

# Some Aspects of Franchising in Portugal

## An Exploratory Study

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### Introduction

The emergence of the modern concept of franchising occurred in the USA a short time after the Civil War with the Singer Sewing Machine Company. Nevertheless, this method only gained acceptance as a viable type of business at the beginning of the twentieth century. The automobile industry and the soft drink industry were the first to adopt the so-called product and trademark franchising. Later, in the 1930s, the petroleum industry franchised the gasoline service stations[1].

However, the real franchise boom would only occur in the beginning of the 1950s, with the appearance of business format franchising[1, p. 26]. This type of franchising, also known as second generation franchising, is characterized by the establishment of “an ongoing business relationship between franchisor and franchisee. This includes the product, service and trademark, as well as the entire business concept itself – a marketing strategy and plan, operating manuals and standards, quality control, and a continuing process of assistance and guidance”[2].

Throughout the 1950s and 1960s a fast growth of the business format franchising occurred and emphasis was clearly laid on the development of domestic chains[3]. Several US franchise systems introduced revolutionary concepts. However, they applied and enhanced the superiority of their franchise concepts in the external markets only in the early 1970s, after the clear success of domestic implementation[4]. By then, competition was stronger in the North American market and maturity was evident in some areas where franchises prevailed[5,6].

In the initial phase of the international expansion of the US franchise systems the effort was concentrated on the more accessible markets. Canada became the main target of US franchisors partly due to proximity. Other factors, namely market potential, low cultural distance and the existence of an already developed service sector contributed to their option in this and other markets. Penetration in the United Kingdom and Australia was a natural development as these countries presented the typical characteristics of strong potential candidates to receive the franchising activity despite the distance factor. The establishment in Japan was facilitated by the method of entry chosen. This penetration, essentially performed through master franchise, minimized the need for direct engagement in the development of operations in a different culture[7].

Despite the continuing concentration on this group of countries – Canada, Japan, Australia and the United Kingdom – which, in 1988, accounted for 70 per cent of the US foreign outlets[2, p. 100], dissemination became more and more extensive. US franchise systems gradually covered markets until then considered to be relatively peripheral, because of their diversity of culture, income and political systems[7, p. 8]. A growing number of franchisors have been giving increased importance to the global market for their products[8, p. xxv].

Franchising is by nature a very open type of operation. While the trademark can be legally protected, products or services, as well as the general way of operating, can be reproduced. In some developed countries franchising has been growing extremely fast, not only due to the entry of foreign franchisors but also because of the emergence of local imitators[7, pp. 9-10]. In spite of fragmented evidence about the growing

internationalization of franchisors from countries predominantly recipient of global franchising activity, led by the US, there is a very small number of published studies. Recent research covers the internationalization of Australia and Norway[9-11]. These cases emerged in distinct contexts. Australian companies have already a relatively long experience in franchising. Australia was one of the prime targets of US franchise chains in the initial phase of internationalization and is still today one of the main recipient countries. In 1988 it was the third destination of US franchisors in terms of the number of outlets. As for Norway, it was considered by international franchisors as being a peripheral market, even though it was affected by the global trend in franchising. The strong entry of foreign franchise chains occurred only in the 1980s.

Business format franchising in Australia and Norway is still dominated by major foreign chains. As in other countries, however, the strong demonstration effect of foreign franchise systems seems to have contributed to the emergence of local franchisors, some of which started also to internationalize. In countries like Australia and, even more so, in Norway with markets considerably smaller than the US, it was easy to foresee that fast growth of domestic franchise systems would show rapidly the limits of the internal markets and lead more suddenly to internationalization[11, pp. 509-602].

The process of international entry by Australian and Norwegian chains has some similarities. Confirming the US pattern[5, p. 43; 6, p. 69; 12, pp. 6-7] in these two countries a major direct stimulus to lead a franchisor to international operations was unsolicited enquiries by interested foreign parties. The success of domestic expansion made them attractive to potential foreign franchisees. Another common characteristic was the general preference for entry in foreign markets through low-involvement methods, like master franchising. The experience of franchise chains from these two countries revealed internationalization as very demanding, even when the entry method chosen led to the involvement of third parties. For both Australia and Norway the bulk of internationalization occurred in a restricted number of countries, both culturally and geographically[11, pp. 116-7]. In the Australian case it involved almost exclusively New Zealand, the USA and the UK[9, pp. 116-7]. As a distinctive characteristic it was found that in Norway there were a significant number of companies that engaged in franchising after extensive experience in other types of operations. In the future, however, this pattern may be dissipated as the most recent franchisors enter the international arena. Younger companies have been leading the

internationalization of Australian franchising[11, pp. 601-2].

This growth trend in the activity of non-US franchisors, including some from developing countries, is evident both in the penetration of their corresponding domestic markets as well as international expansion. The US market itself has become an important recipient of the franchising activity, particularly by Canadian, European and Japanese franchisors, with concepts developed in their respective countries[7, pp. 10-17; 8, pp. xxvi-xxviii].

Penetration of US franchising in Europe is still modest. In 1988 Europe, with 7,818 outlets, represented only 22.3 per cent of total number of US franchise establishments abroad. The United Kingdom was the main recipient country with 2,843 outlets, that is 36 per cent of the US presence in Europe. Both Canada and Japan have more US franchises than the whole of Europe[2, p. 100]. Nevertheless, Europe is seen as an opportunity of growing importance for global franchisors and particularly for the major US/(EU) chains[13]. The EU with its 345 million consumers is a giant market. As a result of the directives of the European Single Act, which tend to eliminate the internal boundaries among the countries of the EU, franchisors will be able to operate in larger market segments. It is recognized, however, that in spite of the considerable trend towards uniformity connected to the removal of physical, technical and fiscal barriers, there will still be some vital differences within the EU, like language, culture and lifestyle, which will still demand some adjustment of the franchise package to local conditions.

Available statistics of franchising in Europe are published by the European Franchise Federation based on estimations produced by their member national franchise associations (Table I). The information published is very limited in both content and range of countries covered, and in the case of Portugal is even contradictory with other sources of information[14]. On the basis of these statistics France is the leader in Europe with about 600 franchisors and 30,000 franchise outlets. This country shows one particular characteristic: the penetration of foreign franchisors is low; about 5 per cent of all franchise outlets belong to foreign franchise chains[15]. In the UK, which occupies the second position in the European market, the situation is different with the domination of US franchises, predominantly under master franchise agreements. At present it is in Spain where we can find the highest growth rate of franchising in Europe and the entry of a high number of franchise concepts of foreign origin, either European or US[15].

Country	Number of franchisors	Number of outlets	Annual turnover ECU (billions)
European Union			
France	600	30,000	21
United Kingdom	432	18,600	6.8
Italy	318	16,100	8.5
The Netherlands	309	11,005	6.3
Germany	265	9,950	4
Spain <sup>a</sup>	117	14,500	2.1
Belgium <sup>a</sup>	90	3,200	3.3
Portugal <sup>a</sup>	50	800	–
Denmark	42	500	–
Ireland <sup>b</sup>	20	–	0.1
Other			
Sweden	200	9,000	6
Norway	125	3,500	3
Austria	80	2,500	–
<sup>a</sup> Figures at 31 December 1990			
<sup>b</sup> Figures at 31 December 1989			
<i>Source:</i> European Franchise Federation			

**Table I.**  
**Franchising in Europe, 1991**

Although business format franchising has been a dynamic force in the economies of many developed countries there is generally a scarcity of accurate statistics. The USA is the only country where the development of franchising is well documented by official aggregate statistics published in the *Franchising in the Economy* series. We have serious reservations concerning the reliability of the statistics for Portugal, because knowledge of the national implantation of franchising, either in quantitative or qualitative terms, is very limited. Even the Portuguese Franchise Association recognizes that is not possible at present to provide any believable statistical information. In its publication *Anuário Franchise 1991* it just shows a first attempt at an exhaustive listing of franchise systems operating in Portugal[14]. They call attention to the fact that this list may have minor omissions and that possibly not all companies have chosen franchising as the method of entry.

Because of the small size of its market and, in some cases, the geographic or cultural distance, Portugal has been considered a peripheral market by international franchisors. Nevertheless, as a result of the global trend in franchising, Portugal has also witnessed the entry of many new foreign operators and the intensified development of this activity since the late 1980s.

The primary purpose of this article is to characterize and assess some aspects of the implementation of business format franchising in Portugal and the internationalization of Portuguese systems. More specifically, we made an attempt to:

- identify the methods used by foreign systems, traditionally functioning under franchise to enable their concepts to penetrate Portugal;
- identify and characterize procedures used to establish domestic and foreign franchise systems in Portugal;
- appraise the performance of franchise systems in Portugal and predict their development;
- recognize the specific problems of franchising in Portugal from the franchisor's point of view; and
- characterize the experience the international expansion of Portuguese franchise systems, as well as predict the trends towards internationalization of such systems.

### Methodology

The population for the study was defined as:

- Franchise systems of domestic origin – all the Portuguese-based franchise systems that have at least one franchised unit in operation.
- Franchise systems of foreign origin – all systems of non-Portuguese origin that operate internationally under franchise and are established in Portugal with at least one outlet (franchise or other) in operation.

The empirical study underlying this article was conducted from the franchisor's point of view[16]. The research is of an exploratory nature and is the first to be conducted in Portugal covering the issues under investigation. For this purpose, a

comprehensive list of franchise systems operating in Portugal was drawn up in collaboration with the Portuguese Franchise Association. A mail survey was used to collect data of all franchising firms operating in Portugal. It was based on two questionnaires: one for franchise systems of foreign origin and the other for systems of domestic origin. Each of them attempted to identify and characterize certain specific aspects, such as the method of implementation of foreign systems in Portugal and the internationalization experience of domestic systems. After analysing the answers to the mail survey, another questionnaire was prepared and applied as a basis for a programme of personal interviews to domestic franchisors, who had either already pursued the internationalization route or were about to consider it.

The study covered 76 companies of foreign origin and 14 companies of domestic origin. We received answers from 42 foreign companies and 11 domestic companies, of these six and four were excluded since they failed to meet the requirements defined for the population object of the study. The response rate to the survey to systems of foreign and domestic origin was respectively 51.4 per cent and 70 per cent. Thereby, the overall response rate was 53.8 per cent. The restricted number of national firms investigated does not allow the establishment of a Portuguese pattern of development or internationalization of franchising. Nevertheless, the high response rate and the participation of the most representative local concepts allow us to believe that the Portuguese experience in franchising is well described. As for domestic franchisors with operations abroad the coverage is complete. There is no evidence of any other Portuguese franchise system present in foreign markets.

### Penetration Methods in Portugal of Foreign Origin Systems and Franchise Systems Profile

Once it has been decided to franchise, internationally different entry methods are

available: direct franchising, master franchise agreements and joint venture agreements[16]. In direct franchising the franchisor grants franchises directly to franchisees in a foreign country without involving a third party. This method can assume several formats: direct unit franchising, franchising through a branch office or an overseas subsidiary, and development agreements. In master franchise agreements the ability of the master franchisee to act as franchisor in the foreign territory, using the franchise system and trademarks or licensing their use to a third party, is the distinguishing feature. Master franchising is probably the most-used method in the granting of franchises internationally[2, p. 98]. The franchisor can also enter a joint venture agreement with a partner, generally a national of the foreign country. The company that emerges from this agreement then enters a development agreement or a master franchise agreement with the franchisor and will have as its objective the establishment of the franchise chain in the foreign country[15].

About 17 per cent of the systems of foreign origin chose to enter into the Portuguese market through methods different from franchising, namely: agreements of exclusive distribution or establishment of subsidiaries, the latter aimed at exploiting their own system or entering management agreements.

Master franchising was the method preferred for the implementation of franchising: about 61.1 per cent of all systems involved. The remaining systems entered Portugal through different forms of direct franchising – direct unit franchising, the establishment of a branch office or a subsidiary, and development agreements (Table II).

The profile of the franchise systems is presented in Table III, according to the category of the product or service object of the franchise, the year of the franchise system's establishment in Portugal and the size in number of outlets established in Portugal. Franchise systems were classified into ten different categories of goods and services. More than 50 per cent are in one of the three categories:

Method	Number of systems	%	Number of outlets	%
Not operating in franchising	6	16.7	70	21.5
Operating in franchising				
Master franchising	22	61.1	131	40.2
Direct unit franchising	4	11.1	5	1.5
Development agreement	1	2.8	6	1.8
Subsidiary	2	5.5	113	34.7
Branch office	1	2.8	1	0.3
Total	36	100.0	326	100.0

Table II.  
Methods Employed by Systems of Foreign Origin to Enter Portugal

Attributes	Systems of foreign origin		Systems of national origin		Total	
	Number	%	Number	%	Number	%
<i>Product or service category</i>						
Clothing – men/women	8	26.7	1	14.3	9	24.3
Clothing – children	4	13.3	2	28.6	6	16.2
Footwear	3	10.0	1	14.3	4	10.8
Cosmetic/perfumery	2	6.7	–	–	2	5.4
Other non-food retailing	3	10.0	–	–	3	8.1
Food retailing	4	13.3	–	–	4	10.8
Restaurants/fast food	3	10.0	2	28.6	5	13.5
Real estate	–	–	1	14.3	1	2.7
Car rental	1	3.3	–	–	1	2.7
Other services	2	6.7	–	–	2	5.4
Total	30	100.0	7	100.0	37	100.0
<i>Year of establishment in Portugal</i>						
Prior to 1985	1	3.3	–	–	1	2.7
1985-1987	8	26.7	1	14.2	9	24.3
1988-1989	14	46.7	3	42.9	17	46.0
1990-1991	7	23.3	3	42.9	10	27.0
Total	30	100.0	7	100.0	37	100.0
<i>Size of franchise system in Portugal</i>						
1-2 outlets	10	33.3	–	–	10	27.0
3-4 outlets	6	20.0	1	14.3	7	18.9
5-6 outlets	6	20.0	1	14.3	7	18.9
7-15 outlets	6	20.0	1	14.3	7	18.9
16-35 outlets	1	3.3	2	28.6	3	8.1
36 or more	1	3.3	2	28.6	3	8.1
Total	30	100.0	7	100.0	37	100.0
Mean	8.5		21.6		11.0	
Median	4		21		5	

**Table III.**  
**Profile of Franchise Systems**

men and/or women's clothing, children's clothing, and footwear. Portuguese-based franchising companies, in the main have grown around a sector with traditional national expertise, as is the case of textiles and, more specifically, clothing. The extent of service franchises is only 10.8 per cent.

As for the date of the establishment of the participating franchise systems in Portugal, it may be seen that only one occurred prior to 1985 and 73 per cent of the systems between 1988 and 1991. During that period, 86 per cent of the domestic systems began franchising. The size of networks ranges from one to 102 outlets, with 92 per cent of the systems operating between one to 35 outlets. The mean dimension of franchise chains is 11 outlets and the median number is five. Owing to the presence of systems having a relatively high number of outlets, the mean number is considerably higher than the median number, although the latter is a more significant measure in this situation.

As for franchise systems of foreign origin, those of France (36.7 per cent), USA (23.3 per cent), and Italy (13.3 per cent) predominate. However, one also notices the presence of systems from several other countries, such as Belgium, Switzerland, Germany, Brazil, Spain and the United Kingdom.

### Procedures for the Establishment of Domestic and Foreign Franchise Systems

The entry in Portugal of 16.7 per cent of the responding franchise systems of foreign origin was not preceded by any specific market research. The most common procedure adopted by foreign systems (45.8 per cent) consisted of conducting only market research studies before establishment of the system. A further 20.8 per cent merely established pilot operations and 16.7 per cent conducted both market research studies and established pilot operations. The establishment of pilot operations to assure the local franchisee that

the formula has been tested not only in the country of origin but also in the country of establishment, was carried out by 37.5 per cent of the systems (Table IV). The common practice adopted consisted of establishing one pilot operation over an average period of 10.3 months.

As for systems of domestic origin, it became clear that two of them started operations without having established any pilot scheme. One of these systems conducted market research studies only while the other indicated it had performed a market analysis, without resorting to sophisticated methods.

Most franchise systems of foreign origin estimate that their offer is adequate to the Portuguese market, in global terms. Specifically, 54.5 per cent have not resorted to any adaptation to fit the concept to Portugal, and 45.5 per cent stated that they had introduced only minor adjustments. The need for adjustments was detected in the course of the pilot operations (50 per cent of the cases), after preliminary studies (30 per cent) or after the establishment of the system (20 per cent). The most frequent alteration concerned the product offered or the product mix. Some cases were also reported regarding price alterations, communication strategy, logo, trademark, size of outlets and decoration restrictions imposed by the franchisor to the franchisee.

### Performance Appraisal and Prospects of Development of Franchise Systems Established in Portugal

Participating franchise systems consider their systems' performance in Portugal as positive, both in a global assessment as well as in terms of sales volume, market share and profitability. The global assessment of all systems suggests that the performance in Portugal has satisfied initial expectations (Table V).

Criteria	Systems of foreign origin Median (n = 22)	Systems of national origin Median (n = 7)	Total Median (n = 29)
Sales volume	3	2	3
Market share	2	2	2
Profitability	2	2	2
Global assessment	2	2	2

*Note:* The assessment was done on an ordinal scale of 5, between 0 (far below initial expectations) and 4 (far above initial expectations), with 2 (satisfied initial expectations) as the intermediate point

**Table V.**  
Assessment of Performance of Franchise Systems in Portugal

Prospects of development for the next five years point to moderate optimism (Table VI). Clearly, none of the systems intends to withdraw from the market totally or partially. The vast majority intends to establish new outlets and only a small number of franchise systems have no intention of establishing new outlets during that period, even though they propose to maintain the present level of operations.

According to the expectations of franchisors and master franchisees of 24 franchise systems of foreign origin, 442 additional outlets will be set up in the next five years. This will represent a 181.1 per cent increase when compared with the present number of outlets. On average, 18 outlets more per franchise chain will be established, though the median number will be only seven.

As regards the franchise systems of domestic origin, six expect to establish 172 additional outlets in the next five years, which will represent an increase of 149.6 per cent. On average, the number of new outlets per system will be 29. Domestic

Procedure	Systems of foreign origin		Systems of national origin		Total	
	Number	%	Number	%	Number	%
Without prior specific study of the Portuguese market	4	16.7	—	—	4	12.9
Market research only	11	45.8	1	14.3	12	38.7
Pilot operations only	5	20.8	3	42.8	8	25.8
Market research and pilot operations	4	16.7	2	28.6	6	19.4
Other	—	—	1	14.3	1	3.2
Total	24	100.0	7	100.0	31	100.0

**Table IV.**  
Initial Steps Taken before the Implementation of Franchise Systems in Portugal

	Systems of foreign origin		Systems of national origin		Total	
	Number	%	Number	%	Number	%
<i>Perspectives of evolution</i>	(n = 25)		(n = 7)		(n = 32)	
Establishing of new outlets	22	88.0	6	85.7	28	87.5
Not to establish new outlets, keeping present size level	2	8.0	1	14.3	3	9.4
Uncertain of decision	1	4.0	–	–	1	3.1
Total	25	100.0	7	100.0	32	100.0
<i>Number of new outlets to be established in Portugal</i>	(n = 24)		(n = 6)		(n = 30)	
Franchisor or master franchisee owned	76	17.2	40	23.3	116	18.9
Franchisee owned	366	82.8	132	76.7	498	81.1
Total	442	100.0	172	100.0	614	100.0
Mean	18.4		28.7		20.5	
Median	7		31		9	
Increase of network (%)	181.1		149.6		171.0	

**Table VI.**  
**Perspectives of Evolution of Franchise Systems in Portugal for the Next Five Years**

systems, now operating with 41.7 per cent company-owned outlets and 58.3 per cent franchised outlets, expect to expand by resorting mainly to franchised outlets. Franchisor-owned outlets are therefore expected to increase by 83.3 per cent and franchisee owned outlets by 197 per cent.

### Specific Problems of Franchising in Portugal from the Franchisor's Point of View

Early research investigated the problems faced by US franchise systems with active international operations. The areas of major problems to the establishment of those systems abroad most frequently mentioned were: government or legal restrictions, difficulty of recruiting enough qualified franchisees, lack of sufficient local financing and difficulty of controlling franchisees [5, pp. 45-6]. In a more recent research, lack of control or accountability that franchisors have over franchisees operating in foreign countries was again clear as a major concern area in external expansion. It was the most frequently mentioned difficulty reported by US franchisors [12, p. 6].

To diagnose problems that participating franchise systems encountered in establishing their franchises in Portugal we provided respondents with a list of factors traditionally regarded as potential difficulties in international franchising and encouraged them to include other troublesome areas as well. Some of the areas

traditionally considered as major difficulties to the establishment of many US franchisors internationally were also referred to by foreign franchise systems present in Portugal. It is a question of the difficulty of recruiting enough qualified franchisees and insufficient local financing. An onerous tax structure and an insufficient number of suitable locations were other factors mentioned as having represented a significant difficulty for the implantation of foreign franchise systems in Portugal.

The perception of specific problems of franchising in Portugal by the systems of domestic and foreign origin is coincident on just a few issues. They were unanimous in including the recruitment of qualified franchisees and the existence of an onerous fiscal structure in Portugal as their main areas of concern (Table VII).

Franchise systems of foreign origin consider the insufficient number of suitable locations as one of their major problems, whereas most national systems rate this factor as being a minor obstacle. Insufficient local financing of franchise chains is a factor of intermediate difficulty and is stressed in the case of national systems. As opposed to other countries, where franchising is strongly established, until recently Portuguese banking had no formal arrangements with regard to franchise financing.

Foreign franchise systems did not report serious difficulties in making their products or services acceptable to Portuguese consumers or developing the franchise package so as to make it saleable to franchisees in Portugal. The

Factor	Systems of foreign origin Median	Systems of national origin Median
Difficulty of recruiting enough qualified franchisees	2	2
Onerous tax structure	2	2
Insufficient number of suitable locations	2	1
Insufficient local financing	1.5	2
Difficulty of controlling franchisees	1	1
Legal restrictions	1	0
Difficulty of making the product or services acceptable to Portuguese consumers	0	–
Difficulty of redesigning the franchise package to make it saleable to franchisees in Portugal	0	–
Trademark, patent and/or copyright obstacles	0	0

*Note:* The assessment was made on an ordinal scale of four, varying between 0 (irrelevant) and 3 (major problem)

**Table VII.**  
**Major Problems Encountered in Establishing Franchise Systems in Portugal**

protection of trademarks, patents and copyrights in Portugal did not present special problems to most systems, either of Portuguese or foreign origin.

### Internationalization Experiences of Portuguese Franchise Systems

Only two of the domestic franchise systems analysed in this article, which account for 28.6 per cent, operate franchises internationally. Four other systems, which do not operate franchises abroad, reported that studies are being conducted with a view to future international expansion.

National franchise systems with international operations are outlined in Table VIII. These systems belong to the categories of children's clothing and footwear and operate 19 outlets internationally. However, clothing is the prevailing product category and accounts for 78.9 per cent of outlets established abroad. They are among the systems with the largest number of outlets in Portugal and have been operating in the domestic market for the longest time. In one case, the granting of the first international franchise was preceded by a four year-domestic franchise experience, whereas in the other case both the first national and first international franchise grants were almost simultaneous.

Both systems consider that restrictions imposed by the small size of the domestic market and the unsolicited enquiries from prospects abroad were decisive in their contribution to internationalization. One system mentioned the reduced number of good locations in Portugal as being another relevant factor.

The country or area selected to establish the first franchise abroad is usually regarded as a critical decision to the franchisor. The success of such an operation and the degree of difficulty experienced in that area will probably produce a strong impact on the decision to proceed with internationalization[12]. Therefore, an attempt was made to identify the motives leading to the selection of those countries for initial foreign expansion. One domestic system with international franchises started its international expansion in Spain. This option was determined by its geographic and cultural proximity, the market potential and contacts made by potential franchisees. The other system, which started its expansion in the United Kingdom and Sweden, considers contacts made by potential franchisees as decisive.

One of the systems established the first franchise in Spain and, in the same year, entered England and Ireland through master franchise agreements. The balance of the experience was considered to be negative and at present this system operates in those markets under direct franchise agreements. Despite this unsuccessful attempt, the franchisor does not rule out the possibility of establishing this type of relationship in the future but would resort to more selective criteria, namely, in the definition of the master franchisee profile. The other system established direct franchise agreements to operate abroad. This franchisor is reluctant to master franchising and emphasizes the difficulty in recruiting a good candidate for a long-term relationship. It does, however, admit the possibility of using this method for candidates with an adequate profile. The outlets are at present very

<i>Size of franchise systems by product category</i>					
Product category	Number of systems	Portugal		Abroad	
		Number	%	Number	%
Clothing (children's)	1	37	63.8	15	78.9
Footwear	1	21	36.2	4	21.1
Total	2	58	100.0	19	100.0

  

<i>Year of establishment of first outlet, first franchise in Portugal and first foreign franchise</i>			
Product category	First outlet	First franchise	
	Portugal	Portugal	Abroad
Clothing (children's)	1972	1985	1989
Footwear	1976	1989	1989

  

<i>Location of international franchise outlets</i>						
Country	Clothing (children's)		Footwear		Total	
	Number	%	Number	%	Number	%
Spain	8	53.3	–	–	8	42.1
Ireland	4	26.7	–	–	4	21.0
United Kingdom	1	6.7	2	50.0	3	15.8
United Arab Emirates	2	13.3	–	–	2	10.5
Sweden	–	–	1	25.0	1	5.3
United States of America	–	–	1	25.0	1	5.3
Total	15	100.0	4	100.0	19	100.0

**Table VIII.**  
**Profile of Portuguese Franchise Systems Involved in International Operations**

scattered: two in the United Kingdom, one in Sweden and another in the USA. It is this franchisor's intention to provide a support representative to provide an improved service to foreign franchisees in those countries.

The domestic franchise systems with operations abroad consider the performance of their international chains to be below initial expectations. One of the systems blamed these difficulties on problems connected with internal organization rather than the obstacles it had to face in foreign markets. In spite of this appraisal, both systems consider that there are good opportunities for their systems in international franchising.

### Future Prospects of Portuguese Internationalization

For the prospects of future foreign expansion of Portuguese franchise chains in the next five years, one of the systems opted for selective growth. It intends to favour the Spanish market, planning to establish between 80-120 new franchises and maintain its present level in other markets. A period of consolidation is in progress, during which

it does not aim at either increasing the chain in Portugal or entering new international markets, despite several enquiries from prospects. The other system intends both to increase its presence in the markets where it is already operating – United Kingdom and USA – and to penetrate other markets, Spain and Japan. Over the next five years, it anticipates setting up 65 franchises in these four countries.

To evaluate the timing of initial international expansion it is common to consider the need for a previous solid experience at internal level. The domestic learning curve of franchise systems is sometimes measured with respect to the number of years experience in franchising and also the number of units operating in the domestic market[12]. These are general indicators, useful for a first analysis, though insufficient to forecast a successful establishment abroad. Portuguese-based franchise systems whose declared intention is to expand internationally have limited experience in terms of both measures. Among the domestic franchise systems not yet operating abroad, 80 per cent indicated studies being conducted at present for a future international expansion. They are all systems that granted their first franchise in Portugal between 1988 and 1990 and operate a small

number of franchised units – between one and ten. Only two of these systems stated they had previous experience in international trade though only in sporadic operations. Therefore, in the near future it is not expected that a significant number of local concepts will enter international franchise operations. Although most systems intend to operate in foreign markets, they do so prudently and without any precise scheduling.

Three of the four systems under analysis mention Spain as being the foreign country for the first franchise. These systems consider geographic proximity as a decisive factor in selecting the target countries in the initial phase of internationalization. Two of them also mention market potential as being an influential factor. Another system plans to internationalize in countries with strong Portuguese emigration, such as the USA, Venezuela, Macao, South Africa and Brazil.

## Conclusions

The primary purpose of this article is to obtain a clearer insight into different aspects of franchising in Portugal as well as prospects for internationalization of Portuguese-based systems. The most significant conclusions and managerial implications are:

- Domination of concepts of foreign origin, which is strongly represented by the French and US franchise systems. The establishment of systems of foreign origin is very recent in Portugal. The entry into Portugal of many new franchise systems of foreign origin in recent years leads us to believe that only now the prerequisites for “demonstration effect”, which operated in other countries, are present. It is therefore expected that Portuguese companies will first absorb the method and then put it into practice, which would mean the emergence of new domestic concepts, inspired by successful experiences of foreign origin franchise systems, and the likely internationalization of some. Even though we anticipate the emergence of new domestic franchise systems, business format franchising is expected to grow in Portugal, essentially as a result of the entry of systems of foreign origin.
- The size of franchise systems in Portugal is reduced. Besides the recent entry of these systems in Portugal, this dimension is likely to reflect the small size of the market as well. The reduced number of outlets per chain may render difficult either the adaptation of franchise systems of foreign origin to local conditions or the creation of adequate structures to train and support franchisees. As for the systems of domestic origin, this aspect may hinder the acquisition of a wide experience at a national level and, as a result, the process of internationalization.
- Master franchising is the most popular method of establishing franchise systems of foreign origin in Portugal. The establishment of master franchise agreements with national enterprises allows for the transmission of the method and a broader knowledge of franchising, both from the franchisee’s and the franchisor’s standpoint. The demonstration effect thus produced is likely to inspire the development of national concepts.
- A large number of franchise outlets belong to franchisors or master franchisees. This situation is probably associated with the difficulty of recruiting qualified franchisees, which was mentioned both by national and foreign franchisors as being one of the main problems in establishing franchise systems in Portugal. Nevertheless, it is expected that growth will occur in the near future by enhancing individual franchisee-owned units, which will lead to a wider transmission of the method.
- The international operations of Portuguese franchise systems have a reduced dimension and are still in an initial stage of expansion. This research makes possible the comparison of the international experience of Portuguese franchise systems with other similar studies in dominantly franchise recipient countries. In a similar way to that observed in those countries, in Portugal local franchisors with operations in foreign markets had an early perception of the limits imposed by the small domestic market to the growth of their chains and the main direct stimulus to their international entry was also the approach by interested foreign franchisees. As for the entry methods in foreign markets and the range of countries covered, the options for the Portuguese franchisors clearly diverge from studied countries. At present the main international establishment mode is direct unit franchising. High involvement of the franchisor and considerable human and financial resources are necessary to develop the system, to supervise and to properly service and provide training to distant franchisees. The anticipated increase in the number of foreign franchises will probably compel franchisors to adopt low involvement methods including the participation of local partners. The research has equally revealed that international operations cover a very diversified range of countries, some of them distant, both culturally and

geographically. These findings suggest some inexperience in franchising and a reactive approach of Portuguese franchisors to external markets based very much on the interests shown by potential foreign franchisees.

- Portuguese franchise systems operating internationally considered the initial phase of international expansion to be below expectations. Nevertheless, and despite such a negative assessment, they anticipate a strong international growth. These systems expect to increase the number of outlets in other countries, rather than in Portugal, in the next five years. This shows that domestic systems consider the difficulties encountered in the initial phase as surmountable and feel that there are more appealing opportunities to develop their systems abroad rather than in the internal market.
- Spain is the main target for national systems, both as regards the already accomplished internationalization and the existing plans for future expansion. Most Portuguese participating systems consider this country as the most promising for initial international expansion. Geographic and cultural proximity, as well as idiomatic resemblance, market potential and promising receptivity to franchising make Spain a country with genetically favourable conditions for Portuguese franchise systems to start international expansion. However, the results of the product-market analysis must be carefully examined in order to forecast the potential demand for the product or service object of franchise.

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