

STORE IN STORE FRANCHISING STRATEGY: THE TREND IN FRANCHISING NEGOTIATION

Estrategia de “Tienda dentro de Tienda en las Franquicias”: La Tendencia en la
Negociación de Franquicias.

Alexander Rosado-Serrano ¹

RECEPCIÓN: Mayo, 2016
APROBACIÓN: Junio, 2016

¹ Universidad de Puerto Rico, estudiante doctoral en Comercio Internacional.
Email: alexander.rosado@upr.edu.

ABSTRACT

The literature on franchising has traditionally focused on the effects and transformation it has promoted in the service sector, retailing, restaurants, hotels and other service-related industries. Store within a store research has been focused on the perspective of the manufacturer entering department stores. To date, little research has been carried out for the store in store strategy from the franchising perspective. This paper explores why big box retailers such as Walmart are adopting the store in store franchising strategy with specific partnerships with service firms such as McDonald's and Subway and how store in store franchising can be a new strategy for SMEs to expand. A content analysis methodology is used to interpret documents from Walmart Realty and specialized professional retail and quick service restaurants (QSR) magazines. The findings indicate that big box retailers such as Walmart choose to select the store in store franchising strategy to complement their shopping experience thru the boutique approach of complementing services in which they don't want to compete and increase their value proposition. Our findings also indicate that franchisor's choose the store in store franchising strategy due to the operational capabilities it acquires thru leasing space and high traffic availability that operating inside the big box store provides. We also suggest that store in store franchising strategy can be a new entry strategy for Family Enterprises and SMEs.

RESUMEN

La literatura sobre la franquicia se ha centrado tradicionalmente en el efecto y la transformación que ha promovido en el sector de servicios, en el comercio minorista, de restaurantes, de hoteles y de otras industrias relacionadas con el servicio. La investigación de tienda dentro de una tienda se ha centrado sobre la perspectiva de la entrada de fabricantes en grandes minoristas. La investigación inicial se ha desarrollado sobre las estrategias de tienda en tienda desde la perspectiva de la franquicia. En este trabajo se explora por qué grandes almacenes como Wal-Mart están adoptando la estrategia de tienda dentro de tienda en la franquicia con asociaciones específicas con las empresas de servicios como McDonald's y Subway y cómo tienda dentro de una tienda en la franquicia puede ser una nueva estrategia de expansión de las PYME's. La metodología de análisis de contenido fue utilizada para interpretar los documentos de Walmart Realty y de los artículos de revistas especializadas en ventas al detalle como también en restaurantes de servicio rápido. Los resultados indican que los grandes minoristas como Wal-Mart eligen la estrategia de tienda dentro de una tienda en las franquicias para complementar la experiencia de compra a través del enfoque de boutique de servicios complementarios en los cuales no se quiere competir ni aumentar su propuesta de valor. Nuestros resultados también indican que el franquiciador elige la estrategia de tienda dentro de tienda en las franquicias debido a

Keywords: Franchising, Strategic Partnership, Store in Store Franchising, Big Box Retailers, SMEs, Family Enterprise

las capacidades operativas que adquiere a través del espacio y la alta disponibilidad de tráfico de clientes que se genera en las tiendas por departamento. También sugerimos que la estrategia de tienda dentro de tienda en las franquicias puede ser una nueva estrategia de entrada para las empresas y las pymes familiares.

Palabras clave: Franquicias, Asociación Estratégica, Tienda dentro de Tienda en las franquicias, Grandes minoristas, PYME, Empresa Familiar

INTRODUCCIÓN

Franchising is a form of licensing whereby a parent company, the franchiser or franchisor, grants an independent entity, the franchisee, the right to do business in a prescribed manner (Czinkota, et.al, 2004). Franchising as an entrepreneurial strategy has been used as a market entry form for firms that want to internationalize their operations (Czinkota & Ronkainen, 2010) (Cavusgil, et.al, 2008). This type of market entry form when compared to licensing, involves longer commitments and offers greater control in overseas operations to the franchisor (Menipaz & Menipaz, 2011). The value proposed to the local entrepreneur is to receive this accumulated knowledge and proven process, which minimizes risk in the operation while providing a uniform product with and expected return of investment.

Traditional research in franchising focuses on MNE such as McDonalds and KFC to name a few and. Emerging SME and Family Enterprises have also used this strategy to expand but there is very limited research on the subject. Family firms in Latin America, particularly Multilatinas has been using the franchising as one mode of entry to internationalize (Santiso, 2013; Suder, 2012). A representative case is Corporación Multi Inversiones, this Guatemalan family conglomerate has expanded internationally with their brand “Pollos Camperos”. This fast food franchise restaurant has presence in 12 countries, including its closest neighbors which is congruent with internationalization theories (O’Grady & Lane, 1996). It is also

important to address that this firm has presence in India, Bahrain and Indonesia. This is consistent with some findings from recent studies in international diversification (Tihanyi et al., 2005).

Franchising has being researched as an entry mode strategy within the scope of resource based view and agency theories. Although these theories have been widely used to explain some phenomena in franchising studies, we find they cannot clearly explain the store in store franchising strategy. Since firms enter into this ‘alliance’ or ‘partnership’ we find that Strategic Partnership theory can better explain the store in store strategy. Strategic partnership is primarily driven by the increasing tension experienced by clients to remain locally responsive as well as be globally integrative, and the growing need to concentrate more on business core in order to develop sources of current and future competencies (Kedia & Lahiri, 2007). There has been a new phenomena in which private brands of consumer products and service companies are being offered as independent options inside big box retailers; stepping away from the traditional stand alone store concept. The emerging phenomena of store in store franchising could help explain how MNEs leverage their competitive advantage and provide SME and Family Enterprises new strategies to expand internationally. Recent trends in retailing demonstrate the structured strategy of integrating franchised concepts inside big box retailers such as Walmart Stores (Walmart Realty, 2015). The purpose of this research is to explore the store in store

franchising phenomena and identify future lines of research into this new strategy by franchise firms and how store in store franchising can be a new strategy for SMEs to expand.

Our research attempt is to explore the store in store franchising phenomena thru an analysis of the retailer Walmart and the strategic partnerships it has established with specific franchise brands and also explore how it can be new entry mode for SMEs to expand. In content analysis studies, which are qualitative, the researcher makes an interpretation of the data or documents and draws conclusions about its meaning personally and theoretically. From the interpretation and conclusions offers further questions to be asked (Creswell, 2003). The documents used for this research are from the Walmart Realty website, professional retail and quick service restaurants (QSR) magazines and academic journals. The research questions that will guide our research are the following:

- 1) Why Walmart has decided to lease space for franchise firms inside their stores?
- 2) Why the Franchisor has decided to lease space for franchise inside big box stores?

This research is founded on the assumptions that the store in store franchising strategy in franchise firms and big box retailers is explained by Strategic Partnership theory. Our first research question is based on the assumption that Walmart enters into a store in store strategy with franchises because this

partnership provides value enhancement for their customers and stakeholders. Our second question is based on the assumption that these franchise firms lack the organizational capabilities to expand, and they seek the venue from the big box retailer since it provides an enclosed location with constant customer stream. This strategy provides the opportunity to franchises to focus their attention and resources more narrowly on the business functions they do best while enhancing their organizational capabilities.

This research is structured as follows: the first section is an expanded literature review that will present the franchising history, description of theories and assumptions that can provide a comprehension of the Walmart case of using the store in store strategy. The second section describes the content analysis method we applied for this study. The method allows us to develop a wide understanding of the subject. The third section discusses and analyzes the phenomena from the theory perspective and analyze store in store strategy in Walmart stores. We present the results on fourth section, the conclusions on section five.

REVIEW OF LITERATURE

1.1 Store within store in retailing consumer goods

The store-within-a-store arrangement is common in the apparel category. In a store-within-a-store arrangement, retailers essentially rent out retail space to

manufacturers and give them complete autonomy over retail decisions, such as pricing and in-store service (Jerath & Zhang, 2010). The cosmetics sections at almost all major department stores are populated with stores within a store representing several major brands, such as Chanel, Estée Lauder, Lancôme, MAC, Dior, and others (Anderson, 2006). These vendor shops, also called

boutiques or “stores within a store,” have autonomy over a small part of the store, sell a particular brand exclusively, and are designed to reflect the image of that brand. The retailer’s trade-off is between channel efficiency and interbrand competition, moderated by returns to in-store service and increased store traffic (Jerath & Zhang, 2010).

Table 1: Empirical works about store within a store strategy

Authors	Findings
Amadiou et al, 2013	Companies adopting the store within store strategy have significant lower financial performance
Jerath & Zhang, 2010	Store within store shows the retailer is powerful and has strength. If the retailer believes he can fulfill the services or products he won't enter into Store within Store agreement. When the retailer takes the lead to shape the channel structure, different channel structures emerge. A retailer might favor Store within Store in a product category, including substitutability between competing products, effectiveness and costs of in-store services, the store traffic effect, and the intensity of competition at the retail level. Store within Store can be optimal in the case of competing retailers and can be moderate intensive competition when interbrand substitutability is small.

source: author own elaboration

Store in store strategy has been used by quick service restaurants (QSR). QSR have identified this leverage entry mode into Walmart Stores as a strategy for brand exposure. Checkers and sister chain Rally's have set up shop in Walmart because it fits the brand objectives to bring its restaurants where customers shop every day. They indicate their restaurants' presence also benefits Walmart employees, who enjoy having a restaurant onsite and Checkers is

able to leverage the partnership further by selling its French fries in the stores' freezer cases (QSRWeb.com, 2015).

Another food service company who had used this strategy is Philly Pretzel Factory. They had also use this strategy which has also benefit their overall operation. Their normal size locations were from 1200 square feet; after entering into Walmart they downsized their locations to 400 square feet, producing

cost reductions and efficiencies. Another benefit of the partnership is reducing their payroll and cost of goods. The cost reduction also impacts their marketing strategy. Now they can expend less in local advertising while getting exposure to a great volume of people. Brand exposure is up most importance in foodservice industry. Philly Pretzel Factory President, Marty Ferrill, indicates they are always looking for new and interesting ways to deliver their products. When Walmart was searching for a healthy snack option for their retail spaces they started this partnership on a test location in Pennsylvania in 2012 (QSRWeb.com, 2015).

Store in store strategy has also being adopted by specialty site management companies as a new form of diversification in leasing arrangements. Twin Towers Trading Site Management (TTTSM) who specializes in specialty site management, has placed over 1,800 tenants inside major retailers since 2005. Participating major retailers include such big box stores as Walmart in the USA and Tesco (who is a big box retailer in United Kingdom) as well as a number of regional grocery store chains. TTTSM works with both landlords and tenants. For landlords such as big box retailers, national brand specialty stores and supermarket chains, they identify new opportunities to replace existing food and non-food operations within their locations. Oftentimes, this is space which underperforms for the host site provider, but which is ideal for placement with an outside tenant. For prospective tenants TTTSM manages the process by securing prime real

estate space in mass retailer operations, typically located at or near the front-end of each store. In order for their operating partners to be successful, long-term partnership and agreements with the retailer must provide an opportunity for them to expand their presence in the market, minimize any negative impact on “sister” locations and provide a reasonable return on investment. (Twin Towers Trading, 2015)

In the Asia Pacific region, Yum! Brands, the owner of KFC and Pizza Hut entered an agreement in 2011 with Chemical Corporation (SINOPEC) to open franchise outlets inside their gas stations in China. SINOPEC has been in a market share war with China Petroleum, and saw this opportunity to better position themselves as a one stop shop. Yum! Brands had already 4060 restaurants in 650 cities in China at the time. This opportunity opens a new market for Yum! Brands since SINOPEC operates 30,000 gas stations. But also, SINOPEC had a previous alliance with McDonald’s which had signed in 2007 and alliance for 20 years. Yum! Brands had a disadvantage of the latecomer including that frictions with McDonald’s came in regards of which locations they were going to be selecting. To complicate the SINOPEC/ Yum! Brands alliance, another regional Asian competitor “Dicos” also came into a similar alliance with SINOPEC (Peng , 2009). Such complex alliance structures could diminish the growth potential that initially attracted Yum! Brands into an alliance with SINOPEC.

MATERIALS AND METHODS

Our methodology was structured as a content analysis. Qualitative content analysis consists in different techniques for systematic text analysis (Mayring, 2000). For this analysis we applied the following 3 steps. First was to define academic literature and professional publications that talked about store in store strategy. This search was conducted randomly (with no specific time limitation) using Proquest, Research Gate and Google Academics databases. Our criteria was open to include professional magazines. This initial search provided 38 documents. In our second step we randomly searched for the latest literature in franchising using the key words: “partnership, networks, leverage and alliances”; this search provided us with 44 sources. Our final step we selected Walmart store as our focus big box retailer due to the national and international presence. On this step we conducted an analysis of the Walmart Realty website and 5 documents that are presented for the tenants from Walmart Realty: Landlord and Tenant Handbook, New Tenant Business Summary form, Walmart 4th Wall- Advertising and lease line guidelines, Walmart 4th Wall- Front End Tenant Signage Guidelines and Tenant 4th Wall Guide. We also reviewed the franchise disclosure documents (FFD) of Regal Nails, which specifically explains the partnership arrangement in Walmart Stores.

Our first research question, “why Walmart has decided to lease space for franchise firms inside their stores” considers that value enhancement is provided to customers by this type of partnership with a franchise that has

brand reputation. Brand value in the context of Walmart stores can be observed as the brands that appeal to an emotional level and promote the user engagement that are different from Walmart products and services. McDonalds and Subway are brands with a high reputation that have a high user engagement. These specialty products/services are very specific and cater a particular audience. McDonalds French Fries are specific. Such specific products cannot be offered by Walmart, they can provide meal options but not the widely recognized French Fries from McDonalds. As a result, by Walmart providing this high reputation specific products it increases its value to its customers and stakeholders. Our second research question, “why the franchisor has decided to lease space for franchise inside big box stores” considers that the lack of organizational capabilities to expand the franchisor has can be leveraged if they enter into an agreement to expand inside big box stores such as Walmart. Franchisors use franchising to expand due to the limitations of economic and managerial resources. By entering into Walmart locations, franchisors have access to complementary operational capabilities, brand reputation, credibility and access to a high traffic location.

DISCUSSIONS AND ANALYSIS

3.1 Partner selection, moral hazard and risk reduction

The establishment of a franchise partnership involves a mutual and careful evaluation between franchisors and franchisees to assess whether their partnership criteria are compatible. Brookes & Altinay (2011) in a recent study identified partner-related criteria that influence this arrangement. In their findings they discussed the following 7 criteria used in the partner selection and negotiation process: ability to retain control through ownership structure, perception of mutual value/risk, chemistry between individuals, similarity of organization vision/goals/values, local expertise, reputation/credibility and credit worthiness. Real Estate brokerage RE/MAX signed a 5 year exclusive contract with Stop & Stop Supermarkets to open mini offices inside the grocer stores in Connecticut, Massachusetts, Rhode Island and New Hampshire. The agreement provided RE/MAX with a lower entry cost of only constructing a kiosk and for Stop & Stop it provides value for their customers by providing a one-stop shopping (Misonzhnik, 2010).

Not all of the partnership agreements of MNEs such as Walmart can guarantee firms growth and value creation; they can also have an outcome of instability and value erosion. This can be better explained with the case of Walmart Brazil. Walmart entered in a partnership with Lojas Americanas on 1994 to develop the supermarket and warehouse formats in Brazil. Although Walmart had the operational capabilities, there was a conflict between the vision, values & goals of Walmart and their brazilian partners (Da Rocha & Arkader, 2002).

One problem that can affect the partner selection process for the franchisee perspective is when the franchisor misrepresent the performance of their franchise systems. Struggling franchisors also have an incentive to misrepresent their quality in an attempt to sell more outlets to franchisees . Such misrepresentations and false claims can create adverse selection problems for the users of that information, leading to moral hazard problems when the information varies across individual transactions or outlets because of external reasons (Akerlof, 1970; Eisenhardt, 1985). The many lawsuits that often surround franchising agreements are a testament to conflicts over misrepresentation. Policymakers in numerous states and countries have, thus taken an active role to legislate franchisee relationships to address various issues such as termination and registration (Alon et al, 2015).

When the process of expansion extend the franchisor domestic boundaries, it becomes more complex in respect of the franchise contract, its performance and the risks involved. The issues of monitoring and risk are greatly increased in international franchising by both geographical and cultural distance. A “symbiotic interdependence” forms between franchisors and franchisees in a network. Dana, Etemad, and Wright view the consequences of this paradigm shift from independence to interdependence to be far reaching and to have a major impact on the way business is handled internationally (Alon I. , 2010) .The different types of entry modes

correspond to different levels of risk and return. Other models of expansion include hybrids, such as the ones employed by Best Western (Alon, et al, 2004a).

In a franchising agreement the franchisee maintains full control of daily management and service quality, together with the ownership risk related to physical assets and the real estate. The franchisor, in return for a fee and royalties, generally provides a package of operational know-how which includes an operational system tied to the product, design, and décor of the physical properties (ambiance and atmosphere), the brand, the corporate image, and the reservations system (Alon I. , 2010).

Less obvious, though potentially more important, the franchisor also assists in finding locations, financing, preopening and training activity, and all the guidelines related to increasing a franchisee's business know-how (Alon I. , 2010). Not every company may be suitable for international expansion without making adjustments to product, operations, or format (Alon et al 2006).

3.2 MNE and network leverage

MNE such as big box retailers like Walmart, often have to integrate local brands or providers into their operations to get market knowledge or to provide a service in which they have no competitive advantage. The challenge for the MNE then becomes to absorb the locally generated knowledge held by its foreign affiliates, and to leverage it with

the financial and other resources available within the firm (Holm & Pedersen, 2000).

From a structural perspective, the multinational has to find a way to coordinate its disparate parts in a way that allows it to pursue current market opportunities, while at the same time, being able to reach and 'tap into' various location-specific resources abroad (Dunning & Lundan, 2008). In the case of franchising strategy, franchisors that are well established can achieve greater efficiencies by incorporating smaller franchisees from emerging markets into international franchise networks. Therefore, franchising enhances the competitiveness of franchisors, while contributing to the development of emerging markets (Alon I. , 2010).

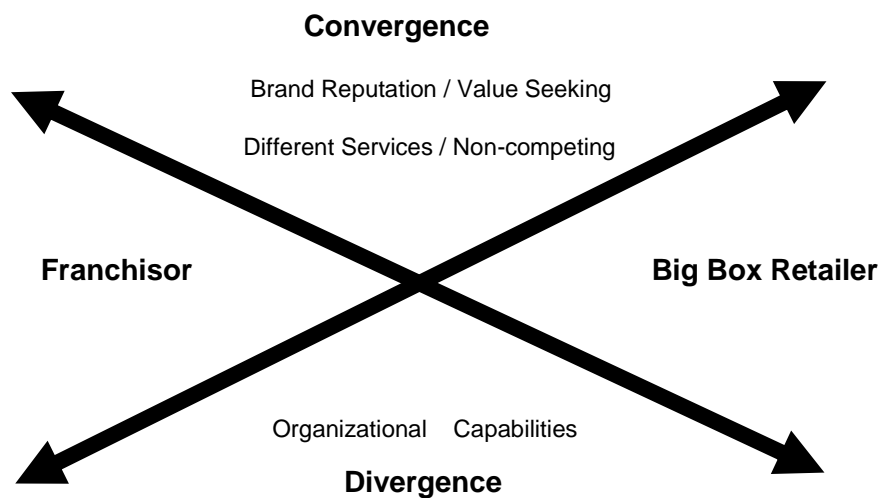
3.3 Brand positioning and value creation

Nontraditional locations are becoming an alternative for retailers due to the limitation of high demand corners. Many convenience stores are leveraging nontraditional locations for growth, brand positioning and other competitive advantages in sport stadiums, airports, dorm complexes, office buildings and shopping malls; this tendency is staying away from the traditional independent self-standing location. Specialized site management companies such as Twin Towers Trading Site Management (TTTSM) have opened lease arrangements for US franchisees to enter United Kingdom inside Tesco outlets. (Twin Towers Trading, 2015). Brands are positioning themselves in nontraditional formats in which they can increase value for

themselves. These new locations in which they enter thru partnerships increase their brand awareness and capital, without expending extra time or experiencing significant financial impact (Buckles, 2016). In figure 1 we can see the drivers that converge and diverge in the franchisor/ big box retailer strategy. We can observe that the franchisor

and the big box retailers are value seekers and coincide in brand reputation when considering the store in store strategy. Franchisors seek new operational capabilities witch they lack; these capabilities are a trait of the big box retailer which has the available infrastructure, credible reputation, brand value and high traffic in their locations.

Figure 1. Franchisor/Big Box Retailer in store in store franchising strategy



Source: author own elaboration

3.4 Walmart and store in store strategy

Walmart has grown its global presence in becoming the largest retailer in the world thru

a systematic process of analyzing the complex set of factors that interact in such a venture. From this process, a byproduct has occurred that has allowed them to leverage sales-generating or cost-reduction ideas from their experience in the international outlets; this has benefited their over 3,000 US stores (Govindarajan & Gupta, 2002). A vice versa process of reinvention has started to occur in the way they operate in their domestic market. Now they have a strategy which includes leasing agreements in which they are maximizing the overall experience for their local consumers by integrating service oriented tenants into their outlets.

With their overall strategy, Walmart Realty is diversifying and opening doors for reuses of their previous locations. Having an active economic development team, they plan ahead with local governments and communities to find new tenants for existing buildings. Previous locations have been converted into schools, government facilities, libraries and churches (Walmart Realty, 2015). Walmart In-Store Leasing Program provides local, regional and national business the opportunity to lease space in the front of operating Walmart Stores and Supercenters. These proven high traffic locations work well for service-oriented business which add value to the Walmart “One Less Stop Shopping” (Walmart Realty, 2015). Their team of leasing professionals can help business expand or establish retail, banking, food service or other type of business inside an operating Walmart Supercenter. According to October 2015 available leased space list in United States,

they have 2563 available. They range from 164 to 2225 square feet which have an average of 545.

When a strategic approach to partner selection is adopted, both task and partner-related criteria are used in the initial phases to identify potential partners (Brookes & Altinay, 2011). When Walmart selects and promotes six specific franchisors to have a preapproved leasing agreement, it minimizes the risk for the franchisee, the franchisor and Walmart. It also enables Walmart to continue its strategic approach of selecting service firms that have similar values and coincide with their plan.

This in-store leasing arrangement typically places the franchised unit in what Walmart calls the 4th Wall. For the purpose of the contracts, the tenant (franchisor), the sublessesees (franchisee) and its employees must adhere to Walmart’s rules and regulations which cover the appearance, uniforms, etc. Everything should comply with Walmart’s first-class operations. This area (4th Wall) is located after the payment area in the store. If Walmart merchandise enters the leased space without being paid; could be treated as shoplifting. If an employee of the tenant or the franchisee purchases property, it should be removed immediately from the store. No detail in this arrangement has been overlooked. All communications about the leased space or anything that affects the Walmart location should be forwarded to the Store Manager. As per signage, Walmart is very specific with the ambience and experience it wants to portray. Tenant signage is recessed under the extended

Walmart bulkhead brand blue that cover the whole 4th wall.

At the national level they have 6 pre-approved franchisees to enter their locations. Three of them are in the beauty and nails service offering (SEVA Beauty, Regal Nails and Da Vi Nails) and in the quick service restaurants they have (McDonalds, Subway and Dunkin Donuts). This specific strategy which using franchises and independent merchants is presented only on Walmart USA which it also covers Puerto Rico. Their international presence is in 27 countries. Remarkably, their strategy is very different in most of the countries in the manner they enter. Countries such as UK with (ASDA) and Japan with (SEIYU) are different names that don't relate to the US brand. Other countries such as Canada and China they use their same logo. The leasing strategy its is also used in Canada, Mexico (which controls Central America) and Chile. In those countries and markets they have the opportunity to receive proposals to lease space in their different store concepts. In none of the different countries we have found a similar arrangement of pre- approved leasing tenants who are franchisor. This limitation does not exclude the possibility of a local or regional franchise brand that leases spaces into their locations.

RESULTS

As we stated before, this research aims to explore why big box retailers such as Walmart

are adopting the store in store franchising strategy with specific partnerships with service firms such as McDonalds. To have a preliminary understanding of the store in store strategy we proposed the following research questions: RQ1: Why Walmart had decided to lease space for franchise firms inside their stores? RQ2: Why the Franchisor has decided to lease space for franchise inside big box stores? ; Partner selection and value creation are the elements that guide the analysis of RQ1, while organizational capabilities such as complementary operational capabilities and high traffic location are the elements that guide the analysis of RQ2. These elements are based on the theoretical approach of strategic partner selection. Walmart applies the element of operational capabilities in its approach to utilize the space available in their 4th Wall to add additional value to its customers. This approach provide this overall value of a specific brand experience on their premises while receiving rents from the leasing arrangement. Firms initially franchise because they lack financial resources (capital scarcity), managerial resources (knowledge-based) and organization capabilities for expansion (Alon, 2006; Alon et al. 2015). By utilizing various resources and capabilities, firms are able to capitalize on environmental opportunities and minimize the effects of threats that exist and are, thereby, able to obtain competitive edge over other firms that do not possess useful resources or are unable to capitalize on them (Kedia & Lahiri, 2007). Franchisors adopt the store in store franchising strategy due to their operational

resources constraints and the capabilities that opening their stores inside Walmart provides them with the capabilities to expand their operation. The establishment of a franchise partnership involves a mutual and careful evaluation between franchisors and franchisees to assess whether their partnership criteria are compatible (Brookes & Altinay , 2011). Walmart carefully screens partners in which they will engage in the store in store strategy. They will accept different proposals for this store in store arrangement but they prefer franchises as their ideal partners; that is demonstrated by the six pre-selected franchise partners that already are accepted as suitable for their locations. Similarly, Stop & Stop Supermarkets also entered in an agreement with RE/MAX ; this will provide value for their customers by providing a one-stop shopping (Misonzhnik, 2010). To help us answer RQ2, Philly Pretzel Factory used this strategy to lower their payroll and cost of goods sold thru adapting their locations to a smaller footprint. Similarly, Checkers and sister chain Rally's have set up shop in Walmart because it fits the brand objectives to bring its restaurants where customers shop every day. The franchisor has access a great volume of people which otherwise will be difficult to target , thus leveraging their costs by further offering other products to be sold at Walmart and providing an eating place for Walmart employees without leaving the store. Franchisors seek locations that could reduce moral hazard and its risk exposure. By pre-planning specific outlets in which they can exert control over the franchisee, they reduce the ownership risk

related to physical assets and real estate. This strategy also provides network uniformity for the franchisor.

CONCLUSION

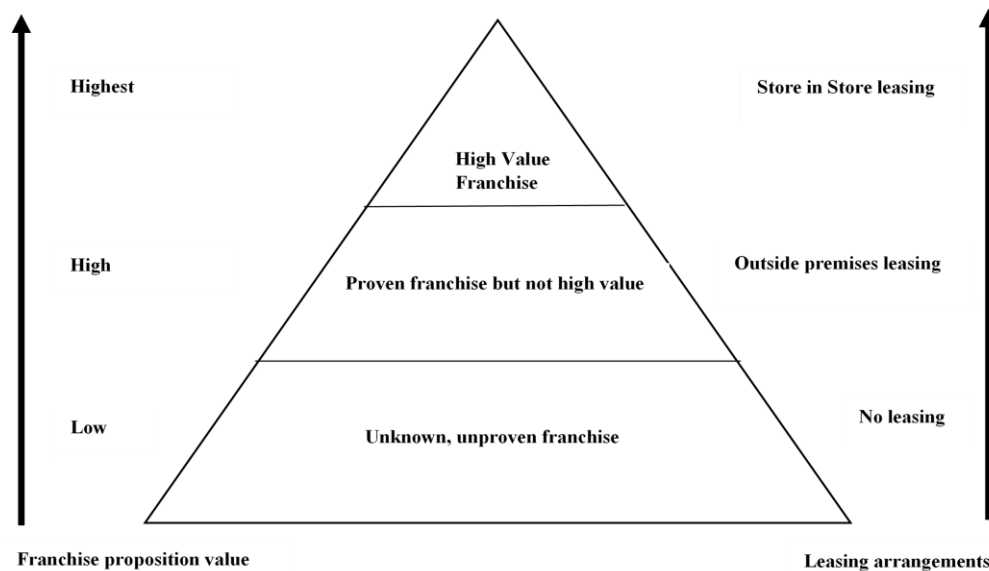
Walmart has shown a strategic approach in their domestic market to increase the value proposition and complement their shopping experience, which promotes the everyday low price with a boutique approach for complementing services in which they don't want to compete. These merchants are located at the end of the shopping experience in Walmart (their 4th wall) after the cash registers or at the sides of the main two entrances. They are not inside the profitable floor of their commercial unit. Walmart is maximizing their structure space in an area in which they have identified low rents. As for the perspective of the franchisor or its franchisee, the high volume of customers that walk in Walmart stores create a value added for the franchisor and an opportunity for an efficient franchisee. Walmart indicates that the restaurants and merchants lining the front end are important resources to Walmart shoppers, thus creating a boutique shopping experience in contrast to the large scale of the rest of our store (Walmart Realty, 2015).

We can conclude that the store in store strategy benefits Walmart and the franchisor in the arrangement in respect of the maximization of their resources. For Walmart is offering a different service at their empty space at their locations which benefits the whole purchasing experience. It also provides

a venue for their employees to have access to such services without leaving the store. For the franchisor, now they have access to a large pool of captive customers while lowering their operational costs in a smaller footprint location. This has an overall impact in the operational efficiency of the franchise firms; thus enhancing their operational capabilities and learning experience. In figure 2 we outline our store in store franchising strategy model for franchising in big box retailers. This relationship is driven by the intensity of the franchise proposition value in regards of the

adoption of the store in store strategy. If franchise firms are unknown and unproven, the expected result is that the big box retailer won't enter into a leasing agreement with this firm. As a next level in intensity, if the franchise firm is proven but not of the highest value a leasing contract might be awarded for the outside premises of the big box retailer. When franchise firms have a proven high value product/service, big box retailers will feel more comfortable issuing a store in store leasing for these brands.

Figure 2: Model for Store in Store Franchising Strategy



Source: author own elaboration

SME should evaluate the possibility of adopting this strategy to expand into foreign markets. By adopting the store in store franchising strategy, SME's can 'piggyback' with a MNE such as Walmart which can guarantee a reduction on the friction that occurs when entering a new foreign market. Store in store franchising strategy will provide the opportunity for SME's and Family Firms to reduce their operating costs and produce efficiencies in the process. Store in store franchising phenomena can shed new light into the discipline and future lines of research must explore how it could impact growth, development and the positioning of firms. From the perspective of the MNE, store in store franchising will facilitate the accelerated entry into new markets in which a partner such as a Big Box retailer has already established a strong presence. From the perspective of the SME and Family Enterprises, store in store franchising implicates a low cost entry into new markets. In the case of Walmart's leasing arrangement terms, the square foot cost can be comparable or lower in some locations if they use the traditional approach of locating inside shopping malls or a self standing location.

Our research was limited to analyzing the publicly available documents of only one big box retailer, Walmart. Future lines of research should explore the adoption of store in store franchising strategy by SMEs and Family enterprises in different regions thru the case study methodology to have a better understanding of the characteristics and antecedents.

REFERENCES

- Akerlof, G. (1970). The market for 'lemons': quality under uncertainty and the market mechanism. *Quarterly Journal of Economics*, 84(3), 488-500.
- Alon, I. (2006). Key success factors of franchising systems in the retailing sector. *SCMS Journal of Indian Management*, 3(1), 111-122.
- Alon, I. (2010). *Franchising Globally-Innovation, Learning and Imitation*. New York: Palgrave Macmillan.
- Alon, I., Boulanger, M., Mlsati, E., & Madanoglu, M. (2015). Are the parents to blame? Predicting franchisee failure. *Competitiveness Review*, Vol. 25(2), 205-217.
- Alon, I., Perrigot, R., & Cliquet, G. (2004a). Affiliated Networks: The case of Best Western Internationalization. *Journal of International Business and Entrepreneurship Development*, 2, 4-18.
- Amadiou, P., Picot-Coupey, K., & Viviani, J. (2013). Financial performance of store-within-store strategy in the French Fashion Industry. 2013 AMA Summer Educators' conference Proceedings (pp. 427-437). Boston: American Marketing Association.
- Anderson, G. (2006, 4 12). J.C. Penney Gives Sephora Store-Within-Store Space.

- Retrieved from Retail Wire:
<http://www.retailwire.com/discussion/11344/j-c-penney-gives-sephora-store-within-store-space>
- Brookes, M., & Altinay, L. (2011). Franchise partner selection: perspectives of franchisors and franchisees. *Journal of Service Marketing*, 25(5), 336-348.
- Buckles, J. (2016, March 22). Understanding the benefits and challenges of strategic alliances. Retrieved from franchise.org:
<http://www.franchise.org/understanding-the-benefits-and-challenges-of-strategic-alliances>
- Cavusgil, S., Knight, G., & Riesenberger, J. (2008). *International Business: Strategy, Management, and the New Realities*. Upper Saddle River: Pearson Prentice Hall.
- Creswell, J. (2003). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* (2nd ed.). Thousand Oaks, CA: SAGE.
- Czinkota, M., & Ronkainen, I. (2010). *International Marketing 10e*. Mason: South-Western Cengage Learning.
- Czinkota, M., Ronkainen, I., & Donath, B. (2004). *Mastering Global Markets- Strategies for Today's Trade Globalist*. Mason: Thomson- South-Western.
- Da Rocha, A., & Arkader, R. (2002). Factors in Strategic Alliance instability: A study of two Brazilian cases. In F. Contractor, P. Lorange, & P. Ghauri, *Cooperative Strategies and Alliances* (pp. 79-101). New York: Elsevier.
- Dunning, J., & Lundan, S. (2008). *Multinational Enterprises and the Global Economy*. Northampton: Edward Elgar Publishing, Inc.
- Eisenhardt, K. (1989). Agency Theory: an assessment and review. *Academy of Management Review*, 14, 57-74.
- Govindarajan, V., & Gupta, A. (2002, June 19). Taking Wal-Mart Global: Lessons From Retailing's Giant. Retrieved from strategy+business:
<http://www.strategy-business.com/article/13866?gko=e19cb>
- Holm, U., & Pedersen, T. (2000). *The Emergence and Impact of MNC Centers of Excellence*. Basingstoke: Macmillan.
- International Franchise Association. (2014, September). *Economic Impact of Franchised Business, Vol 3*. Retrieved from Franchise.org:
http://www.franchise.org/uploadedFiles/Prospective_Franchisee/News/EconomicImpact11.pdf
- Jerath, K., & Zhang, Z. (2010). Store Within a Store. *Journal of Marketing Research* Vol. 47, 748-763.

- Kedia, B., & Lahiri, S. (2007). International outsourcing of services: A partnership model. *Journal of International Management*, 13, 22-37.
- Mayring, P. (2000, June). Qualitative Content Analysis. Retrieved from Forum: Qualitative Social Research, Vol 1(2) Art. 20: <http://www.qualitative-research.net/index.php/fqs/article/view/1089/2385>
- Menipaz, E., & Menipaz, A. (2011). *International Business - Theory and Practice*. Thousand Oaks: Sage.
- Misonzhnik, E. (2010, 02 22). Store Within Supermarkets Becoming More Popular. Retrieved from National Real Estate Investor: <http://nreionline.com/news/stores-within-supermarkets-becoming-more-popular>
- O'Grady, S., & Lane, H. (1996). The Psychic Distance Paradox. *Journal of International Business Studies*, 27, 309-333.
- Peng, M. (2009). *Global Business*. Mason: South-Western Cengage Learning.
- Santiso, J. (2013). *The decade of the multilatinas*. New York: Cambridge Press.
- Suder, G. (2012). *Doing Business in Europe 2nd Edition*. London: Sage Publications.
- QSRWeb.com. (2015, 10 2). How two QSRs leverage Walmart locations for brand exposure. Retrieved from QSRweb.com serving ideas daily: <http://www.qsrweb.com/articles/how-two-qsr-leverage-walmart-locations-for-brand-exposure/>
- Tihanyi, L., Griffith, D., & Russell, C. (2005). The Effect of Cultural Distance on Entry Mode Choice, International Diversification, and MNE Performance: A Meta-Analysis. *Journal of International Business Studies*, 36(3), 270-283.
- Twin Towers Trading. (2015, 10 2). Site-Management About us. Retrieved from Twin Towers Trading.com: <http://www.twintowerstrading.com/site-management/about-us.html>
- Walmart Realty. (2015, 10 2). Economic Development. Retrieved from Walmart Realty: <http://www.walmartrealty.com/EconomicDevelopment/About.aspx>
- Walmart Realty. (2015, 10 2). Region Map For In-Store Leasing. Retrieved from Walmart Realty: <http://www.walmartrealty.com/InStoreLeasing/Map.aspx>