incidence on a firm's brand positioning. That is the case of Diesel, which is in fact trying to strenghten and build up its image from zero.

USA:

	Market entry	Flagship stores	Monobrand boutiques	Department Stores	Franchising	Production abroad	Made-in-effect
Max Mara	2000's					NO	YES
Diesel	1990				20% of total sales in US	YES	NO
Furla	2000's					NO	YES
Salvatore Ferragamo	1948				Airports	NO	YES

Also in the US we found similar results.
The old market pioneers like Diesel and Salvatore Ferragamo are already expanding through the franchising form (even if the latter company tries to limita s much as possible its activity to airports and duty free, due to its characteristic of premium brand), whereas Max Mara and Furla, new in the market, still don't adop this distribution format, and first of all prefer to analyze the market behaviours through flagship stores and monobrand boutiques.

In conclusion we can say that our most important aim was to find, in our work and in our cases of study, empirical proofs that can demonstrate the assumpions in support of franchising made by the economista Quinn and Harris (Chapter 1.5).
We can say that our answers to these theories have all been fully satisfactory with the exception of the factor regarding the relationship with the franchisees. Our research has in fact been conducted trhough a macro view of the companies studied, and we don't have empirical

evidences that can verify how franchisee's satisfaction and communication can represent critical factors of success.
On the other hand we succeeded on demonstrating the other assumptions made by Quinn: the *market potential*, the *firm's orientation* to risk and long term objectives, and the *products standardization*.
The firm's orientation factor is demonstrated by the fact that all the four companies we analyzed think about franchising as a long term orientation mode of entry;
The market potential factor is demonstrated by the countries datas collected in the Chapter 3.1, which showed a growing trend for both US and China, that, intersected with the fashion industry's informations and with the willingness of the selected companies to strongly invest in these countries, provide a positive set of answers to our question.
The products standardization factor is demonstrated by the reluctance of Salvatore Ferragamo to enter the US market through the franchising form. This difficulty is in fact caused by the strong product adaptation policy adopted by the Italian brand.
We can also make conclusions regarding the overall fashion industry.
Our study tells us that the fashion industry, especially for what concerns China and US, is going to be a saturated market. Therefore it will be difficult for a firm without a strong organizational structure to survive.
Nevertheless all the brands we analyzed are facing a strong foreign expansion, so that's a demonstration of the great job of their headquarters.

Remaining in the fashion industry area we can concretely affirm that the formality of a brand is a directly proportional to the willingness to prefer monobrand boutiques as leading distribution strategy.
Despite the multiple proofs collected, we also found out that formal brands like Max Mara, Salvatore Ferragamo, Furla and Diesel (that, as said in Chapter 3.3, is facing a brand repositioning period), are choosing franchising stores as way of expansion, both in China and in the US.
We can also add that the Chinese market is, on average, better known than the North American one from the studied industries point ov view.

Remaining in the comparison between China and the US we can also confirm the assumption made by Harris, according to which the socio-cultural diversity of a country represents a drawback for a firm that wants to internationalize.
What emerges is that the adoption of international franchising is not the best choice to penetrate a new market. However it is, as demonstrated especially by the China case (and confirming another thesis made by Quinn regarding the franchising as expansion strategy), the best and fastest way to consolidate a firm's presence in the market.
That happens because of the important speed that characterizes the franchising agreement, linked to the possibility of having a wide expansion without facing considerable efforts and risks, that are entrusted to the franchisee.

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