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FNAC Portugal in 2013: How To React To The Changes In The Market?

Author: Maria Ana Alexandre
Advisor: Nuno Magalhães Guedes

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ABSTRACT

Title: FNAC Portugal in 2013: How To React To The Changes In The Market?

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The markets are continuously changing and the markets of technological and cultural products are no exception.

When FNAC opened its first store in Portugal, in 1998, the market was quite different from how it is nowadays. The client motivations as well as expectations have been drastically changing and the access to certain products is now easier than ever, especially due to the Internet.

This Thesis exposes the recent policies of FNAC: the new product categories, the bet on multichannel strategy, the new store formats and the new business model. All these are part of FNAC new strategic plan – FNAC 2015.

These new policies seem to be the right answer to the problems that emerged from the evolution of the markets where FNAC operates. The key markets for FNAC have been dropping in the last years and the clients' profile has changed. At the same time that FNAC wants to overpass these challenges it wants to expand its business in Portugal.

The company should not only look at the bright side of these new policies but also look at the possible negative outcomes and be prepared for them. These policies can have some disadvantages to the brand and it's up to it to overcome them and become a stronger brand.

RESUMO

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Os mercados estão continuamente a mudar e os mercados de produtos tecnológicos e culturais não exceção.

Quando a FNAC abriu a sua primeira loja em Portugal, em 1998, o mercado era bastante diferente do que é hoje em dia. As motivações dos clientes e as suas expectativas têm mudado drasticamente e o acesso a determinados produtos é agora mais fácil do que nunca, especialmente devido à Internet.

Esta tese expõe as recentes políticas da FNAC: as novas categorias de produto, a aposta na estratégia de multicanal, os novos formatos de loja e o novo modelo de negócio – que fazem parte do novo plano estratégico da FNAC: FNAC 2015.

Estas novas políticas parecem ser a resposta correta para os problemas que surgiram da evolução dos mercados onde a FNAC opera. Estes mercados-chave para a FNAC têm caído nos últimos anos e o perfil de cliente mudou. Ao mesmo tempo que a FNAC quer ultrapassar estes desafios quer também expandir o seu negócio em Portugal.

A empresa não deve olhar apenas para o lado positivo destas novas políticas mas deve também olhar para os possíveis resultados negativos e estar preparada para os mesmos. Estas novas políticas podem ter algumas desvantagens para a marca e cabe à FNAC ultrapassa-las e tornar-se uma marca mais forte.

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CASE STUDY

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In October 7th, 2013, three months after the opening of the store at the Lisbon Airport, Cláudia Almeida e Silva, the director of the Portuguese subsidiary of the French retailer FNAC, knew that she had only a couple of months before the opening of the first proximity store in Portugal in Amoreiras Shopping Centre when she announced to the staff of the local headquarters:

> *FNAC Amoreiras is part of our expansion plan for Portugal. It is the store that will introduce the proximity concept in our country. The client profile is already known but the format and image of the store will be innovative. It will look similar to Lisbon's airport store.*

After presenting the concept of the new store, Cláudia Almeida e Silva announced that the internal staff applications, as well as the external, were open. The human resources department was looking for people with orientation towards the client and results, reasonable adaptation to change, willingness to learn, initiative and proactivity, fondness for teamwork and excellence in implementation. It was time to gather a talented team of enthusiastic sellers in order to charm the new and peculiar target group of consumers. The months ahead would be very busy. In addition to this new concept, Cláudia would also have to consider the extension of the franchising model to the Portuguese market.

1. COMPANY HISTORY

1.1. France

It all started with the desire of Max Théret and André Essel to create a different type of business, one that could be available to a broader number of people and not only to those with a higher purchasing power. The *Fédération Nationale d'Achat des Cadres* (FNAC) was initially founded as a members club for buying gadget-type products at a discount. The goal was essentially to offer the products at smaller prices. The link between the associates and FNAC was done through a magazine called *Contact*, created by Essel and Théret. The last page of this magazine had the discounts that the consumers would rebate at FNAC.

On July 31st, 1954, the two partners rented an apartment in Boulevard Sébastopol, in Paris. Due to their personal interest, one room was dedicated to the exhibition of photographic and cinema material. This room was called *Photo Ciné Club*. In 1956, a radio section was created.

The first day of March 1957 marked the opening of the first FNAC store in Paris, after another space in Boulevard Sébastopol was released. The main products commercialized were cameras, radios, audio systems and small appliances. Four years later the store was expanded: in the center of it a rest space was created, the photography, image and sound departments were enlarged and a new and big records department was created.

Between 1962 and 1968 8 more spaces were acquired in order to expand the store. In 1964, FNAC celebrated its 10th anniversary with a volume of sales of 50 million francs and 100.000 associates. In 1966, the store was opened to the general public. Three years later the second store in Paris opened.

In the seventies, the business was growing and the brand knowledge expanding which led to the opening of the first store out of Paris in 1972, in Lyon. In that same year, a test laboratory - FNAC Lab - was created being at that time a unique concept for a retailer. In this lab, products were tested and selected according to certain standards. The technical qualities, ease of use, relation quality/price were analysed and in the end all the results were published in *Contact*.

Also in 1972, FNAC ran an inquiry that revealed the interest for the brand to commercialize books. Thus, two years later, in March, with the opening of FNAC Montparnasse, the first Books department was created as well as the first Forum, a space dedicated to dialogue and cultural events.

In 1975, the Video department was created and three years later a new store concept was launched – FNAC Service. This concept was about small stores with photographic services.

On its 25th anniversary, in 1979, FNAC opened a store in Forum des Halles which was the first store to have the same organization and differentiation in offerings as FNAC clients got used to since then.

In 1980, FNAC became a limited public company and the IT department was created. One year later the company started its internationalization process, with the opening of the first store abroad in Belgium. Only in 1993 did FNAC open a store in another country, in Madrid, Spain. Five years later the first store in Portugal opened at Centro Comercial Colombo, in Lisbon.

1.2. Portugal

In 1997, FNAC studied the Portuguese cultural market viability and found out that the Portuguese market had the potential for only 4 stores with the FNAC original concept. By that time, stores with a commercial area over 2000m^2 could not be opened on Sundays during the afternoon. Thus, Colombo and the other stores opened by FNAC were limited in space due to this law[1]. On September 24th 2010, the law changed because the Portuguese government considered that those schedules were not according to the Portuguese habits and were therefore dissociated from the local interests. By that time, FNAC already had 17 stores in Portugal. Although the average surface area (bellow to 2000m^2) didn't correspond to the traditional format (around 2400m^2), the first stores opened in Portugal had all the other critical characteristics of the traditional format.

The great acceptance of the FNAC concept, which was innovative at that time in Portugal, contributed to the change of the 1998's perspectives of only 4 stores (**Exhibit 1**). This success was partially due to the fact that no other brand was offering the same service and products.

On the 28th of February in 1998, the first FNAC opened in Portugal. Colombo's FNAC store followed the traditional concept that was getting high recognition in France (**Exhibit 2**). The 2000m^2 store gathered the different departments that built the concept that is most common nowadays:

- **Editorial Products**: music, video, books and video games
- **Technical Products**: photo, tv-video, audio and computers

[1] Decreto-Lei n.º 111/2010

- **Services**: ticket office, forum FNAC, PhotoLab, Café FNAC and insurance

After the very successful opening in Colombo, FNAC opened in November of that same year another store, in the north of Portugal, in Norteshopping in Matosinhos. Portugal was the first country in the history of FNAC to open two stores in the first year.

One year later, FNAC.pt was launched. In August the site had only a institutional purpose but three months later, it became a product showcase where clients could become aware of the offers in music, movies, books, software and cultural shows. In June of the next year new technologies were added to the website.

The evolution of the stores in Portugal followed very closely the evolution of the shopping centres. As new ones were being built, FNAC was included among the anchor stores that could bring people to them. On the other hand, the shopping's market in Portugal was no older than 20 years, thus, its development coincided more or less with the entrance of FNAC in Portugal.

In 2007, following the trend already noticed in France in 2006, the big urban centres in Portugal had already at least one FNAC store. It was time to decide what to do next in order to keep gaining market share and spread the FNAC concept in Portugal. In France, the strategy was to create a new store format called FNAC Fusion (outskirts format), which didn't differ much from the traditional concept, especially from the eyes of the clients. The store area was similar to the existing stores, but the visual concept was a bit different. The infrastructure investment was different particularly in displays, but to the clients, which was the most important part, the service didn't diverge. Portugal followed the same strategy and the first store to open under the FNAC Fusion format was in Guimarães, on November 18th, 2009, followed by Leiria, 6 months after. As of October 2013, these were the two stores in Portugal with the FNAC Fusion concept and there were no plans for new stores under this format **(See Exhibit 3 and 4).**

At the same time another type of store was being opened over the country. FNAC Service stores were small stores of 50 to 60 m^2 that had the specific goal of processing photos. The offer included the top sellers of the editorial products and accessories. For FNAC it was very easy to expand this store idea because the brand had a strong influence in the owners of the shopping centres and it was also easy to find small stores that were available for renting. On the other hand, the FNAC brand had already enough recognition in Portugal, which also helped the diffusion of this new store concept.

Although successful for 7 years in Portugal (2000-2007), with 18 stores, this concept was damaged by the beginning of the digital era that ended up with the need for a store where the main purpose was processing photos. The majority of those who took photos no longer needed them in its physical format since they could be easily saved in a pen drive or in a personal computer. Thus, in 2007, the FNAC Service's stores spread all over the country closed their doors.

2. COMPETITORS

1.1. El Corte Inglés[2]

El Corte Inglés is a well-known Spanish retailer that among many other things sells technical products as well as editorial products. Its first store in Portugal opened in December 2001 in Lisbon. It was a direct competitor since it offered the same type of products than FNAC.

1.2. Worten[3]

Worten is part of Sonae, a large and diversified Portuguese retail group, and opened the first store in March of 1996, in Chaves, a medium sized city in the North of Portugal. In October 2013, there were more than 135 stores in Portugal and as what concerned its internationalization strategy there were already 40 stores in Spain. It was the market leader on appliances, consumer electronics and entertainment. Its strategy was to offer the best price/quality relationship and that's why its motto was "O nosso forte é o preço" (our strength is the price). Worten was considered to be the most complete competitor for technical products.

[2] http://www.elcorteingles.eu/About
[3] http://www.worten.pt/store/sobre-a-worten

1.3. Media Markt, Box and Radio Popular

These three brands of big box retailers sold various technical products in its stores as well as small appliances. These brands along with Worten completed the role of competitors of FNAC in what concerns to the technical products.

1.4. Bertrand[4]

Bertrand was one of the oldest bookstores in Portugal. Founded in 1732, in 2011 the bookstore in Chiado was reckoned by Guinness World Records to be the oldest bookstore in operation in the world.

There were 60 bookstores in Portugal. Every bookstore was judiciously decorated in order to pleasantly receive and shelter the visitors and readers. The idea of these stores was to create comfortable spaces while promoting different types of activities such as readings, autographs sessions, social gatherings expositions and book launches.

1.5. Bulhosa and Livraria Almedina

Along with Bertrand, Bulhosa and Livraria Almedina competed with FNAC in the editorial offers, more precisely in the books department because these 3 chains were specialized in this product category.

3. FNAC MEMBERS

FNAC was initially founded as a members club only. From the beginning, FNAC wanted to give a special treatment to those loyal to the brand. Even though some years after the foundation it opened to the general public, through out the years FNAC had been paying more and more attention to its members. FNAC didn't want just to have members but to have fans.

[4] http://www.grupobertrandcirculo.pt/livrarias/livrarias-bertrand/

In the end of 2012 in France there were 3.2 million members and in Portugal, by September 2013, there were around 520.000 members, 25.000 more than in 2012. The weight of the member's purchases in FNAC overall sales, by September 2013, was 61%. The average basket of a member was 55,8€.

Regarding the advantages of being a FNAC member, every member got 5% in FNAC card in every purchase made and an immediate 10% discount in books, on the publisher's price. There were some exclusive promotional campaigns for the members and private sales as well. Besides these, the delivery costs were free if the member chose to receive the product bought online at his home or store 1 to 3 days after the purchase (the other options were paid). The cost of this loyalty program for the member was 15€ every 3 years.

4. FNAC 2015

In the summer of 2011, in France and in the others countries where FNAC had its business already established, a strategic plan was launched: FNAC 2015. Considered to be innovative and constructive, according to FNAC's website, the plan was based on three pillars:

- Stronger customers relations;
- Special attention paid to families, particularly children;
- The extension of the brand's positioning in the leisure sector.

This would happen through a renewal of the commercial model, improving the customer experience, the development of complementarity between the stores and the Internet and also increasing the density of the store network. The main goal of FNAC with this strategy was to strengthen the market position.

FNAC 2015 would renew FNAC's business model and adapt it to today's market challenges and the new aspirations of the clients. The top priority continued to be improving customer experience through increasing the knowledge of the customer, the assessment of their satisfaction and by training the salespeople in order to best welcome and advise the customers.

The mission was clear: to be the brand of reference and preference to discover, live and share passions. In order to accomplish it, various strategic axes were defined:

- FNAC Fans: to make FNAC clients and workers ambassadors of the brand, true fans faithful to the brand.
- Leader of Virtual: to be the major site of e-commerce and multichannel reference, and thus, develop the complementarity between stores and site.
- Sustainable Growth: to continue the expansion plan in a sustainable way.
- 7 Stars Service: to promote the excellence of the client service and thus to improve the clients in-store experience. The 7 stars service is divided into dimensions, standards and behaviours. There are four dimensions:
    - Assistance: "I give always priority to the client."
    - Sale: "I share my knowledge and sell."
    - Offer: "I guarantee the client finds what he is looking for."
    - Space: "I make sure the store is a comfort and entertainment space."
- Simple and Efficient Organization: optimize procedures and internal processes.
- Innovation/Irreverence: to surprise the client with a unique experience in every contact point.

5. NEW PRODUCT CATEGORIES

Since the beginning, wherever it went, FNAC's concept had been to promote culture and new technologies. The goal had been to get the consumer closer to various forms of culture and entertainment through a wide offer of books, music, movies, sound and image equipment, as well as information and communication technologies.

Although the business was growing unexpectedly in Portugal, not everything was going as well as FNAC wanted. The expected openings, after the big initial acceptance, were down to have 20 stores opened until 2012 **(Exhibit 5)** due to two main reasons: the tough economic crisis the Portuguese were facing and the dematerialization issue.

Dematerialization clearly affected the traditional markets of music, movies and books of FNAC. In 1998, the sales of music CDs in the whole world for FNAC were about 500 million euros and for 2013 the perspectives were around 200 million in revenues. This meant a decrease of 60% on one of the most important markets for FNAC. The films and books category had also been decreasing, 20% and 8%, respectively. Numbers were saying that the books market had been the most resistant to this trend since it was being less vulnerable to the changes in the consumers' habits. Between 2010 and 2012, the sales of music, movies and games of FNAC Portugal decreased 37% and the sales of books 16%.

These decreases in revenues were the result of two important changes: it was getting easier to get music, movies and games on the Internet without paying a cent and on the other hand, sales of online content were increasing. Besides that, programs such as Spotify were helping this dematerialization since consumers could legally listen to music at a small monthly fee. Although the e-books market was still developing (which was why the books market was less vulnerable than the others), the online music market was increasing.

The launch of new product categories was part of FNAC 2015 plan in order to increase FNAC offerings in-store and also to counter the fall of editorial products market. Thus, the sales of these new product categories should compensate the decrease of sales in the declining markets. These new high end products' target were families with above the average earnings. The new categories added were:

- Home and Design: small electrical household products characterized by innovation and design. In 2012, in France, 34 stores already included this category.
- FNAC Kids or Kids Spaces: for children, aged between 0 and 13 years old, including games, toys, books, DVDs, music, technical products and video games. In 2012, in France, 25 stores had already this category.

Besides these new product categories, FNAC was betting even more in the most recent products added to the offering. The area of the stationery category was increased in some stores. The offering of musical instruments and of the FNAC Active segment (watches and headphones specially created for running, GPS devices, special cameras, etc) was enlarged.

6. MULTICHANNEL STRATEGY

The new strategy, FNAC 2015, complemented a big bet on the increase of multi-channel. FNAC customers could order and purchase at home from the online store and pick the product at a store of their choice or have it delivered at home. Another option, also at their homes, was to order online from the store stock and pick the purchase in the store where the product was bought. Finally, consumers could also, in store, order products from the online store through the computers placed for that specific aim, and pick the purchase in store or have it delivered at home **(Exhibit 6)**. With these new possibilities, the probability of the client buying another product, while in the store to get the purchased product, increased. On the other hand, FNAC could have a better notion of the potential of certain areas for new stores by studying the addresses of the online sales and understanding if those clients preferred to buy online or just didn't have any store close to them.

In the last years, the online retail sales had been increasing 14% per year and it was expected to grow 55% between 2012-2016. Portugal with an annual growth of online sales of 18,8% was ahead of France, Germany, and United Kingdom and only behind Italy (22,2%) and Spain (24,0%). Thus, there was a high bet of FNAC Portugal in promoting the site FNAC.pt, which had 2 million visitors in 2012 and was the website in Portugal with the largest sales volume. Nevertheless, eBay and Amazon were still the traffic leaders in Portugal.

Also part of the multichannel strategy, FNAC bet on the online store with exclusive products and promotions in order to adapt itself to the changes of the market where the use of the Internet kept increasing.

7. NEW STORE FORMATS

In 2011, the great urban centres and the suburbs had already a considerable number of FNAC stores. The situation in France was similar and the headquarters were already trying to understand what to do next in order to keep spreading the FNAC concept as well as winning market share from its competitors. Since the big cities had already huge FNAC stores, it was time to start thinking about a new concept that could complement the already existing offer in those cities.

New and smaller store formats were created. In order to strengthen FNAC's proximity to its customers, to increase FNAC's flexibility in the countries where it was already established, to increase market share and also to meet the new customer consumptions habits, two new formats were created:

- The Travel Format, with a surface area of 60 to 300m^2, was born due to the growth of the travel retail market. Thus, the stores with this format served the client that was about to travel or had just arrived.
- The Proximity Format: with a surface area between 300 to 1000m^2, similar to traditional and outskirts concepts but with a special concern for the product categories on offer. Since these stores might be in specific environments inside a city, once again, the product categories had to fit the target consumer.

Although, there were some differences in space and some adaptations in product categories in order that the stores were attractive to its customers, the FNAC DNA stayed the same.

In November 2010, the first travel store opened in the TGV station in Valencia. This store was used to run studies and tests about the consumer in order to understand the profile of the client that travelled and how to release this new concept in other countries where FNAC was already present. FNAC decided to open the first store of this format outside its home country because in Valencia it could get a complete profile of those who travel and also because in France there was no space available in such conditions. In France the first travel store opened at Orly Airport in 2013.

The client of a travel store acted quite differently from the others present at shopping centres. The goal of the client was not to go to FNAC but to catch the train or enter the plane on time, with not much time to spend inside the store. The service at a travel store needed to keep its very own standards, while being fast enough so the client didn't leave without the product in order not to be late. Those who travel may be just trying to spend some time while waiting for the train or plane, but can also be buying that one last-minute thing that was forgotten at home.

As to the proximity concept, the goals were to get to new clients, to take the FNAC concept to other areas, to protect the market share and also enhance the multi-channel positioning. The profile of the client was similar but still there had to be some adaptations to the place where these stores would be opening, since it would serve specially its habitants and workers.

The first store to open under this concept was in France in a street of Melun, in the first semester of 2013. The product offering and the store itself were adapted to the zone and to its clients. Before being a FNAC Store, it was a bookstore with faithful clients. Therefore, the books offer needed to be enlarged in order to keep serving those clients, as well as the technical products because at the time of the opening this specific offer was scarce.

7.1. FNAC Travel In Portugal

In 2013, on the 17th of July, the first travel store in Portugal opened at 5:30am at Lisbon's Airport **(Exhibit 7)**. The store of 270m^2 was patronized by the well know Portuguese writer José Luís Peixoto. The investment of this store was 1000€/m^2 and it was expected that the it would be fully covered in the end of the first business year. The goal for this store in the first year was to reach sales of 2.000.000€.

ANA S.A. explores four different airports in Portugal: Lisbon, Oporto, Faro and Azores and the revenue of the retail activities of these 4 airports together was around 50 million euros in the year of 2011. In 2012, the Lisbon's airport had 14,8 millions of people passing by, with a growth of 5% compared to 2011. Of those, 7 million were departing passengers. The forecast was for the number of passengers to keep growing by 7% due to the installation of Easyjet in 2012 and the establishment of regular flights to United Arab Emirates through Emirates Airlines with daily flights to Dubai.

Besides that, Lisbon's Airport had a new commercial area in Terminal 1 with an area of 3.500m^2 and 20 new stores. 65% of the passengers (of international flights) were expected to be in this terminal, meaning 4.550.000 passengers. This new area had stores such as the well-known coffee shop Starbucks, the first Iberian store of Victoria's Secret, Springfield, Pandora and Imaginarium.

Finally, the choice was to open a store in Terminal 1 instead of Terminal 2 also because the latter was where low-cost companies functioned, therefore the passengers average purchasing power of that terminal would be lower.

The offer of FNAC airport had 1700 references including technical products such as tablets, mobile phones, cameras, gadgets, headphones, a wide selection of books including the national and international tops, best sellers, light literature, management, spirituality, books for the kids and magazines. There were also some games, music CDs (the tops and traditional Portuguese music), merchandising, KOBO and also some travel accessories, impulse buying candies and food.

On the other hand, as in other stores at the airport at that store the customers could benefit from tax-free service and also equipment insurance and free access to Internet.

Regarding the profile of the Lisbon's Airport customer, he was usually from Portugal (33%) and the top 5 of destinations included France, Spain, Germany, United Kingdom and Switzerland. Of all passengers, 66% travelled once a year and 16% twice. Thus, the majority of the passengers that passed by the main Portuguese airport flied to European countries and travelled once a year. Almost half of the passengers that went through the Lisbon Airport visited the restaurants area, 34% no area and 29% went to the stores.

Comparing to the average sales of other stores with a traditional format or outskirt format, the Lisbon's Airport one had average sales 30% below the traditional format stores. This fact was due to the specific characteristics of the store and its location as well as the products sold. In this store, televisions and sounds systems were not sold and the most expensive computer, without considering the Apple products, was around 800€.

Besides these differences, due to the specific profile of the client, the product families at the Airport were the same as in the other stores, but there was a great bet in technology accessories. On the other hand, 7% of the books were in the literature category and 5% of all the books were English literature. In the traditional format stores, the imported books counted for only 1% of the total number of books.

So far so good… FNAC airport was a success with a bigger amount of sales than what was expected and also more visitors. According to ANA S.A. the FNAC store had the highest revenues of all airport stores (excluding the restaurants).

Regarding the competition at the airport there were no stores that could compete with FNAC, except for those more generalist that also had magazines and journals, which were just a small part of the range of products sold at FNAC.

There were two surprises right after the opening of the store, that didn't become problems because FNAC immediately adapted to them. The store was located in the departures zone therefore it was structured to those who were leaving the country, however, there were also transfer passengers that could stay some hours in Portugal while waiting for another flight. Some of them were asking for prepaid mobile phones cards that didn't exist at the time. On the other hand, the families acted differently in the airport when compared to shopping centres. When purchasing something for their kids, they want small toys, Legos or books and they also looked for cheap purchases. The idea was to entertain the kids for some hours while at the airport and in the plane.

7.2. FNAC Proximity In Portugal

In Portugal, three different types of proximity stores were planned:

- Surface area of $300m^2$: to serve the great urban centres with more than 1 million of habitants

- Surface area of 600m^2: in small cities with less than 50.000 habitants
- Surface area of 900m^2: in medium sized cities with a population between 50.000 and 100.000 habitants.

The first Portugal store in this format was planned to open in the beginning of December in Amoreiras shopping centre (10,5 million visitors in 2012). Amoreiras, was the neighbourhood in Lisbon with the higher concentration of French immigrants and had important business buildings, including FNAC headquarters in Portugal. Amoreiras was located nearby 5 important zones in Lisbon: Marquês de Pombal, Campo de Ourique, Campolide and Príncipe Real **(Exhibit 8)**, with a 300.000 population at a 10 minutes distance.

The store was located after one of the entrances and next to Benetton. The place was an opportunity to FNAC because it was available at the time that the company was trying to decide where to open the first proximity store. On the other hand the owner of the shopping centre was Mundicenter, a company FNAC had already done businesses with[5]. Finally, the client profile of Amoreiras Shopping was adequate for this first try in Portugal. Amoreiras was a residence zone where families had a medium-high purchasing power and also a very active zone in terms of offices.

There were more openings planned for 2014 but their location was under consideration. According to a study there was a potential for 13 stores to open under this new format, whether 300, 600 or 900m^2.

8. FRANCHISING AT FNAC

Besides the new product categories and the new store formats, FNAC also engaged in a new business model for the company: the franchising model. In order to capture external investment

[5] FNAC Braga was located in Braga Parque owned by Mundicenter

to its internal development, FNAC considered that this could be an interesting opportunity due to the notoriety of the brand and due to its flexibility in adapting to new places.

The FNAC 2015 project accelerated the density of FNAC stores network, particularly using franchise stores. This new strategy would help FNAC to reach new territories faster.

In December 2011, the first franchised store opened at Casablanca in partnership with one of the Moroccan leaders in specialized retailing.

The first French store with this new concept opened in December 2012. The present owner was the owner of the bookstore that existed in that same place. FNAC remodelled the store, furnished it differently and provided training to the workers that were already working in the old library. Thus, FNAC was the business partner of the bookseller.

In 2012, FNAC opened 13 stores in rail stations and airports. The goal for 2015 was to open thirty franchise stores worldwide. It was part of FNAC's strategy to use the franchising model to extend the operations to other countries and thus boost the internationalization process.

The franchising model in Portugal[6] generated, in 2012, 3,1% of GNP and employed around 700.000 people. The major importance of this model was in the services, restaurants/hotel business and commerce. In 2011, there were 578 franchisors and 11,760 franchised units. 41% of the franchisors had 1 to 4 franchised units.

FNAC decided that 80% of the products sold by the franchisor would have to be bought from FNAC. The other 20% could be bought from different suppliers provided that FNAC itself didn't sell. José Leite, the Director for the Development of New Formats and Partnerships, gave the example of franchised stores located in the seaside that could want to sell technological products adapted to spearfishing. These products would be the kind of products that company-owned stores wouldn't sell and thus be part of that 20% of the portfolio that the franchisee would buy outside of FNAC.

[6] 17th Censuses from Instituto de Informação em Franchising

The plan was that the franchisee would pay an initial fee for the know-how of FNAC and also a fixed monthly royalty due to HR – costs associated with providing training in order to keep the service standards -, Logistics and Commercial costs FNAC would have with the franchisee. On the other hand, these royalties would also pay for the Marketing done by FNAC that the franchisee would indirectly benefit from.

The most important things that FNAC wanted to guarantee in order to franchise its business were the respect for the FNAC concept and the customer service level as well as the quality and range of products offered. The goal was to concentrate in a few numbers of franchisees the expansion. To do that FNAC was already working with a consultant in order to understand who the potential interested investors were. It was also important to understand the profile of the potential franchisee.

In November 2013, FNAC had already the expansion plan defined with the locations of potential franchised stores. These potential locations were studied according to population size, average expense per capita on cultural products, earnings per capita and the size of the potential market. Besides these factors, FNAC members and the online purchases data were very important to understand the potential of certain places. On the other hand, it was also important to understand the impact of the new franchised stores on the company-owned stores. FNAC wanted to avoid sales cannibalization from a franchised unit.

Since the plan was ready it was time to look, with the help of the consulting firm, for partners interested in investing in those locations and also to consider the store formats that those partners would have in mind. The year of 2014 could mark the beginning of the franchising era in Portugal.

Claudia Almeida e Silva wondered whether these new strategies along with the strong decrease of operational costs would be the solution for FNAC's problems. She had been the Director of FNAC Portugal since 2008 and already had to adjust the expectations of the number of stores in Portugal down to 20 in the end of 2012. But in 2013, FNAC kept struggling with the decrease of the sales in some important departments. Before the opening of the Amoreiras store one doubt remained: were the new product categories and the multi-channel positioning the solution for the global decrease of sales of the markets of music, video and books?

9. EXHIBITS

Exhibit 1 – Article From Diário Económico (Christophe Cuvillier)

Entrevista

"Portugal é muito lucrativo para a FNAC"

Nelson Marques
23/01/10 00:05

1 Leitores Online 1 Pageviews Diários

Em entrevista ao Económico, o presidente da FNAC explica a aposta do grupo no "milagre português".

Christophe Cuvillier, Presidente do grupo FNAC.

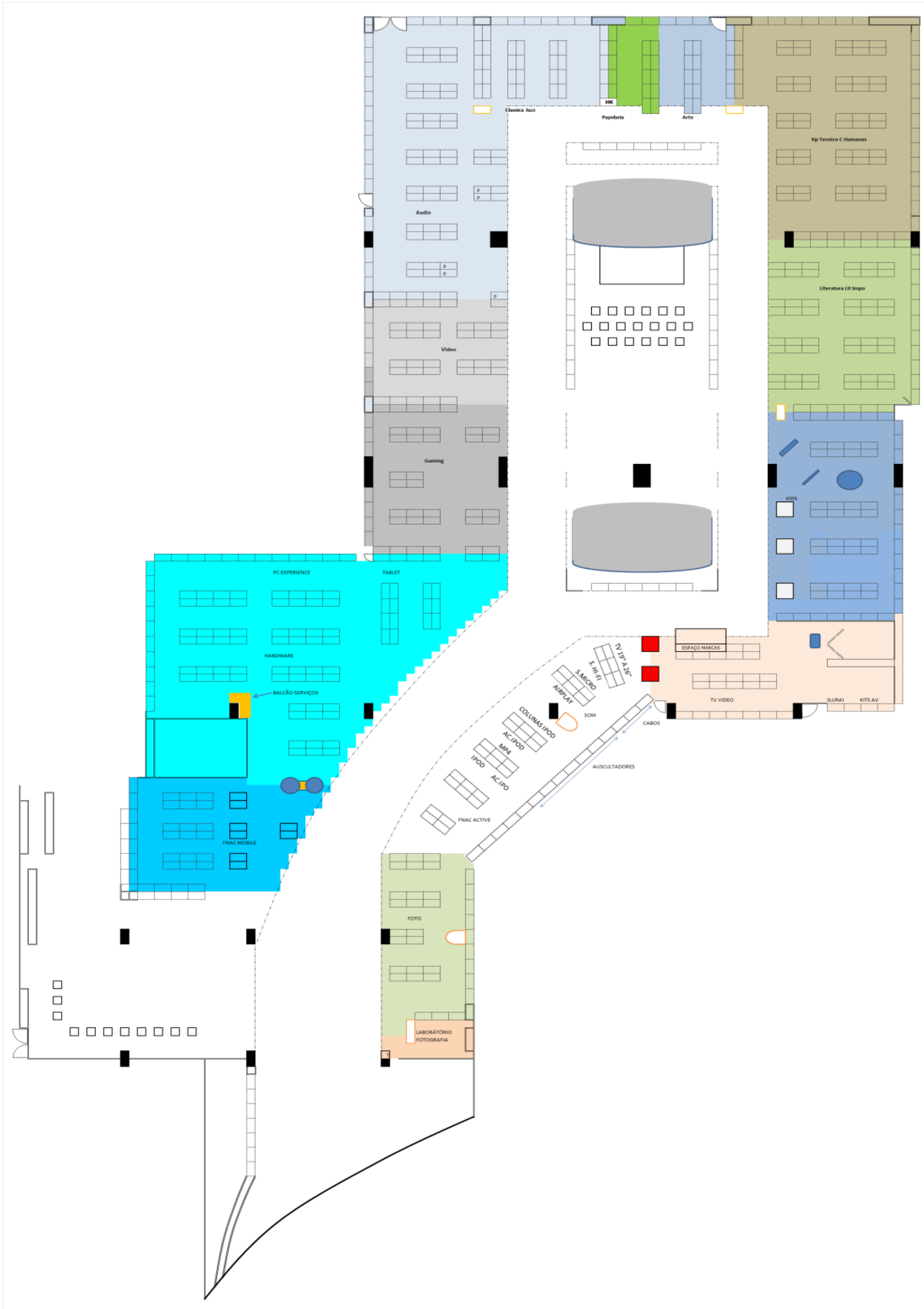
Quando chegou a Portugal, em 1998, a FNAC esperava abrir, no máximo, quatro lojas. No mês passado, em Guimarães, inaugurou a décima sexta. O presidente do grupo chama-lhe "o milagre português". Christophe Cuvillier, o patrão do grupo FNAC, sentou-se à conversa com o Económico. Pressionado pelo tempo, ditou as regras: "Temos meia hora. Ainda é preciso fotografar? Ok. Vinte e oito minutos para a entrevista, dois para a fotografia". Quando olhou para o relógio, já tinha passado quase o dobro do tempo. Saiu da sala como entrou. Com um sorriso nos lábios.

Portugal, com 16 lojas, é o vosso terceiro mercado depois de França e Espanha. Estavam à espera deste sucesso?
Quando, em 1998, lançámos a FNAC em Portugal acreditávamos que poderíamos ter aqui três, quatro lojas. Abrimos a primeira loja, no Colombo, em Lisboa, o sucesso foi imediato. Vendemos três vezes mais do que a nossa previsão. Projectámos quatro lojas e temos hoje quatro vezes mais. Chamo-lhe o milagre português.

O que explica, na sua opinião, este sucesso?
Por um lado, a aceitação pelos portugueses do conceito FNAC foi imediata e impressionante, talvez porque muitos já conheciam a FNAC, devido ao facto de existir uma grande comunidade portuguesa em França. Em segundo lugar, beneficiámos do sucesso dos centros comerciais em Portugal.

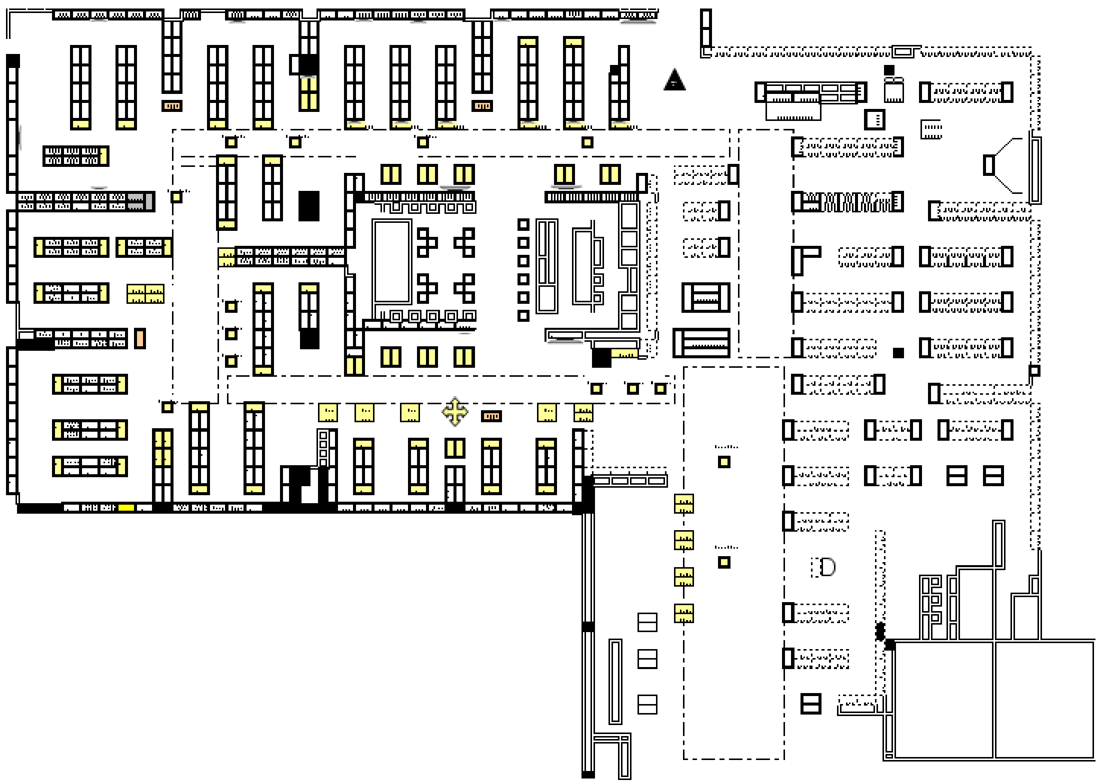
Source: Diário Económico, January 2010; http://economico.sapo.pt/noticias/portugal-e-muito-lucrativo-para-a-fnac_79540.html

Exhibit 2 – Colombo's Store



Source: FNAC Internal Information

Exhibit 3 – Marshopping's Store



Source: FNAC Internal Information

Exhibit 4 – Summary Of All Stores

In the beginning of November of 1999, the second store opened in downtown Lisbon, at Armazéns do Chiado. One year later, at the end of October, the second store in Porto opened in Santa Catarina. Following Chiado's store, Santa Catarina's also had two floors due to the mall's characteristics. One month later, on the 28th of November the most westward FNAC of the world at the time opened in Cascais.

Two years passed until the sixth store in Portugal opened. The first store on the south of Tagus River/Lisbon opened in Almada Forum, on the 18th of October in 2002. One year later, another store on the north of Portugal opened in Gaiashopping, in November the 14th.

The first store inaugurated in the south of Portugal was right before the beginning of the high season, in 23th of June in 2002, in Albufeira, a place very well known by the tourists visiting Portugal during the summer.

In Coimbra, the first store and so far the only one in the city opened in 2006, in April 24th. Only five months after, the first store in Madeira opened its doors, in Madeirashopping.

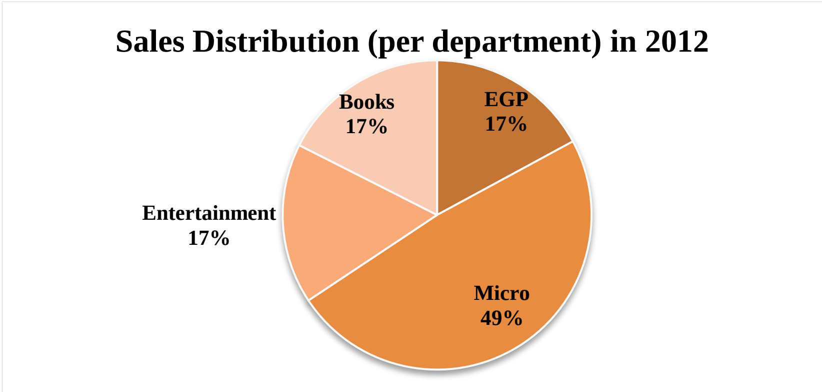
Before opening stores with the new concept, 5 more stores opened between 2007 and 2008 in Alfragide (Lisbon), Braga Parque, Palácio do Gelo (Viseu), Vasco da Gama (Lisbon) and Marshopping (Matosinhos).

	Location	**City**	**Opening Date**	**Concept**	**Average Number of Workers in 2012***
1	Centro Comercial Colombo	Lisbon	28-02-1998	Traditional Format	124
2	NorteShopping	Oporto	28-11-1998	Traditional Format	98
3	Armazéns do Chiado	Lisbon	09-11-1999	Traditional Format	87
4	Edifício Palladium	Porto (Santa Catarina)	30-10-2000	Traditional Format	49
5	CascaisShopping	Cascais	28-11-2000	Traditional Format	84
6	Almada Forum	Almada	18-10-2002	Traditional Format	83
7	GaiaShopping	Vila Nova de Gaia	14-11-2003	Traditional Format	60
8	AlgarveShopping	Albufeira	23-06-2005	Traditional Format	58
9	Forum Coimbra	Coimbra	24-02-2006	Traditional Format	64

10	Madeira Shopping	Funchal	23-11-2006	Traditional Format	53
11	Alegro Alfragide	Alfragide	13-11-2007	Traditional Format	70
12	Shopping Braga Parque	Braga	15-11-2007	Traditional Format	56
13	Palácio do Gelo Shopping	Viseu	15-04-2008	Traditional Format	51
14	Centro Vasco da Gama	Lisbon	13-10-2008	Traditional Format	80
15	Mar Shopping	Matosinhos	16-10-2008	Traditional Format	55
16	GuimarãeShopping	Guimarães	18-11-2009	Outskirts Format	47
17	LeiriaShopping	Leiria	19-05-2010	Outskirts Format	52
18	Lisbon's Airport (Busgate Norte, Partidas Lado AR)	Lisbon	17-07-2013	Travel Format	12**
19	Centro Comercial Amoreiras	Lisbon	-	Proximity Format	?

* 1 ETC = 1 person working 40 hours/week ** September 2013

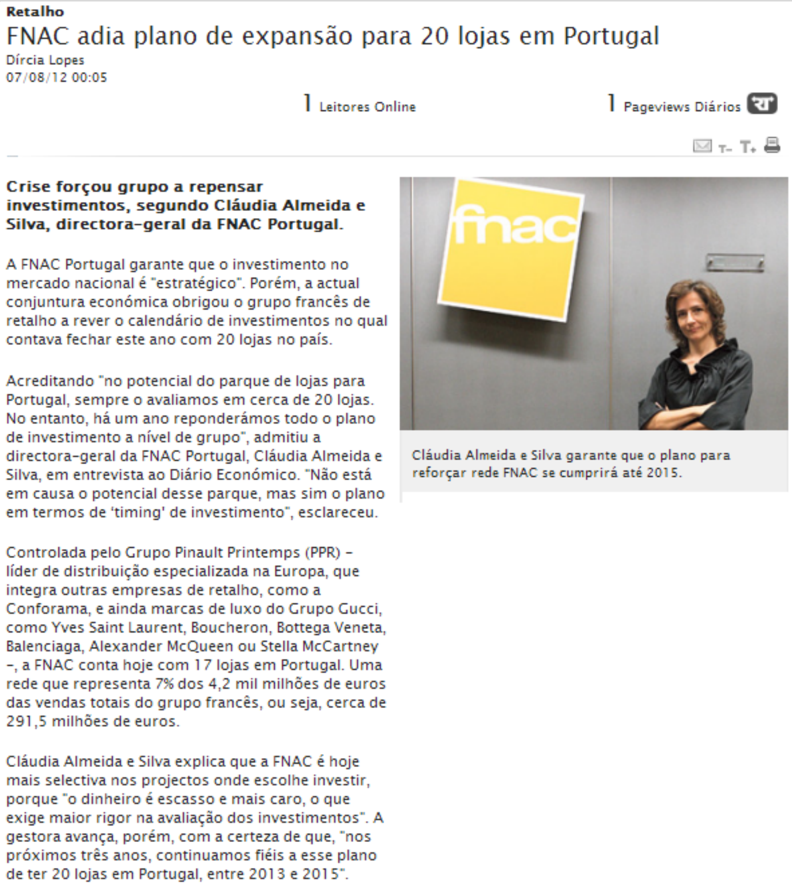
Source: FNAC Internal Information



Entertainment: Gaming, Movies and Music; Micro: Hardware and Telecom; EGP: Photo, TV and Sound.

Source: FNAC Internal Information

Exhibit 5 – Article From Diário Económico



Retalho

FNAC adia plano de expansão para 20 lojas em Portugal

Dírcia Lopes

07/08/12 00:05

1 Leitores Online

1 Pageviews Diários

Crise forçou grupo a repensar investimentos, segundo Cláudia Almeida e Silva, directora-geral da FNAC Portugal.

A FNAC Portugal garante que o investimento no mercado nacional é "estratégico". Porém, a actual conjuntura económica obrigou o grupo francês de retalho a rever o calendário de investimentos no qual contava fechar este ano com 20 lojas no país.

Acreditando "no potencial do parque de lojas para Portugal, sempre o avaliamos em cerca de 20 lojas. No entanto, há um ano reponderámos todo o plano de investimento a nível de grupo", admitiu a directora-geral da FNAC Portugal, Cláudia Almeida e Silva, em entrevista ao Diário Económico. "Não está em causa o potencial desse parque, mas sim o plano em termos de 'timing' de investimento", esclareceu.

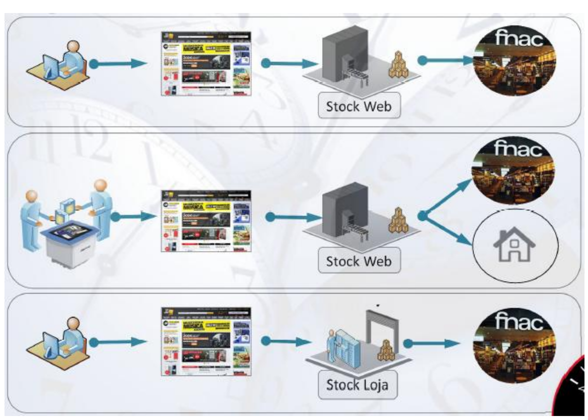
Controlada pelo Grupo Pinault Printemps (PPR) – líder de distribuição especializada na Europa, que integra outras empresas de retalho, como a Conforama, e ainda marcas de luxo do Grupo Gucci, como Yves Saint Laurent, Boucheron, Bottega Veneta, Balenciaga, Alexander McQueen ou Stella McCartney –, a FNAC conta hoje com 17 lojas em Portugal. Uma rede que representa 7% dos 4,2 mil milhões de euros das vendas totais do grupo francês, ou seja, cerca de 291,5 milhões de euros.

Cláudia Almeida e Silva explica que a FNAC é hoje mais selectiva nos projectos onde escolhe investir, porque "o dinheiro é escasso e mais caro, o que exige maior rigor na avaliação dos investimentos". A gestora avança, porém, com a certeza de que, "nos próximos três anos, continuamos fiéis a esse plano de ter 20 lojas em Portugal, entre 2013 e 2015".

Cláudia Almeida e Silva garante que o plano para reforçar rede FNAC se cumprirá até 2015.

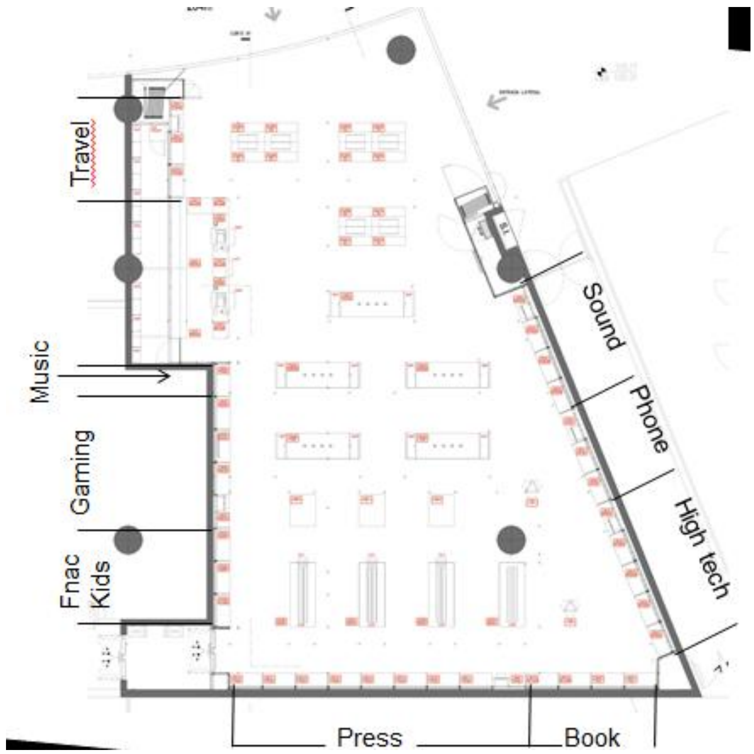
Source: Diário Económico, August 2012; http://economico.sapo.pt/noticias/fnac-adia-plano-de-expansao-para-20-lojas-em-portugal_149870.html

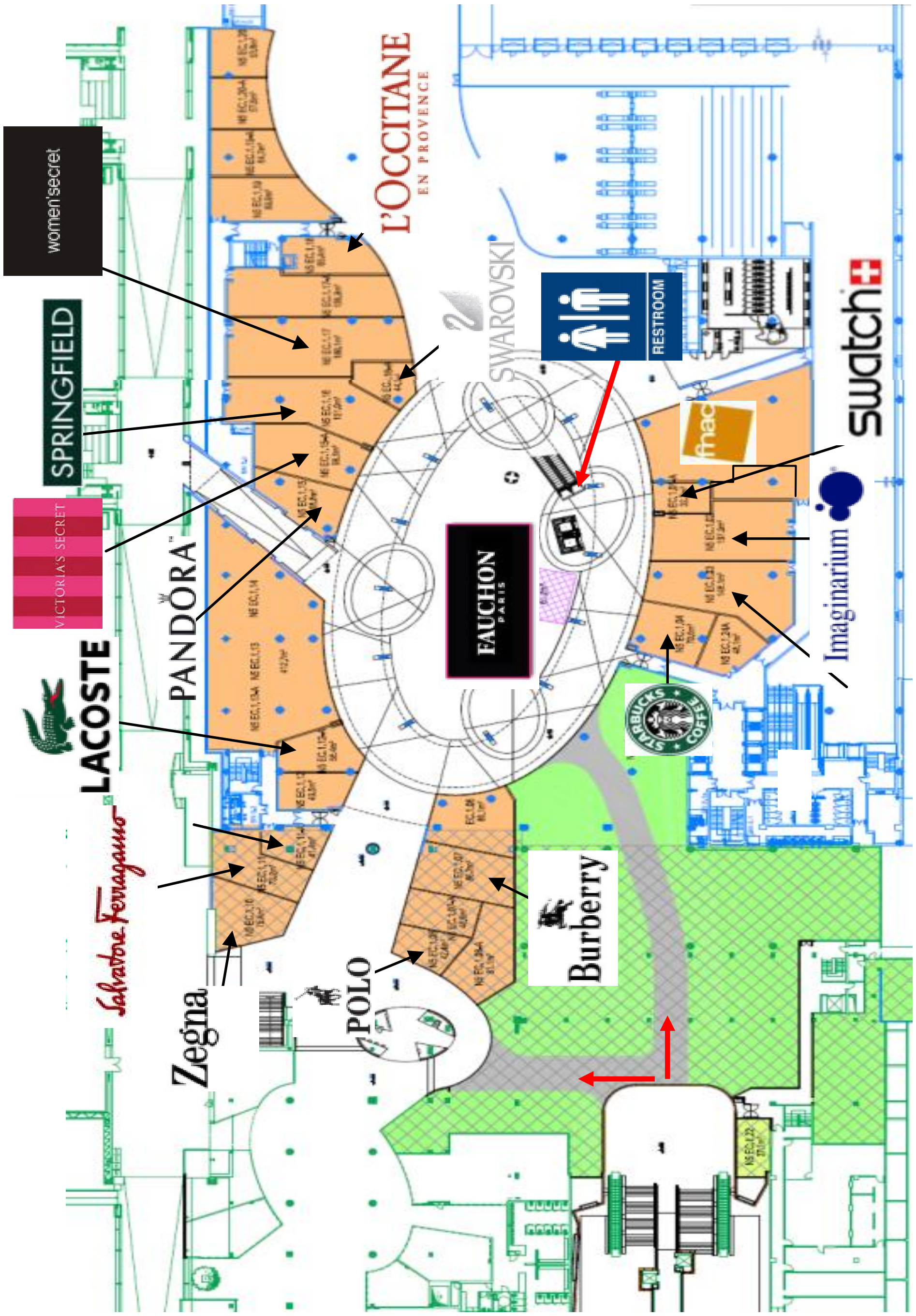
Exhibit 6 – Multi-Channel Scheme



Source: FNAC Internal Information

Exhibit 7 – FNAC Lisbon's Airport




women'secret
SPRINGFIELD
VICTORIA'S SECRET
PANDORA
LACOSTE
Salvatore Ferragamo
Zegna
POLO
L'OCCITANE
EN PROVENCE
SWAROVSKI
RESTROOM
FAUCHON
PARIS
fnac
swatch
Imaginarium
STARBUCKS COFFEE
Burberry

Source: FNAC Internal Information

Exhibit 8 – FNAC Amoreiras

Centro Comercial Amoreiras

Image of the space where the store will be located

Source: FNAC Internal Information

“FNAC reforça em Portugal com loja nas Amoreiras em Dezembro” in Económico

Dírcia Lopes
dircia.lopes@economico.pt

A partir da primeira semana de Dezembro o Amoreiras Shopping Center, em Lisboa, recebe um cliente de peso: a FNAC, marca de distribuição de bens tecnológicos e culturais do grupo francês PPR. A loja ficará junto ao espaço antes ocupado pela italiana Benetton.

“Durante o mês de Dezembro vamos ter a abertura de uma loja FNAC que vai contribuir para continuar a manter as Amoreiras como uma referência no mercado dos centros comerciais”, sublinha o administrador da Mundicenter, dono das Amoreiras, Fernando Muñoz Oliveira, ao Diário Económico.

Com esta abertura a FNAC Portugal reforça a presença no mercado nacional para 19 lojas, depois da recente inauguração de um espaço na nova área comercial do Aeroporto de Lisboa. O director de marketing e comunicação institucional da FNAC Portugal, Viriato Filipe, confirma esta expansão no País - onde a marca entrou em 1998 com um espaço no Centro Colombo -, através de um conceito de “lojas de média dimensão”, que á agora a nova aposta do grupo.

APOSTA EM PORTUGAL

- **A última abertura em Portugal foi no novo espaço comercial no Aeroporto de Lisboa, com um conceito adaptado e desenhado para o tipo de cliente que viaja.**
- **A marca introduziu novas categorias fora do mercado tradicional. Por exemplo, abriu papelarias que são uma extensão da área de livros. Na área de música avançou com a venda de instrumentos musicais. No segmento infantil, criou o FNAC Kids que alargou a oferta de livros para jogos e brinquedos didácticos.**
- **De acordo com os números financeiros de 2012, a FNAC representa cerca de 7% da facturação do grupo francês PPR.**

“Há muito tempo que queríamos estar nas Amoreiras, mas ainda não tinha havido disponibilidade de espaço”, explica Viriato Filipe, da FNAC Portugal.

“Há muito tempo que queríamos estar nas Amoreiras, mas ainda não tinha havido disponibilidade de espaço no centro”, realça Viriato Filipe. A FNAC tinha também “vários projectos para conquistar cidades fora de Lisboa”, revela, o que acabou por adiar este investimento, cujo valor preferiu não revelar.

De acordo com a mesma fonte, as Amoreiras Shopping “é um centro de excelência, que tem um público específico, feminino e de classe alta”, o que justifica este investimento. “É uma pequena vitória termos conseguido concretizar esta abertura”, salienta Viriato Filipe que adianta ainda que já está a ser preparada “a campanha de divulgação que estará no ar a partir do final deste mês”. “Teremos actividades no centro e publicidade.”

20 lojas em Portugal

O reforço da presença em Portugal é um objectivo que já tinha sido assumido pela directora-geral da filial portuguesa, Cláudia Almeida e Silva. Em entrevista ao Diário Económico, em 2012, a gestora assegurou que “Portugal sempre foi e continua a ser atractivo em termos de investimento”.

“Estamos a fazer tudo, continuando a reforçar os valores e presença em Portugal, para atingir as nossas metas para 2015 e isso passa por nos reinventar não só nas novas categorias, trabalhar o ‘online’ através do multicanal”. A gestora admitia na altura que “o potencial do parque de lojas para Portugal” é “cerca de 20 lojas”, afirmou. Apesar de admitir que o calendário para concretizar esta meta em Portugal foi reavaliado, a gestora reafirmava o compromisso para com este plano. ■

Source: Económico, November 2013

LITERATURE REVIEW

Although the literature regarding the retailing business is huge, I decided to focus on three main themes: multichannel, franchising and impulse buying. I chose these three topics because they are directly related to the case study about FNAC new strategy.

1. MULTICHANNEL

Nowadays, consumers are increasingly demanding more from the retailers and, in order to satisfy them, firms must be where the consumers are. If one firm fails to serve the consumer, he will go somewhere else where he can actually get what he wants and therefore where he is best served (Burke 2002). Consumers keep having greater expectations and firms need to adapt in order to keep them satisfied and loyal.

When approaching multichannel integration, companies must think of it as a strategy that needs to be flexible as well as focused on the most important goal: to continuously improve the customer experience. Thereby companies can maintain their competitiveness in the short run and focus on building a strong competitive advantage for the long run (Chu and Pike, IBM). Marketers can take advantage out of the strength of the different channels used in order to ensure the targeted segments are well served (Keller, 2010).

One of the challenges marketers face nowadays is how to choose the best mix of communication and channel strategies that will bring a strong competitive advantage over other retailers (Keller, 2010). Keller distinguishes four important dimensions in this mix:

- Direct and Interactive Channels: where firms sell through personal contacts by mail, phone, Internet, etc.
- Indirect Channels: where firms sell the product or service through some intermediaries like distributors, dealers, broker representatives, etc.
- Personal Communications: that involve one to one communications between a representative of the brand and the consumer through different types of contacts such as direct marketing, online marketing, personal selling, etc.
- Mass Communications: which involves communications to a wide range of consumers through promotions, events, experiences, etc.

Different channels and communications have different roles and effects for each consumer (Dholakia et al. 2010; Neslin et al. 2006; Neslin and Shankar 2009; Verhoef et al. 2010; Zhang et al. 2010). Thus, it's important that retailers understand how to best mix the different channels and communications vehicles in order to maximize sales in the short-run and increase brand equity in the long-run (Keller, 2010).

When firms choose the channels through which they will sell their products, they must take into consideration the effects those channels will have on some of the brand dimensions. Even though firms want to provide the best experience to its customers, the choice of channels cannot damage the brand on the eyes of the consumers. According to Keller, the channel choices have an impact on brand awareness, brand associations, brand attitudes, brand attachment and brand activity.

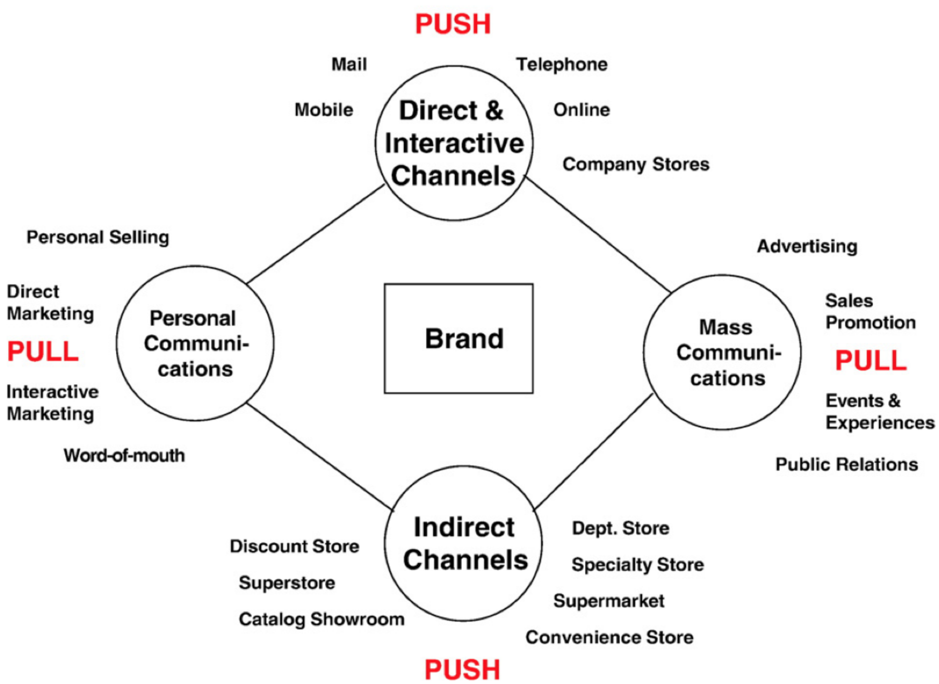


Fig. 1. Marketing Integration
SOURCE: K. L. Keller (2010)

Channels affect brand awareness as they display and promote the brand whereas it affects brand associations due to the way retailers decided to sell the products. In physical stores, the facilities, store employees, the shopping experience and so on build some imagery associations towards the brand. When it comes to online channels, although employees are not physically visible, firms can provide more information to help strengthen performance associations. Thus, if a firm approaches multichannel strategies it will increase the probability of the consumer to know the brand and how valuable it can be to him. If consumers know nothing about the brand, nothing can be transferred between channels. Regarding brand attitudes, since retailers create experiences for its customers they can influence their experimental feelings towards the brand. On the other hand, retailers can also shape consumers' opinion accordingly to the way they sell and display the product and also how they promote the brand. Brand attachment is influenced by the channels chosen in physical stores and virtual ones either from the creation of a sense of friendship and community between the consumers and salespeople (Ward and Ostrom, 2006) or the reinforcement of emotional rewards that consumers may appreciate from the brand. Finally, channels can ease brand activities by giving extra information, promote different experiences and entertain the consumers. In physical stores consumers may be able to touch and experiment the product they want to buy and in the online store look for more information regarding the product that may not be available in-store.

In order to ensure that the all target market customers are well served, marketeers must make sure they are taking full advantage of the chosen channels. As said before, customers demand more and more each day and desire entertaining and informative marketing communications. Along with multichannel strategies, firms can maximize their sales and brand equity effects from being associated with a particular channel or communication choice. From a broader perspective, marketeers should implement a global strategy that could create synergies between the channel and communication options selected.

1.1. Challenges Of The Multichannel Approach

Neslin et al. suggest a framework for multichannel customer management (Figure 2) that begins with the customer being faced with a problem that he needs to solve. At first, he searches in different channels from different firms and purchases accordingly to his preferences as well as based on what is the channel that fits his needs the best. In this choice, the customer recalls past experiences, which directly affect his preferences and perceptions. Since the customer must decide between different firms and channels it is a two-dimensional choice.

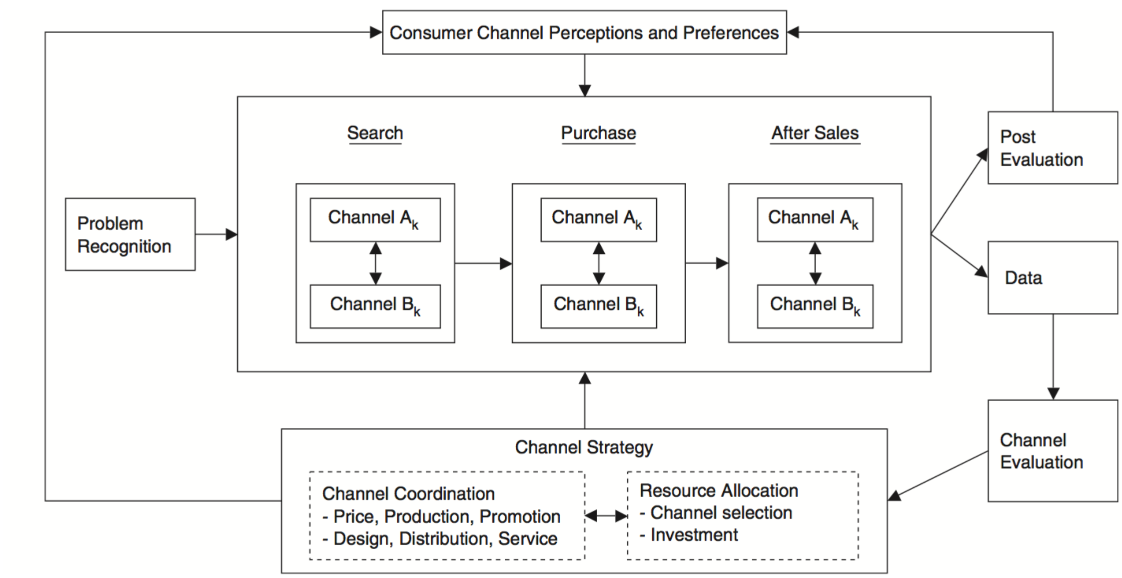


Fig.2. Framework for Multichannel Customer Management
SOURCE: Adapted from Blattberg, Kim, and Neslin (2006)

There are five challenges firms face when dealing with multichannel management (Neslin et al. 2006):

Data Integration Across Channels

To have information about the customers can be very important if the company wants to invest in cross-selling (Knott, Hayes, and Neslin 2002). Knott and colleagues suggest a model for improving the effectiveness of cross-selling. By using the next-product-to-buy model, firms can reduce costs of a poor target, as well as predict the product each customer would be most likely to purchase next. Kumar and Venkatesan, 2005 found out that, besides the fact that cross-buying is a good predictor of lifetime duration (Reinartz and Kumar, 2003), purchase frequency (Kumar, and Venkatesan, 2004) and customer equity (Rust, Zeithaml and Lemon 2004), cross-buying can also be associated with multichannel shopping.

The best database of information about the customers would have information regarding what channels each customer accessed previously, including competitor’s, as well as in what stages of the decision making process. By understanding its clients, how they tend to decide and how they think, companies can make their decisions based on those findings and come up with a strategy that best fits the interests of its customers.

If the firm knows most of its consumers value convenience, then providing different channels, where the customers can get what they want, the way they want, can be a strategy that helps to retain them (Kumar, and Venkatesan, 2005). Consumers are different, different shoppers have different needs and wants, and they will want to purchase where they are best served (Burke 2002).

There are some difficulties when trying to understand the customer because there is a lack of analytical tools to provide critical knowledge about customer behavior, a lack of processes that translate customer information into actions and also limited means to transfer what the firm has learned about the customer across functional areas (Chu and Pike , IBM).

Understanding Customer Behavior In A Multichannel Environment

According to Wallace, Giese and Johnson (2004) multichannel usage is linked with a bigger sense of the firms offering what is associated with higher customer satisfaction and greater loyalty. On the other hand, multichannel shoppers buy more frequently, more items and expend more comparing to single channel shoppers (Kushwaha and Shankar, 2005). Moreover, marketing efforts, such as e-mails and catalogs (Knox 2005; Ansari, Mela, and Neslin 2005) have influence in the channel choice. The promotions made by the brand can also incite to use a certain channel (Burke, 2002;Myers, Van Metre, and Pickersgill 2004; Teerling et al. 2005). The situation factors can also contribute to the choice of one channel instead of the other, due to the physical setting, temporal issues, task definition and mood (Nicholson, Clarke and Blakemore 2002).

Burke 2002 through a national survey of 2120 people found out that the majority of the consumers are less willing to use multiple channels when shopping for goods they usually buy, such as groceries and beauty care products.

Regarding product information, consumers behave differently when they are in the store and when they are buying online. If using the Internet, consumers want to have full information about the product, comparison of store prices, expert ratings, a secure and convenient process, order tracking and reliable delivery. If at the store, consumers want sales assistants that have full information about the price and that are capable to give advice whether to buy product X instead of product Y, clean and attractive facilities, competitive prices and fast checkout (Burke 2002).

In the same study, Burke (2002) concluded that customers want different things depending on the product they are buying. He created three different groups: for durable goods (major appliances, consumer electronics, furniture, lighting, hardware, paint, wallpaper) customers will want detailed product information and a great service. On the other hand, for frequently purchased goods (groceries, health and beauty care products, and school and office supplies) consumers prefer a convenient but fast shopping experience. Finally, for the entertainment products (music, movies, books, toys and games) consumers want to have fun, but at the same time they want to have some privacy.

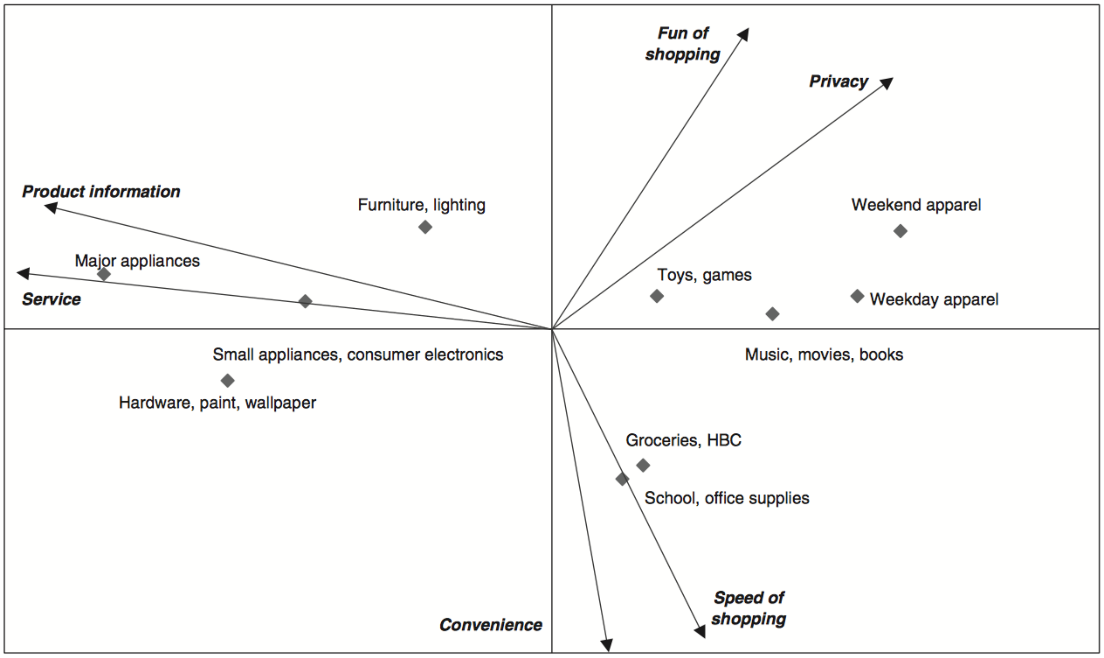


Fig. 3. Product Differences In The Importance Of Shopping Attributes
SOURCE: Burke (2002)

Channel Evaluation

Once the company understands how the customer decides, it can evaluate its channels' performance. Before adding a new channel, the managers must be aware of how this decision will impact the firm's future performance, sales and profits. The sum of the firm's set of channels should be more than the sum of the different channels' impact individually.

For some years now, the question for most of the firms has been to whether add Internet to its existing channels or keep the business running within physical stores. Deleersnyder et al. (2002) found that the possibility of ordering newspapers online won't cannibalize sales if the content is different from the physical version of the newspaper; it can even enhance sales. On the other hand, Biyalogorsky and Naik (2003) studied the introduction of an Internet channel to accompany a bricks-and-mortar store channel and found a negative impact, but statically insignificant, of online visits on offline visits.

Allocating Resources Across Channels

The strategy of the firm regarding its different channels is reflected in the resource allocation. Acquisition costs can be quite different from channel to channel and so is the quality of the customer acquired (Villanueva, Yoo, and Hanssens 2003; Verhoef and Donkers's 2005).

Coordinating Channel Strategies

A good fit of the different channels can create important synergies to the future performance of the firm. The degree of coordination can range from the complete separation of channels to full coordination. According to Zettelmeyer (2000), by coordinating the different channels one firm can differentiate offerings by the different channels and thus compensate one channel's weakness with another channel's strength (Achabal et al. 2005).

The strategies of the different channels must be implemented according to the knowledge that the firm has of the consumer needs and preferences. Thus, it's important to understand how the behavior of each customer changes accordingly to the product categories and whether he is in a physical store or a virtual one.

1.2. Customer Relationship Management In A Multichannel Retailing Environment

Customer Relationship Management (CRM) is the practice of analyzing and utilizing databases to determine corporate practices that will maximize the lifetime value of each customer (Kumar and Reinartz, 2005). In Figure 4 are 3 different examples of how CRM can be used in retailing.

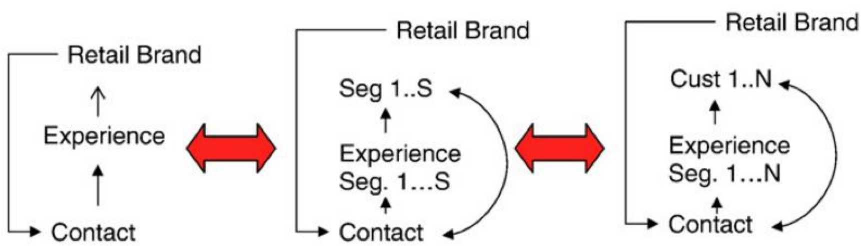


Fig. 4. Business Models Around Customers In Retailing
SOURCE: Verhoef et al. (2010)

The left-side example demonstrates how marketing management helps the retailers to target a specific customer segment, understand it, create a brand concept that will fit its needs and use the concept to create a unique shopping experience for each segment and each customer (Greaw, Levy, and Kumar 2009; Verhoef et al. 2009). The example in the middle shows how through CRM firms can identify groups of consumers with similar needs, also called customer segments (Batra 1999; Humby and Hunt 2003; Malthouse 2003; Reutterer et al. 2006; Malthouse and Calder 2006). Finally, the right-side example shows, as Peppers and Rogers (1997) call it, one-to-one marketing. According, to the analysis previously made, retailers can create customized offers for individual customers (Ansari and Mela 2003; Montgomery and Smith 2009).

The next figure offers a conceptual model based on CRM that can be implemented in a retail firm. The basis is the huge amount of data at the individual consumer level and at the aggregate store level, which characterize the retail environment (Blattberg, Glazer, and Little 1994; Bucklin and Gupta 2002). Upstream suppliers can also be very helpful by providing crucial data regarding the customer (Ganesan et al. 2009; Smit 2006). As said earlier, data integration is a key challenge for the retailer due to the different sources of data and the importance that those have in the performance of the firm. The second step is to draw conclusions regarding the information collected in order to better decide and to improve the performance of the firm (Davenport and Harris 2007; Jayachandran et al. 2005). The last step is to understand the impact of the decisions made by measuring certain customer outcomes such as the customer lifetime value or the customer share (Petersen et al. 2009). These customer outcomes will eventually affect the firm value (Gupta, Lehman and Stuart 2005).

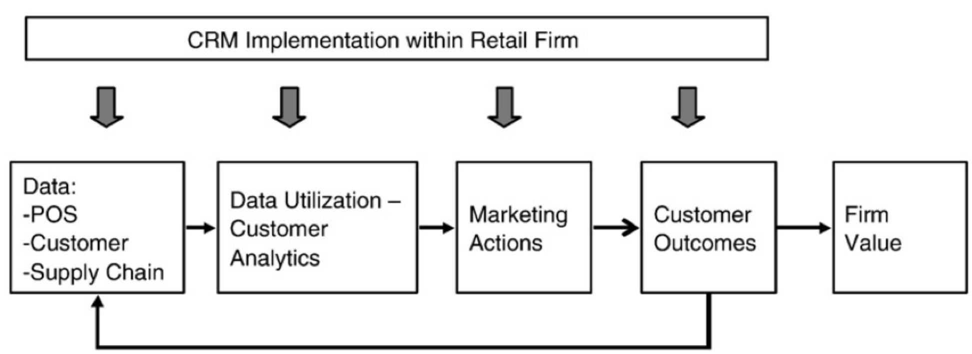


Fig. 5. Conceptual Model
SOURCE: Verhoef et. al (2010)

2. FRANCHISING

Franchising is the arrangement in which the owner of a service, process or product – called the franchisor – gives the right to someone else – called the franchisee – to use it in exchange for some sort of payment (Watson et al. 2005). Usually the franchisee pays an initial fee and ongoing royalties but keeps a big percentage of the business earnings (Hunt, 1972; Rubin, 1978).

Firms' main goal when franchising their business is to raise capital (Oxenfeldt and Kellym 1968) and also to diversify, achieve rapid market growth and improve performance (Forward and Fulop, 1996).

In the service business firms have few tangible due to the nature of the business. Thus, much of the success of their business is based on how they manage those intangible assets (Watson et al. 2005). Wexler, 2002 referred Intellectual Capital (IC) as the knowledge resources, experiences, skills, and structures of a company, which all together can create capital.

Watson et al. 2005 suggest an IC framework (Figure 6) that opposed to Brooking (2006) and Roos et al. (1997) considers Intellectual Property (IP) – which are the copyrights, trademarks and patents - independently of IC. The market value of a firm depends of these two variables and also Financial Capital (FC). In Figure 2 we can see that IC is composed by four different elements:

- Human Capital: the skills, experiences, knowledge, ideas, values of the workers of the firm
- Relation Capital: the relationships the firm has with customers, suppliers, trade associations, etc.
- Competitive Capital: the information regarding the competitors from internal as well as external sources.
- Structural Capital: the processes or infrastructures owned by the company that support the Human Capital.

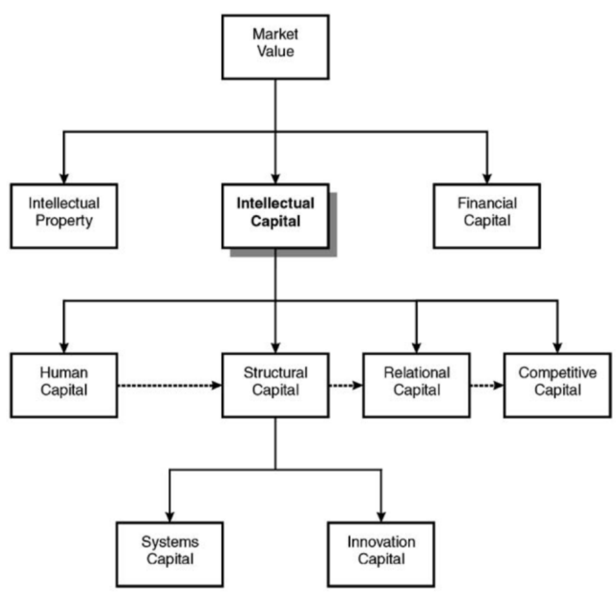


Fig. 6. Intellectual Capital Family Tree
SOURCE: Watson et. al (2005)

The IC framework helps to understand what's at the table when a firm decides to franchise its business and also why they decide to do it.

As said previously, firms decide to franchise in order to raise capital but the fact that they can easily expand their business due to an easier access to valuable resources is also a strong reason why some companies adopt this strategy (Michael, 2002). But in order that the business expands and some capital is raised, the franchisor must provide crucial information about how he operates and the necessary know-how so that the franchisee is able to run the business. On the other hand, the franchisor should provide continual support throughout the process. One of the crucial challenges that franchise systems have to face is effective knowledge management (Perry et al. 2000).

Besides the two reasons already stated, firms are also interested in the local knowledge of the market where they want to expand their business to. The human capital is one of the benefits of franchising since local franchisees can provide that part of the IC that the firm can't access due to the lack of experience in that local market (Norton, 1988). The bigger the cultural and geographical distance, the bigger the predisposition to franchising (Fladmoe-Lindquist, 1996). But on the other hand, monitoring distant franchisees can be very costly to the franchisor (Rubin , 1978; Norton, 1988).

Although franchisors want to learn about the local market, franchisees don't have much incentive to share what they know (Paswan and Wittmann, 2003). The local knowledge of the franchisees can go from local market conditions to personal relationships with customers or suppliers and information regarding the competitors – which can be different from place to place. All this may remain tacit despite the efforts of the franchisor to make them explicit (Watson et al., 2005).

If a firm decides to franchise its service or product, it must adapt the structural capital of the business in order to provide the franchisee the necessary knowledge and also ensure that it can be monitored and controlled (Watson et al., 2005). Whereas the franchisor will have the tendency to maintain its standards, the franchisee will want to be independent (Stanworth, 1991). The advertising, promotion and territory are some of the marketing variables where the franchisor may restrict the franchisee power (Housden, 1984). According to Kaufmann and Eroglu (1999) if the changes are in the peripheral elements of the franchise format, then it will most likely not damage the brand's image and be positive to the franchise – "…finding the balance between standardization of the core elements and permitted local adaptation of the peripheral elements remain one of the greatest challenges facing franchisors" (Kaufmann and Eroglu, 1999, p.83).

Managers must choose one of two types of learning: exploration and exploitation. Exploratory learning comprises the development of new routines through new resources or technologies so that the firm can adapt to different markets. On the other hand exploitation implicates the incremental improvement of existing routines in order to achieve operation efficiencies. Since none of them offers an ideal alternative, the balance between these two types of learning can be critical for the firm's performance. According to Sorenson and Sørense (2001) managers involved in a franchising system pursue more exploratory learning and managers of company-owned units pursue more exploitation learning. The benefits that go with centralizations and standardization generate competitive advantages over stand-alone rivals (Norton, 1988). But franchising limits this standardization and transfer of processes due to the variability in operations across the different units, because local franchisees develop procedures in order to fit the local demand of that specific place (Sorenson and Sørense, 2001).

Company-owned units ease the knowledge transfer that allow firms to test and evaluate new ideas about procedures and products since there are integrated information systems that allow the headquarters to understand the possible success of those innovations (Bradach 1998).

As already said, the greater the distance from the headquarters the greater is the incentive to franchise. The geographic dispersion causes a greater exposure to different local market conditions which, in order to maximize the performance of the different units require local adaptations (Minkler, 1992; Kaufman and Eroglu, 1999). If a firm faces different but homogeneous markets, exploitation will be the most likely learning strategy adopted (Sorenson and Sørense, 2001).

As previously mentioned, one of the reasons why companies decide to franchise is to achieve rapid growth. In order to do so, there must be a first mover advantage that the firm can benefit of. In the retailing and services industry, first mover advantages exist due to the preferably choice of valuable real estate and the possibility of shaping the preferences of the consumers of given the market (Michael 2003). According to Lieberman and Montgomery (1988) there are three possible sources of first mover advantage: superior technology, preference for scarce assets and shaping of buyer behaviour. When presented with a new product, consumers tend to like the characteristics of that first product more than the second (Carpenter and Nakamato, 1989).

According to Oxenfeldt and Kelly (1968) successful franchising systems will in the end become wholly company-owned systems. On the other hand, Bradach and Eccles (1989) and Dant and Kaufmann (2003) defend that a franchise system can head into a pure-company owner, pure-franchised system or be a mixed system and thus reach the advantages of the two pure systems. Some variables such as the market competition, the environmental uncertainty and the interdependence in the franchisor-franchisee relationship can be determinant on choosing one of the three different systems (Dant et al. 2011).

1.3. MODELS OF FRANCHISE EXPANSION

According to Aliouche et al. (2011) there are three frameworks that marked the internationalization research.

The Uppsala model (Johanson and Vahlne, 1977) states that because internationalization is risky, firms that want to expand their business outside of the home country tend to do it first to countries physically closer and then progressively moving to countries more distant. Firms will commit less in the beginning in terms of exporting and licensing and gradually commit more as the firm gains more knowledge in the foreign markets. Regarding Dunning's eclectic paradigm (Dunning 1988), there are three different type of advantages that firms may have when dealing with international expansion that determine the entry mode decisions: ownership advantages (specific to owners); internationalization advantages; location advantages (from the specific locations). Anderson and Gatignon (1986) proposed the transaction cost analysis model where firms' decision is based on the trade off between the benefits of integration and cost of integration.

The main goal of the framework is to identify the optimal countries to enter and the optimal mode of entry and is divided into three different phases.

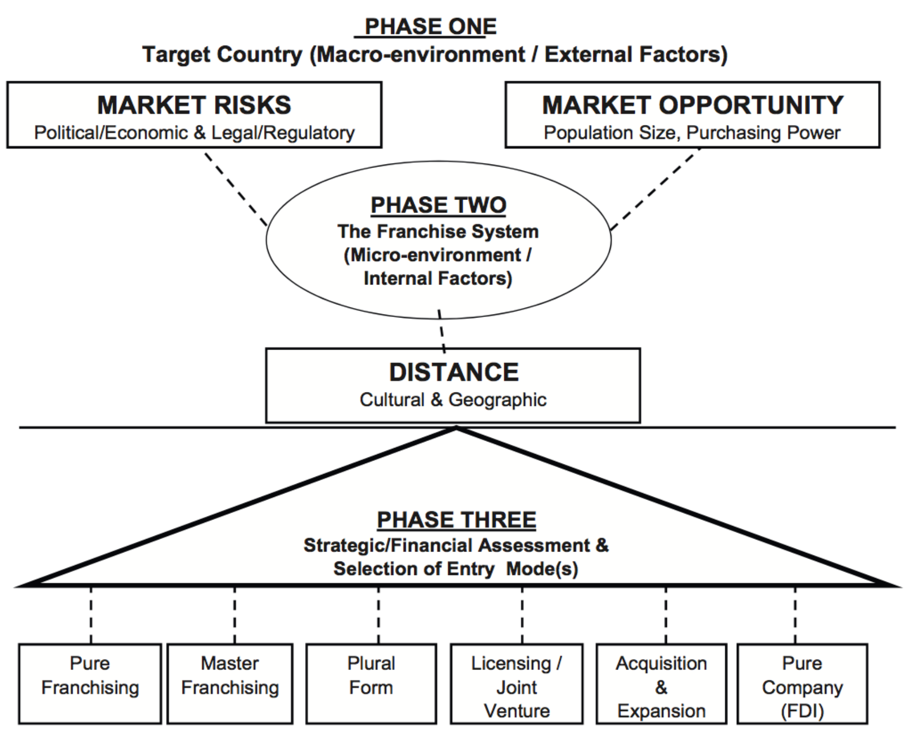


Fig. 7. International Expansion Assessment
Source: Aliouche and Schlentrich (2009)

In Phase 1 firms consider a set of countries to entry based on the market risks as well as market opportunities. There are some risks involved when a firm decides to franchise its service or product. Political and economic risks are about the possible adverse political and economic conditions in the host country, government decisions, restrictive tax laws, currency fluctuations, etc. Regarding legal and regulatory risks they maybe related to the legal contracts as well as intellectual property protection, which are important dimensions to the franchisor since some of the most valuable assets are intangibles. On the other hand, and as already mentioned, cultural and geographical distance are also risks that a firm must take into consideration when choosing the market to enter. Culture influences contract negotiations, workforce management practices and operation practices (Eroglu, 1992; Fladmow-Lindquist, 1996; Alon and McKee, 1999). Market opportunities available can be a strong incentive since large markets have a higher probability of greater returns and are more attractive to franchisors (Rothaermel et al., 2006). While market opportunities are a potential source of value creation and income, market risks are potential sources of loss. In phase 1 a ranking is built based on the profiles of the considered countries.

In the following phase, countries that were a priority in Phase 1 are analyzed and ranked again according to the potential to generate the most profits and shareholder value to the firm. Potential revenues are estimated according to country, industry and firm factors. In the last phase, in order to understand what are the optimal modes of entry for the firm, strategic and financial assessments are made. There are different entry modes available such as franchising, licensing, management contracts, etc. Thus, where and how to enter is influenced by different factors from macro to micro characteristics.

On the other hand, Doherty (2009) defines two different types of approaches: the opportunistic when the franchisee approaches the franchisor or strategic when the franchisor actively looks for a partner (Fig. 8).

If the firm adopts the strategic approach to market selection, it starts with market screening where the most important key demographic issues such as population and social structure, and the economic ones like real GDP growth, unemployment inflation and currency fluctuations are identified. When the firm decides which markets have potential for entry, the market attractiveness factors – retail environment, estimation of potential sales, price positioning of merchandise, competition duties and trade relationships – affect the firm's decision of what markets to enter. Before starting to select potential partners, it is important to determine the criteria selection that can include financial stability, business know-how, knowledge of the local market, and shared understanding of brand and strategic direction.

When the franchise partner initiates the process he feels motivated by the franchisor's retail brand, and the franchisor, among other reasons, by the financial capability of the approaching firm as well as terms and conditions and business plan. The franchisee starts by identifying the market to enter – which may be the franchisee's home country - and thus drives partner selection that is followed by the market selection.

Regardless of the path, at the end of this process the franchisor chooses the partner to work with and also the market to enter. In the opportunistic approach, first of all firms decide the partner to work with and in the strategic approach firms decide the market to enter.

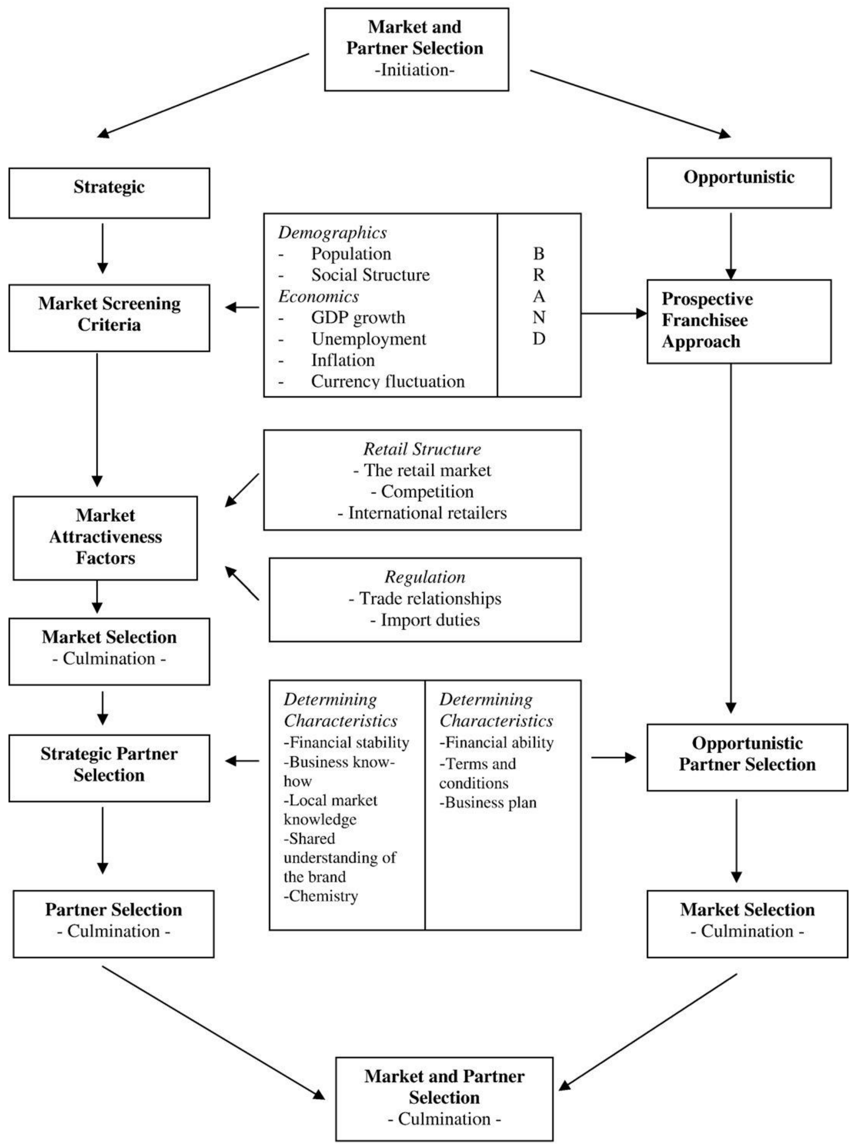


Fig. 8. Market And Partner Selection: A Conceptual Framework
SOURCE: Doherty (2009)

3. IMPULSE BUYING

"Almost all unplanned buying is a result of touching, hearing, smelling or tasting something on the premises of the store (Underhill, 1999, p. 158)."

According to Rook (1987), impulsive buying is not a slow experience but a fast one. It's spontaneous and tends to disrupt the consumer's regular routine. The consumer when buying impulsively may feel like he is doing something "bad" instead of "good". Individuals who are more independent will involve in greater impulse-buying behavior than those who are more dependent of something or someone (Kacen and Lee, 2002).

Ramanathan and Menon (2002) state that a point-of purchase sign that encourages touch motivates consumers to touch and consequently to engage in an impulse behavior. Thus, consumers may buy the product, which was unplanned before touching the product. But not all unplanned purchases are impulsively decided because consumers can remember that they need to buy something when seeing it (Stern, 1962). On the other hand, concrete aspects of the store environment such as music, lighting or signage may affect consumers' decision (Underhill, 1999).

TEACHING NOTE

1. CASE SUMMARY

Max Théret and André Essel opened the first FNAC store in 1957, in an apartment in Paris, and the main products sold were cameras, radios, audio systems and small appliances. At that time it was a store for club members, and only in 1966 the store open to the general public. Throughout the years, many different departments were created in order to match the consumers' interests. In 1975, a new store concept was created: FNAC Service. From the beginning, the two friends showed a huge interest in photography and cinema and this store was just about that. Even though these stores sold the top sellers of the other departments their main focus was on photographic services. In 1979, the first new FNAC store, like those widely known by 2013, opened in Forum des Halles. FNAC's internationalization process begun in 1993 in Madrid, and 4 years later 2 stores were opened in Portugal. By 2013, FNAC had 18 stores opened in Portugal and one to be opened in the beginning of December.

The summer of 2011 marks the beginning of a new era to FNAC. A new business plan called – FNAC 2015 – was launched. This plan main goal was to adapt the company to the new challenges of the market and to the new expectations of the clients. FNAC 2015 plan was about improving customer experience, developing complementarity between the physical stores and the online store and also to increase the density of the store network. Thus, FNAC 2015 includes four policies: new product categories, multichannel strategy, new store formats and franchising model.

Since the beginning, FNAC's offering has been enlarged to many categories of products. In the history of the company, music, videogames, movies and books categories have been some of the most important for FNAC's revenues. In the last years, due to the economics crisis and the dematerialization of the traditional markets, the sales of these categories have been dropping year by year. Nowadays, it's easier to get free music, movies and videogames, due to the growth of the online market (iTunes, Spotify, Steam, etc) or by illegally downloading through websites specially created for that matter. Even tough the book market is also falling, it's the most resistant market because it's not so easy to copy and also because the e-books market is still in its initial phase. The launch of new product categories was part of FNAC 2015 in order to increase the in-store offer but also to counter the fall of the editorial products market. The two new product categories launched were: "Home and Design" and "Kids Spaces". By doing this, FNAC increases its offering in small appliances and also for kids, who until then weren't a focus of FNAC.

Another new bet of FNAC was on the multichannel strategy. The clients are now able to buy online and pick the product in a store of their choice. By being able to do so, the probability of buying something else while in the store increases. On the other hand, by also promoting online shopping (through different discount campaigns and exclusive products), FNAC can be aware of the regions where their clients are from and thus understand the potential of given areas of the country.

Although the expansion of FNAC in Portugal wasn't as expected due to the crisis, the most important places in the big cities and its suburbs were covered. Since the idea of FNAC 2015 was also to expand the business and increase the store network, two new store formats were created. This was in order to diversify FNAC presence in the main cities where the traditional concept was already present and also to open stores in smaller cities where there was no potential for a store as big as the traditional ones. The new store formats were: the Travel Format, taking advantage of the growth of the travel retail market and to serve the client on its last-minute need; and the Proximity Format that can be located inside a shopping center or in the middle of a street. The offering of this particular store format can be adapted to a specific target consumer of the area. These two formats are stores much smaller than the ones the FNAC clients got used to.

Finally, beginning to franchise its business was also part of FNAC 2015 strategy. Besides creating new store formats, FNAC was also betting in franchising in order to expand the business and to reach new territories in a faster way with less financial commitment. On the other hand, some countries that may have potential for a FNAC store may be quite different from the ones where FNAC had its business already established. The adaptation to a new culture and the time spent to understand the local market could be very costly comparing to risks associated with franchising.

By the end of 2013, FNAC Portugal was about to open the first Proximity Store in the country. It was also studying where to open new stores and finding franchising partners.

2. LEARNING OBJECTIVES

After analyzing this case study about FNAC, the student should be able to:

- Understand the problems FNAC faced
- List the different new policies took by FNAC
- Criticize the solutions found
- Demonstrate knowledge of the two main theoretical topics: multichannel strategy and franchising systems
- Apply several frameworks learned during management classes to the situation exposed
- Provide several recommendations for FNAC's management

3. ASSIGNMENT QUESTIONS

1. What are the resources and capabilities of FNAC? What's the reason why they are so important to the company?

2. What were the main problems of FNAC? How do you evaluate FNAC's new strategy?

3. What would your recommendations be to FNAC's management?

4. CLASS PLAN

1. What are the resources and capabilities of FNAC? What's the reason why they are so important to the company?

    i. Tangible resources, intangible resources and organizational capabilities
    ii. SWOT Analysis
    iii. Porter Five Forces

2. What were the main problems of FNAC? How do you evaluate FNAC's new strategy?

    i. The problems
    ii. Market Options Matrix
    iii. The expansion Method Matrix (Franchise)
    iv. Framework by Aliouche and Schlentrich (Franchise)
    v. Impulse buying (in travel stores)
    vi. Multichannel

3. What would your recommendations be to FNAC's management?

5. ANALYSIS

1. What are the resources and capabilities of FNAC? What's the reason why they are so important to the company?

Tangible Resources, Intangible Resources, Organizational Capabilities

The resources and capabilities of a company can be divided into three different groups: tangible resources, intangible resources and organizational capabilities.

As what concerns tangible resources, I can immediately refer the stores, well equipped and designed in order to be friendly and welcoming. Besides that, what's in FNAC's stores is also a strong tangible resource for the company. The quality of the products sold in-store and in the virtual store is a great resource to generate value added as well. Besides the quality of the products, the variety and great mix of the products present in store also contribute to a larger offering and thus a higher probability of serving the needs of the consumers.

Regarding the intangible resources the most important one may be the strong brand that has been built throughout the years. A brand of reference and trust for the consumers also built due to the qualified personnel that is part of the team of each store. On the other hand, it's also important to point out the value of the members and fans of FNAC, which are very important to the brand since some may act like ambassadors of the brand spreading good experiences they had and encouraging others to buy as well.

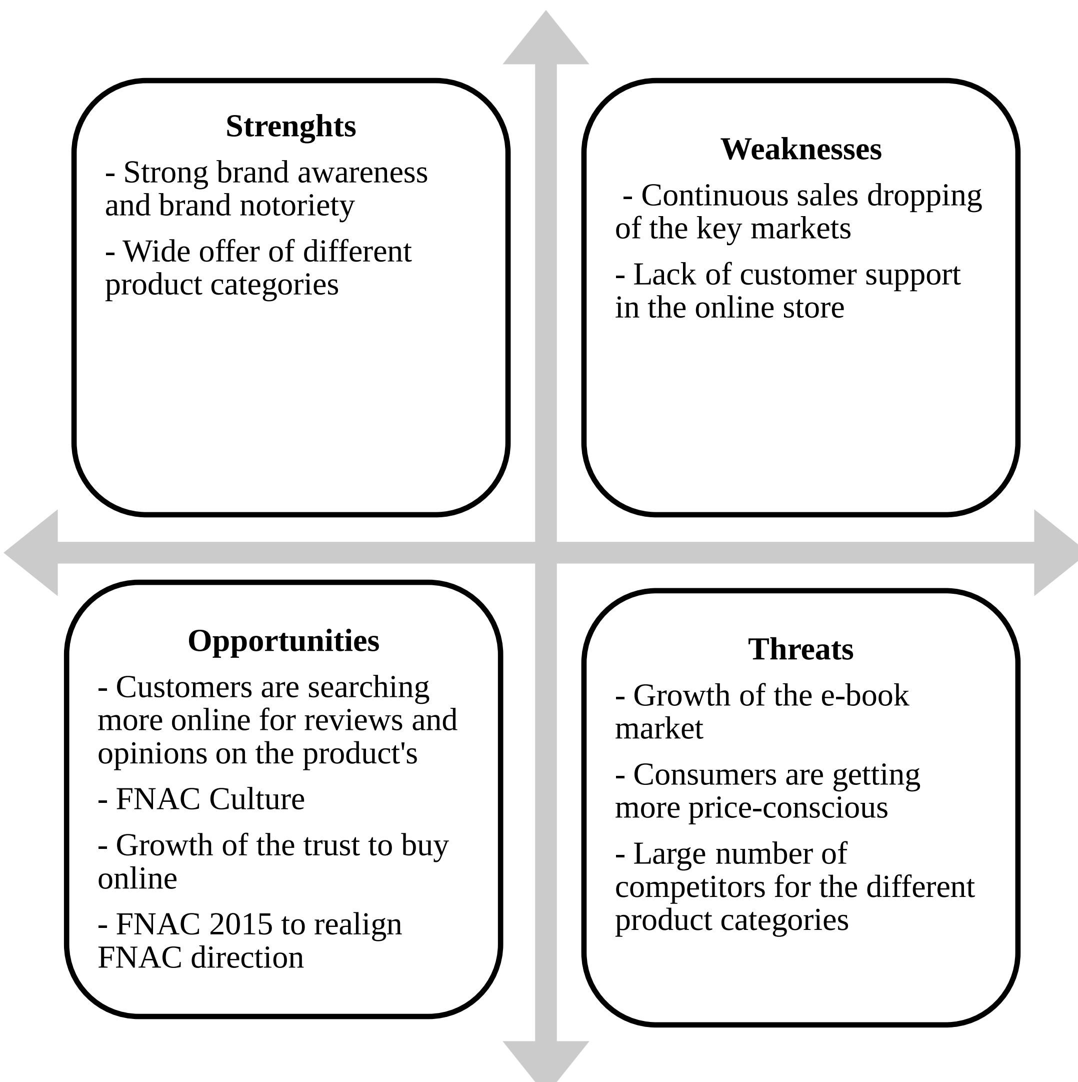
Finally, about the organizational capabilities at FNAC, I can highlight the management organisation and leadership that has lead the company through different paths according to the market's expectations and changes. In addition, the management training and service in order to keep a high level of customer service is one of the brand's characteristics.

Firms are different from each other because each one of them has different resources – tangible, intangible and organizational capabilities – that are the basis for developing different competences that will become the source of competitive advantages for the firm.

The resources mentioned above deliver true advantages for FNAC over its competitors. The FNAC concept in-store is innovative since it not only puts together editorial products and technological products in one store but also provide a experience to its customers. Besides that, at the same time, FNAC builds stores close enough to the consumers that make them enter the store, even when they don't want to buy anything because they feel good inside. The resources identified previously are sustainable and durable, which is an important fact in order to sustain competitive advantages. In terms of imitability, I believe that the only resources that are easy to imitate are the tangible ones. It's not hard for another company to build a store as friendly and confortable as FNAC is, but that's the image of the firm that competitors won't want to directly copy. So, even if possible to copy those resources they won't be because that won't bring competitive advantages to those that imitate the FNAC's store model.

These resources are very important to companies because they contribute to the generation of value added and deliver competitive advantages. The core competences that arise from these resources not only must create customer value and have an impact on how consumers see the brand but also must differentiate FNAC from its competitors.

SWOT Analysis



Strenghts:

- Strong brand awareness and brand notoriety: everybody where FNAC has its business established knows the brand. FNAC is seen as a trustful brand, with a wide variety of quality products and with an excellent service. Besides that, FNAC is also known for its confortable atmosphere, with areas for clients to sit or have a coffee and where people feel good. Some people enter FNAC stores without wanting to buy anything but the possibility of experimenting the new technological product everyone is talking about, reading some pages of that best-seller that just came out or to attend a cultural event are enough reasons to enter and spend some time inside the store.

- Wide offer of different product categories: FNAC stores have almost everything. The offer of books, movies, and videogames and of other departments covers a large amount of styles and themes, and thus serving a large amount of people. Almost everything that exists, FNAC sells, either in its physical or in its online store.

Weaknesses

- Continuous sales dropping of the key markets: the costs for the producers of music CDs, videogames and movies are higher if commercialized in its physical form comparing to online sales without any physical product. Due to the evolution of the technology world it's expected that the key markets for FNAC won't develop positively, at least the way they are nowadays.

- Lack of customer support in the online store: in the physical store there are acknowledgeable sellers ready to answer every question. But, in the virtual store, consumers can't have a fast answer for their doubts.

Opportunities

- Customers are searching more online for reviews and opinions on the products: nowadays consumers have the possibility to be more informed. Before making a purchase, especially those who are not impulsive or done in a daily basis, consumers try to understand the pros and cons of the product they are buying. Through the Internet, consumers are able to read reviews, opinions and the total list of specifications of the product, in different sites or forums. Grouping reviews form customers, opinions from sellers and full information about the product can be an opportunity for FNAC to increase sales both in the virtual store and in the physical ones.

- FNAC Culture: many FNAC consumers are not just consumers but they are FNAC fans, ambassadors of the brand. They spread how good the service at the store is, how fast it is to get what they need and they also recommend the brand to others. On the other hand, FNAC members have special discounts and offers once in a while. FNAC fans will eventually buy more often from the brand and won't think about other competitors to buy a certain product because FNAC is the one.

- Growth of the trust to buy online: buying online is not something new for the new generation, and therefore the willingness to buy online without touching or taking a look at the product is increasing year after year. There is an opportunity to bet more in the virtual store and by doing so to adapt it to the consumers' new profile. The multichannel strategy is just another way of doing that. Consumers can buy online a product from a physical store of their choice and pick the product within some hours, or buy online from the virtual store and have it received at home or also pick it up in a physical store of their choice.

- FNAC 2015 to realign FNAC direction: the new business plan was designed in order that FNAC operations could adapt to today's market challenges and the new expectations of the consumers. The main goal was to improve customer experience, which have been, through the years, the basis of the company operations.

Threats

- Growth of the e-book market: the growth of the e-book market can be a huge threat for FNAC business, even though some people say they cannot read without a physical book. The sales of the book market have been more resistant comparing to the music, movies and videogames market. A decrease in this market as well, can mean the beginning of a FNAC not so culture oriented as before, but more of a FNAC technology oriented. In technology oriented products category, FNAC will face price competition, essentially against Worten and Media Market, which is always worse than fighting through differentiation of product offering.

- Consumers are getting more price-conscious: due to the economic crisis, a lot of countries where FNAC operates are facing some rough times. Consumers have less money to spend on goods that are not essential and therefore are getting more price-conscious concerning not only those essential products but specially non-essential ones. FNAC is known by having quality products and that comes with the price, which can keep away the consumers.

- Huge number of competitors for the different product categories: through the different product categories FNAC has a lot of competitors and therefore have to be aware of many different strategies in order not to fall behind.

Porter’s Five Forces

In order to be successful, companies can’t look only to their direct competitors but to the other players in the market and also potential ones.

Threat of New Entrants:

In this industry I believe the Threat of New Entrants is low. Regarding the barriers to entry, overall they are high. The economies of scale on the supply side are high, especially in transport costs, which will lead to a large-scale investment from the new entrant or to accept a cost disadvantage. In terms of capital requirements those are very high due to the costs of a warehouse, stores and human capital trained in order to provide a good service to the new customers, besides that, new entrants would need a lot of advertisement to get known. Even though, capital requirements shouldn’t deter entry, new entrants have to think if the industry returns are attractive and if they are going to keep that way. If we consider the customer switching costs these exist and may be low or high depending on the consumer. If the consumer is a FNAC member and uses the benefits inherent to that loyalty program then the switching costs are high. The other retailer the consumer is switching to may not have the same benefits for loyal customers as FNAC have. On the other hand if the consumer does not uses the benefits then the switching costs are low. Lastly, regarding the expected retaliation it can be high due to the power of the existent retailers to make strong discounts campaigns. Finally, if I think about the best locations to place stores that have the same purpose as FNAC then they are already taken.

Power of Suppliers:

In this industry I believe the Power of Suppliers is low – by suppliers I mean those who sell the books, videogames, music CDs, technological products, etc., to the retailers. If we would only think about the threat of forward integration we could see this power as high because some editors can become retailers and thus charging higher prices for the already established retailers, but there are other dimensions that need to be taken into consideration. The dependence of the suppliers on the industry for revenues is quite big since retailers represent the largest portion of sales of the editors. On the other hand, there are substitutes for one editor since there are lots of editors that sell books, videogames, music, etc. Plus, the switching costs of changing suppliers don’t exist, since it’s very common retailers buying from different editors. This power is different from supplier to supplier, because if we think about Apple, it’s definitely a brand with much power than others less known or successful.

Power of Buyers:

When thinking about the Power of Buyers I conclude that their power is medium. If we think about the switching costs of changing from one retailer to another they are low or high for the buyers depending if consumers are members or not and if they use the benefits of being a member or not. Plus, this industry's products are not differentiated and thus are standardized which means that a consumer won't get many different products from one retailer to another. On the other hand, the number of buyers is huge and the risk of backward integration is not strong.

The Threat of Substitutes:

Regarding the Threat of Substitutes it is high. We think about the substitutes in this industry, we immediately think about the illegal websites that allow consumers to get some products for free (books, movies, videogames and music) or media content display websites. Thus, the price-performance trade-off between the retailers present in FNAC's industry and the substitutes referred above is very attractive to the consumers. Besides that, they don't incur in any costs of switching from a traditional retailer to an illegal website or media content websites such as Youtube or Spotify.

Rivalry among Existing Competitors:

Finally, the rivalry among existing competitors is high. The number of competitors is not big, but there are big chains present in the same markets where FNAC is. There is only one competitor – El Corte Inglés - able to offer the same products as FNAC. The others focus only in one part of the market that FNAC covers, whether editorial products or technological ones. Besides the big chains there are other small traditional stores that sell the same products FNAC does, but this number is decreasing. The majority of the products sold are not different from one retailer to another, except for special contracts which are not very common, which means consumers don't have switching costs from one retailer to another. Besides these facts, the industry growth is slow and some of the rivals are committed to achieve the leadership of the market through strong marketing campaigns.

The critical points for FNAC are the power of buyers and the rivalry among existing competitors. Regarding the customers, FNAC could expand its services even more in order to make it hard for the customers, as well as members, to leave it and start buying from another retailer. On the other hand, when thinking about the existing competitors, in order to reshape the force in favour of FNAC, it should keep investing in differentiating its offering from the competitors and by doing so be able to distance its business from the rest of the players while serving the same purpose for the actual customers. Finally, in what concerns the substitutes, FNAC should definitely focus on this matter because I believe they are here to stay, illegal downloads will keep happening and other companies will bet in providing online media content

Overall, I don't believe that, at the moment, this industry is attractive due to the factors that FNAC has been struggling with, that are not exclusive to this company. Consumers are demanding more and more from the brands not just because they are more price conscious but also because they now have more places to buy the same product and are also able to be more informed about what they are buying. On the other hand, there are other alternatives to the products sold in this industry, which can be cheaper for the consumer.

2. What were the main problems of FNAC? How do you evaluate FNAC's new strategy?

The first big problem of FNAC was the decline of the key markets: music, videogames, movies and books. Between 2010 and 2012, the sales of music, movies and videogames decreased 37% and the sales of books 16%. This was due to the economic crisis that some of the countries where FNAC operates are facing. Besides the financial reasons and the decrease of the purchasing power of the consumers, dematerialization also plays an important role in these decreases. Consumers can get legally music, videogames, movies and books online paying a smaller price comparing to the product purchased in-store, but on the other hand, consumers can also illegally download without paying a cent. Thus, FNAC added two new product categories – "FNAC Kids" and "Home and Design" - in order to counter the fall of its key markets. "FNAC Kids" areas in its stores and in the website included music, books, games, consoles, movies, etc., especially for kids. The "Home and Design" category included small electrical household products.

Despite struggling with the fall of some key markets, FNAC wanted to keep expanding the business in Portugal. When searching for new places to open new stores, FNAC concluded that in some cities there were no spaces available for a $2000m^2$ store – the traditional format - or there was no potential for such a big store. In Portugal, in 2012, the big cities had already one or more stores with an average size of $2000m^2$, but there were still a lot of cities uncovered. FNAC wanted to open stores in some of those cities but those didn't have the potential for a store as big as the traditional concept. Thus, FNAC created the Proximity Format store, which is characterized by being a small store, selling the same product categories but adapted to the target consumer. FNAC wanted to open stores under this new format in cities that didn't have the potential for a traditional format store and to open more stores in the big cities that already had other FNAC stores, but this time in particular places, with high potential due to their demographic and social characteristics, like Amoreiras, that were not served by a FNAC store yet. On the other hand, taking advantage of the growth of the travel retail market, FNAC launched the Travel Format store, which represents small stores as well that can be located in train stations, metro stations and airports. Another policy followed by FNAC in order to expand the business was to start to franchise, in order to reach other cities and countries. The solution found by FNAC in order to expand the business was to adopt new store formats and a new business format.

Market Options Matrix

		Product	
		Present	**New**
Market	**Present**	Market Penetration	Product Extension
	New	Market Extension	Diversification

As explained before one of FNAC's policies on its renewed business plan was to add new product categories in physical stores as well as in the online one. Even though, FNAC does not produce any products, if we were to place FNAC's new policy in the Market Options Matrix we would place it in the Product Extension quadrant. The market where FNAC sells the new categories is the same as the videogames or any other department, but the new products sold are different from the usual, whereas the "FNAC Kids" category sells the same kind of products as the other departments FNAC already had, these new category is adapted to young child from 0 to 13 years old. Regarding the "Home and Design" category everything is new to FNAC. This is a good strategy because by doing this FNAC can somehow counter the fall of some key markets, which, the way they are sold in-store, are in the maturity stage of their life cycle. While adding new product categories and maintaining the other product categories, FNAC can attract satisfied customers to try these new products due to the positive experience they had with other products.

On the other hand, if we think about the expansion plan of FNAC, through the years they have been expanding their business to new countries with the same product categories as in the home country, thus, we can also place FNAC in the Market Extension quadrant.

The Expansion Method Matrix

		Company	
		Inside	**Outside**
Geographical Location	**Home Country**	Internal Development	Merger Acquisition Joint Venture Alliance Franchise
	International	Exporting Overseas Office Overseas Manufacture Multinational Operation Global Operation	Merger Acquisition Joint Venture Alliance Franchise Turnkey Licensing

Following the previous analysis I can also analyse FNAC strategy through the Expansion Method Matrix. This matrix explores companies' options according to internal and external expansion opportunities as well as geographical spread of the activity.

FNAC's new strategy to franchise its business is inserted in the quadrant of "international geographical location" and "outside of the company". When a firm franchises its service it provides a license to the franchisee to explore its service. This requires an initial payment from the franchisee and royalties in the future.

Even though this is a way of reducing the risk of new strategic options, especially proximity and travel format, it can damage FNAC's image, if the partners are not suitable for the business. The success of this partnership will depend on the franchisee capability of running the business. In order to be a successful strategy, FNAC must ensure that the chosen franchise partners are aware of the market, of the brand's strengths, competitive advantages and also weaknesses in order not to damage other company-owned stores and the main brand as well.

On the other hand, there is also the risk of the franchisee to become a competitor a few years after the partnership ends. FNAC must protect itself through the franchising contract so that won't happen. This can be a threat to FNAC because in such expansion methods as franchising, a lot of internal information is exchanged, especially internal knowledge crucial for the success of the company.

Market and partner selection: a conceptual framework

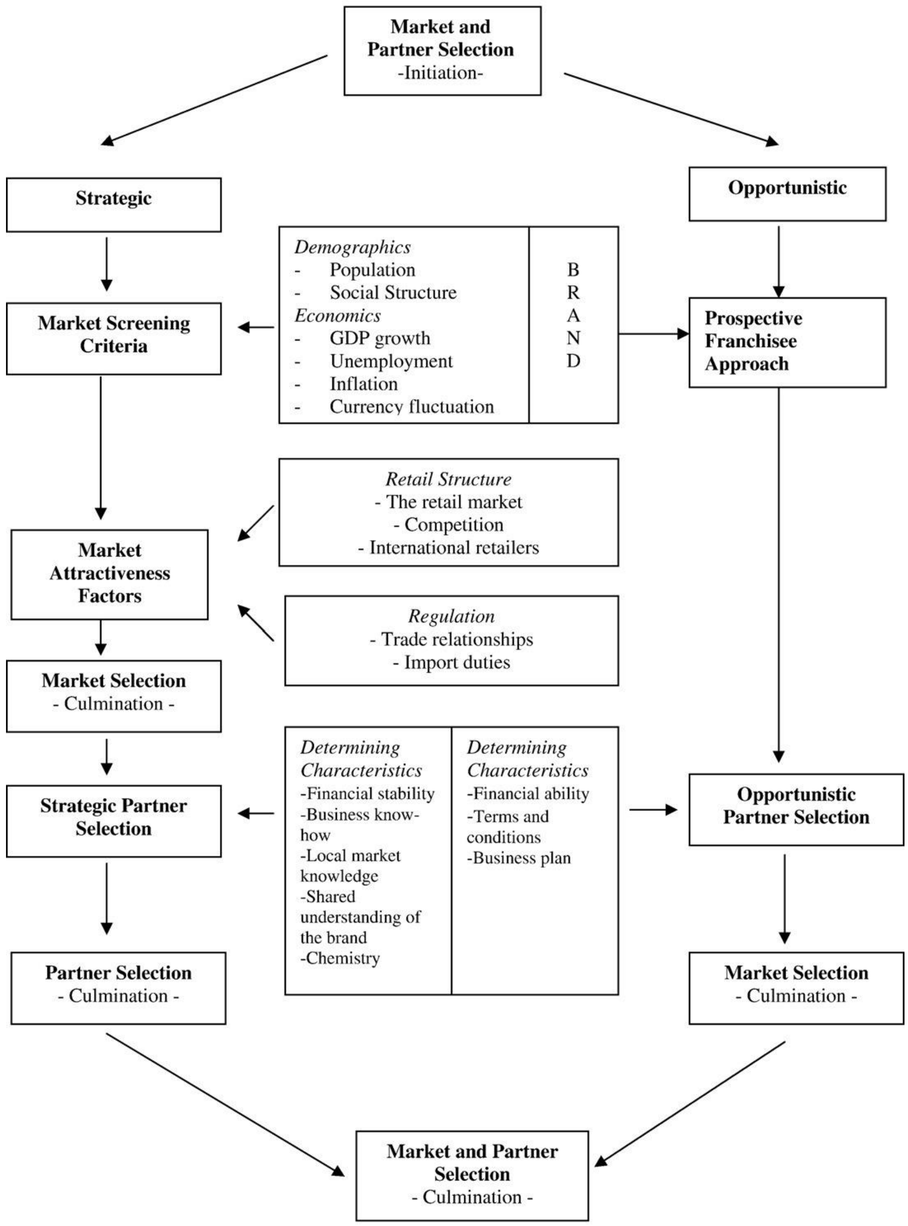
According to Doherty, there are two different approaches that firms can follow: the opportunistic when the franchisee approaches the franchisor or the strategic one where the franchisor actively looks for a partner.

In what concerns FNAC strategy, it is actively looking for a partner. The company started by defining what places and cities had the potential for a FNAC store. This potential was defined according to a study made where population size, average expense per capita on cultural products, earnings per capita and the size of the potential market were analysed. All this characteristics are part of the market screening criteria. The market attractiveness factors are already well known for FNAC since they operate in Portugal for more than 15 years now and the retail structure as well as regulation does not change from city to city.

At the moment, FNAC is looking for partners that are interested in the plan the brand designed. Even though this will be done with the help of a consulting firm, FNAC should take into consideration key characteristics of the possible partners such as the financial stability, the business know-how, local market knowledge and the understanding of the brand.

It is possible that once it’s known that FNAC is going to bet in franchising in Portugal some possible franchisee partners may feel motivated by the value of the brand and approach FNAC in order to understand if a partnership can be done. If the partner has the characteristics FNAC is looking for, the firm can also follow the opportunistic approach. The franchisee can suggest new locations or open a store in a location already studied by FNAC.

Regardless of the path, in the end FNAC always ends up choosing one or more partners to expand its business in Portugal and also the cities where to.



SOURCE: Doherty (2009)

Impulse Buying

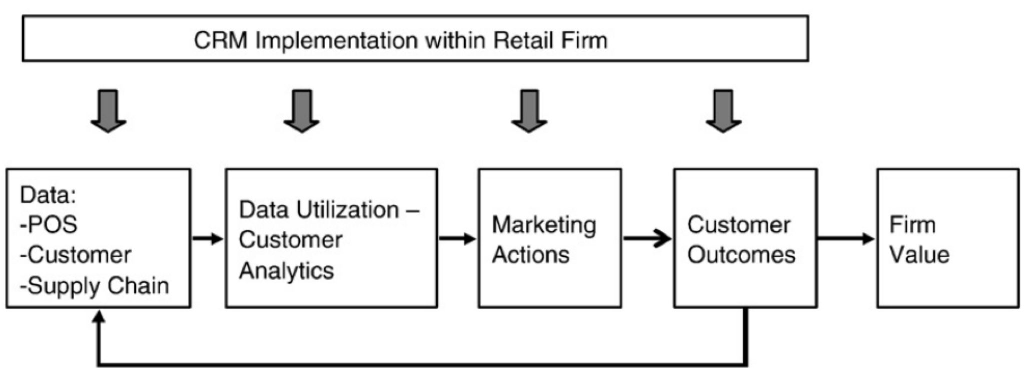
Due to the special places where travel stores will be located I believe FNAC will mostly bet on impulsive buying purchases since the majority of the customers won't plan a purchase in those stores.

Travel stores foster fast experiences and impulsive buying is characterized by being spontaneous, thus, the decisions made by the consumers are fast. The exception goes to those that due to professional reasons will spend quite some time at the train stations or airports where FNAC opens travel stores and thus will be regular customers. Besides that, purchases made in these stores will be quick due to the need to be on time to catch the plane or the train. The customer won't have much time to think about the product and its benefits or the consequences of the purchase. On the other hand, thinking mostly on airports, but also on train stations, consumers may think that in their home country they won't have that product they saw and liked in the travel store and won't give it much of a though because of the connection they had with the product. Besides that, FNAC stores usually encourage touching that can help consumers to involve in an impulse buying. This fact along with the ones mentioned above can increase even more the probability of the consumer to engage in an impulsive buying.

Multichannel

In the past years, the shopping environment has seen a trend regarding the propagation of channels through which consumers can interact with firms. Subsequently, firms have increased their attention towards the customer relationship management activities in order to expand the relationship with the consumers through multiple channels. Internet has helped to foster this new trend and is, nowadays, one of the key channels for most companies.

Verhoef et al. (2010) offer a good model about Customer Relationship Management that Retail firms should follow in order to create value for the firm.



SOURCE: Verhoef et. al (2010)

At first, FNAC should try to understand the consumer and the market, thus, having a better notion of the retail environment. Collecting data is one of the biggest challenges of retailers especially due to the diversity of data sources. If this data collected is used and integrated in the correct way it can build strong long-term competitive advantages.

At first, retailers should collect not only information about the consumer but also what channels he previously used and in what stages of the decision process, the number of prior transactions and type of products bought. On the other hand, retailers should also understand how's the market itself, how the competitors designed their supply chain, how they approach the consumer, what they offer, etc. The second step is to integrate the information collected and draw conclusions in order to make decisions that will improve the company's performance. Afterwards, there is a need to evaluate the marketing action taken and understand the customer outcomes of such actions. In the end, the best outcome is the one that creates value to the firm, by creating value to the customer.

3. What would your recommendations be to FNAC's management?

I would recommend FNAC to fully explore the benefits of multichannel strategy especially in customer acquisition and retention. By providing different means of purchase, customers would get more attached to the brand because it would be present everywhere and able to serve the customer every time he would need.

In what concerns the new store formats, I believe it was quite a good strategy to implement them at this stage. In Portugal, there are still a lot of cities not covered and in the big cities there are a good number of places that could have a successful FNAC store. Regarding the travel format, besides a store in the main airports such as Porto, Funchal and Faro, I don't think there should be more stores in this format. I don't see the potential of a train station of France or Spain in a train station of Portugal, due to the number of people that uses them as well as the demographic and social characteristics of those who use the train. In what concerns the proximity format, I truly believe this is just what FNAC needed. This new format doesn't change FNAC identity and even increases brand awareness and brand loyalty. By having such stores, FNAC can now cover smaller cities or places with potential to have a FNAC store, but not a $2000m^2$ one. There is no doubt that there is still a lot of market to be covered and a lot of potential consumers that are just waiting to have a store closer to its home or city to become a member.

On the other hand, I believe FNAC should start selling music online, tracks and full albums, movies and videogames, with a discount in the members card in order to compete with the players that have already been doing this for some time now.

I think FNAC should keep betting on discounts in its physical and online store in order to fight back the online retailers, like Amazon and eBay, that even though don't sell as much as FNAC.pt in Portugal, are at the moment traffic leaders.

Regarding the new option of expansion through franchising, I would say FNAC should be careful about the intellectual knowledge and intangible assets it passes to its franchise partners because those are the crucial aspects for the success of the company-owned stores. On the other hand, when establishing the agreements with the franchise partners, FNAC should be very cautious about cannibalization. Since the franchising partner will pay a monthly fee and not a percentage of the sales, even though FNAC doesn't want stores under its name to open and fail, it also doesn't want the sales of its own stores to decrease due to the opening of a franchise store nearby. Finally, I believe FNAC should take into consideration that the customer won't be able to distinguish between a company owned-store and a franchised one. Therefore, FNAC should make sure that the franchisees won't damage the brand's image and reputation as well as the FNAC concept. It must guarantee that the service levels are the same and that the stores are organized, clean and looking just as any other company-owned store. Besides that, FNAC should agree with the franchisee to follow the same price strategy, product offering and loyalty program. Thus, I think that it must be kept in mind that in every move made in this new strategy FNAC should take into consideration not only the positive outcome it can bring to the company but also the possible negative outcome for the company-owned stores.

Finally, in my opinion the new product categories are a good strategy of FNAC in order to counter the fall of its key markets. From the beginning FNAC has been a culture and technology oriented company. FNAC Kids category is not different from any other category FNAC has been selling, it's only specifically targeted to the kids. On the other hand, the products in the "Home and Design" category are quite different from the usual products FNAC sells. I think this new category is a risk for FNAC because it may not be well perceived by the consumers. FNAC's target is quite big. It can serve almost everyone, from the teenager that wants a game for its PlayStation to the married couple who want to buy a home cinema system. This new product category will definitely not serve the younger customers that are still at their parents' house but those who already have their independence.

CONCLUSION

Throughout these past months, I got a better notion of how things can change in a small period of time, even to successful companies with an established position in the market. Managers must understand that everything can change and must be ready and available to innovate their business in order to keep up with the changes of the customer and the market.

This Dissertation had the main purpose of studying the new policies FNAC implemented. The market changed and so did the client. FNAC decided to follow two strategic paths (new product categories and multichannel) in order to follow these changes. FNAC also decided to keep expanding the business in Portugal, even though the market seemed that it didn't have space for more FNAC stores (in the traditional concept), through new store formats and a new business model.

Thus, FNAC:

- Created new product categories in order to counter the fall of some key markets;
- Bet on multichannel presence in order to adapt to the new client profile;
- Created new store formats and begun to franchise its business model in order to expand.

If I had more time to work on my Thesis I would have liked to collect additional information from more people working at the company. My perspective was mainly based on the views of the Development of New Formats and Partnership department and it would have been interesting to discuss with others what changed in the operations in order to increase the multichannel bet to better serve the customers.

Those three policies were certainly a powerful effort in terms of reaction to an adverse environment. However, in my Dissertation I also tried to point out the possible negative outcomes of these strategic options, so that FNAC Portugal be prepared for worse case scenarios.

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