

A grounded theoretical analysis of Australian retail franchised co-branding

Owen Wright, Griffith University

Abstract

Retail co-branding is an increasingly popular form of growth in a maturing Australian business format franchising sector. This paper presents a study of franchised retail co-branding arrangements utilising a grounded theoretic approach building on previous case study research. Co-branding, agent theoretic and resource constraint arguments are analysed and found to be inadequate when applied to this phenomenon. The research reveals that the motivations for the development of internal co-brands into existing franchises include alignment of a suitable brand with existing retail formats and risk-averse behaviour. This research shows that co-brands are successfully created internally when franchisors are willing to modify the culture and concept of the original franchise brand in order to achieve further system growth.

Introduction

Retail co-branding within business format franchising has been a relatively recent phenomenon in Australia and given little attention in academic literature. The focus of academic scrutiny has been on *product* specific rather than *retail* or *organisational* co-branding although there has been a recent reflection in the literature on master co-branding with a peripheral organisational focus (Aaker, 2004; Kapferer, 2004). Alternatively, franchising literature focuses on reasons for companies to franchise, but does not adequately explain the occurrence of co-branding within this context. Hence this study investigates the research question: *Why do franchisors create their own co-brands?*

Data were collected from franchise organisations that retail co-brand from an estimated 960 business format franchise systems in Australia (Frazer, Weaven, & Wright, 2006). Examples of retail co-branded franchising include arrangements between fast food operators and fuel retailers (Hungry Jacks and BP), and fast food and other retailing (such as Gloria Jeans and Borders and Subway and 7-Eleven). Franchising represents \$128 billion of the Australian gross domestic product. As most franchises operating in Australia are business format franchised for retailing purposes this plays a significant role in the Australian retail marketplace. The expansion of franchising in Australia is represented by a similar growth in the incidence of co-branded arrangements (Frazer & Weaven, 2004; Frazer, Weaven, & Wright, 2006).

Co-branding

Many types of co-branding have been cited in the literature. For example, a *brand alliance*, *ingredient or component branding* are described as an associations or combinations of two or more individual brands, products and/or other distinctive proprietary assets (Hadjicharalambous, 2006; Rao & Ruekert, 1994; Simonin & Ruth, 1998) with *composite branding* as the practice of utilising two separate brands to introduce a new product (Hillyer & Tikoo, 1995; Park, Jun, & Shocker, 1996). *Retail co-branding* occurs when two or more brands combine to synergise a blended retail offering at a single location with each brand containing significant equity thereby attracting discrete target markets. The traditional assumption has been that the retail brands would be separately owned (Boone, 1997; Dahlstrom & Dato-on, 2004; Young, Hoggatt, & Paswan, 2001) but some franchised retail organisations are now creating their own co-brands as a more efficient strategy (Wright &

Frazer, 2005; Young, Hoggatt, & Paswan, 2001). Research strongly supports the notion that these alliances and co-brand creations can improve the competitive position of both brands when compared with a non-aligned strategy (Aaker, 2004; Boone, 1997; Desai & Keller, 2002; Kapferer, 2004; Keller, 2003; McCarthy & Norris, 1999; Simonin & Ruth, 1998; Washburn, Till, & Priluck, 2000).

Factors likely to be assessed when evaluating other retail brands for establishing co-branded relationships were explored with suggested antecedents as necessity, asymmetry, reciprocity, efficiency, stability, and legitimacy (Dahlstrom & Dato-on, 2004). These assumptions are supported in product specific co-branded arrangements but do not extend to franchise organisations (Wright & Frazer, 2007). Co-brands are now being created internally as part of a retail brand portfolio through strong alignment to the parent brand (Wright & Frazer, 2005; Wright, Frazer, & Merrilees, 2005). An example is the McDonald's Corporations' creation of McCafe. Brand equity was nurtured internally through a co-brand strategy. However, discrete operations of McCafe have now commenced in locations focussed specifically on the McCafe target market. Hence, McDonald's restaurants and McCafe are now part of a brand portfolio controlled by the McDonald's Corporation (Wright, Frazer, & Merrilees, 2007). The McDonald's/McCafe example could be regarded as atypical of co-branding theory brought about by the need for McDonald's Corporation to create a new brand that best suited its needs in creating synergies across the brands for growth opportunities; large investments in systems and cultural re-alignment in order to attract separate market segments (Wright, Frazer, & Merrilees, 2007). This rejects current normative thinking in co-branding which states that brands with significant brand equity are more likely to be selected (Wright, Frazer, & Merrilees, 2007). Why is this so?

Franchising

Studies in franchising have focussed on the motivations for companies to franchise and explained the relationship between franchisor and franchisee either by resource constraints theory or incentives (Alchian & Demsetz, 1972; Hunt, 1977; Oxenfeldt & Thompson, 1969; Rubin, 1978). Subsequent pluralist expositions of mixed franchised and company owned operations debated ownership redirection (Brickley & Dark, 1987; Caves & Murphy, 1976; Jensen & Meckling, 1976; Oxenfeldt & Kelly, 1969). Agent theoretic debates also occurred over new directions for franchise relationships such as multiple unit franchising (Kaufmann & Dant, 1996). In the light of new strategies in franchising, such as co-branding, that present a radically new form of franchise arrangement, exploration of the motivations of this activity would seem prudent. The question is posed as to why this form of franchising has appeared in the Australian retail sector? A discussion of the choice of research design adopted in this research is now discussed.

Methodology

In this study, data were collected from franchises representing the following brand combinations, McDonald's/McCafe; McDonald's/BP; BP/Wild Bean; Retail Food Group (RFG) (bb's cafe, Donut King, Michelle's Patisserie, Brumby's Bakery). Senior company executives who were instrumental in creating co-branding strategies for the organisation were interviewed and company documents reviewed. This formed a representative view of the phenomenon from each franchise system (Eisenhardt, 1989b; Goulding, 2002).

A grounded theoretical technique was utilised to collect and analyse appropriate data (Goulding, 2005; Locke, 2001; Parry, 2004; Sekaran, 2000). Grounded theory is described as

an inductive, theory discovery methodology that allows the researcher to develop a theoretical account of the general features of a topic while simultaneously grounding the account in empirical observations or data (Glaser & Strauss, 1967). The generally accepted process of grounded theory analysis (Goulding, 2002; Parry, 2004; Strauss & Corbin, 1998) utilised in this research is as follows:

Initial data collection was obtained through semi-structured interviews (notes, recordings, transcripts) and field data (notes) as well as written correspondence, reports and memo's between managers were analysed (Douglas, 2003). *Open coding* involved the analysis of data. Codes formed the basis for aggregation into concepts, or abstract/core categories/variables, through *theoretical sampling*. Labels were given by me to events, activities, functions, relationships, contexts, influences, and outcomes. Initial coding involved close scrutiny of the data. The aim of open coding was to begin the unrestricted labelling of all data and to assign representational and conceptual codes to each and every incident highlighted within the data. As the process moved forward, iterative reflection of that already coded was considered so relevant new data could be collected. Coding continued until no new properties or dimensions of categories were found (Goulding, 2002; Locke, 2001; Strauss & Corbin, 1998). See Table 1 for initial categories. *Shaping constructs or theoretical coding* (or sometimes known as axial coding) analysed the properties of categories and the relationships between them. This was then used to construct sub-core categories (detailed in Table 1), including which categories were causes, consequences, contingencies, co-variances, intervening conditions or contexts, around which other concepts revolved (Goulding, 2002; Parry, 2004). In particular, this interrogation of the data enabled the determination of dependent, independent, intervening and moderating variables (Parry, 1998; Spiggle, 1994). A *strategic organisational process* at the highest level of abstraction was created. This grounded theory analysis ultimately derived a core abstract category (traditionally named a basic social process) that explains why franchisors create and nurture their own co-brands instead of partnering with other organisations (Glaser, 1992; Glaser & Strauss, 1967; Goulding, 2002; Wright & Parry, 2006). This core category is a single expression of the organisational process occurring over time.

Methodological soundness was achieved through standard measures to ensure construct validity and reliability (Carson, Gilmore, Perry, & Gronhaug, 2001; Goulding, 2002; Yin, 2003). *Construct validity* was addressed by: (a) the use of multiple sources of evidence (triangulation of data) (i) semi-structured interviews with representative management within each franchise system; (ii) direct observation during the interview process; and (iii) perusal and analysis of company and/or respondent documents relating to each system; (b) establishing a chain of evidence with a database including case notes made from the interviews and observations, other documents that were collected during each case study, interview transcripts and analysis of the evidence. This database was maintained using the QSR NVivo software system which allowed for more sophisticated data manipulation than manual systems and gave extensive capability to code themes which lead to more refined saturation of categories; and (c) having the key informants review their interview transcripts (Eisenhardt, 1989b; Neuman, 2006; Yin, 2003). Reliability was achieved through documentation of procedures, appropriate record keeping and making as many steps as transparent as possible (Carson, Gilmore, Perry, & Gronhaug, 2001).

Findings

This section presents the grounded theory. The three sub-core categories of expansion with risk aversion, brand tiering system, and maintenance of asymmetrical relationships are discussed and their relationship as key elements of an internalised co-branding strategy. The composition of the sub-core activities are shown in Table 1.

Table 1 Sub-Core Categories

Sub-Core Category	Categories	Sub-Core Category	Categories	Sub-Core Category	Categories
<i>Expansion with Risk Aversion</i>	Access to current franchisee arrangements Current staffing talent Current supply chain Limiting competition Minimising conflict Capital incentives	<i>Brand Tiering System</i>	Brand equity Brand trial Brand leverage Co-brand design Co-brand evolution Parent brand Reinvigorate brand Location Unsuccessful co-brand	<i>Maintaining Asymmetrical Relationships</i>	Power Relationship conflict Strategic direction Legal considerations Internal governance

(Developed for this research)

Expansion with Risk Aversion - Analysis of the data showed that franchisors were focussed on growth opportunities, wherever they might find them. As the organisations and markets (the franchisor operated in) matured, the foci changed from one of rapid geographic expansion with a simple, but rigidly managed, concept, to a more adaptive and measured approach. Early external co-branded arrangements manifested as a co-operative, but distanced relationship based on the size and brand equity of each company. But when combined with organisational and market maturity the nature and composition of the external co-branded relationships became more difficult to manage and refocussed on internal co-branding options. All interviewees and data sources were rigidly focused on their own organisation's franchise arrangements, staffing and suppliers while building co-branded relationships. From external co-branded relationships through to internal co-branding each organisation's relative position remained completely attached to the original franchise and business arrangements. Each organisation had different perceptions of how these arrangements developed and functioned, often with latent conflict. All organisations focussed on their area of expertise in the co-branded relationship. Weakening or altering this level of expertise was avoided at all times. This sub-core category included the general aspects of franchisor expansion activities in the context of co-branding and highlighted that these activities trend away from the normal behaviour of franchisors. Franchisors developed a risk-averse attitude toward other external brands. Normal franchisor behaviour is described as risk neutral in the franchising literature (Eisenhardt, 1989a).

Brand Tiering System – Organisational behaviour was considered because of the identification and selection process each franchise adopted for its co-branding partners. Analysis highlighted a complex decision making process for internal co-brand development that commence at the embryonic stages to maturity. Early associations with external brands presented multiple opportunities for lateral growth as the franchise system matured but these associations were viewed as a learning curve. Also, because of limited control over the co-brand association each franchise organisation looked internally to develop longer term alternatives. Franchisor's trialled different types of brands, each time finding them unsuitable for partnership. In one case a brand was purchased to include in the brand portfolio. However, the brand was subsequently sold. This kind of organisational decision making has not been addressed effectively in both the branding and franchising literature. Branding literature has tended to focus on simple product co-branding and consumer behaviour and franchising literature has, for example, historically applied agency theory to explain franchising activities such as multiple unit franchising (Wright, Frazer, & Merrilees, 2007).

Maintaining Asymmetrical Relationships – Partnerships with external organisations required significant cooperation between participants. As a result, the design and evolution of the co-brand structure was extensively planned and implemented. Alternatively, internal co-branding within each franchise system required extensive cooperation from franchisees in order for them to adopt the co-brand. Franchisees at this time exerted significant power toward the franchisor. This was manifested through financial and system concessions allowing franchisees to “do deals” that would not be a normal part of system activity. Co-brand concepts were also modified in order to be more attractive to franchisees. Hence, co-branded arrangements required franchisors to move away from the asymmetrical relationships that formed the basis of their behaviour in each system to a more conciliatory approach, similar to the initial stages of franchising. Certainly successful franchise systems move to a more partnership based franchise relationship as they mature. But franchisors focus on power and control in the system to maintain an asymmetrical relationship (Hopkinson & Hogarth-Scott, 1999).

Conclusion and Significance

When the three sub-categories are viewed simultaneously it is clear that franchisors act to maintain power and control over their systems. Further, they will revert to a complicated and costly process of internal co-branding to maintain control and avoid any changes to the original concept. This could be termed *internalised asymmetric co-branding*. This behaviour is not adequately explained by co-branding literature which clearly states that co-brand partners are selected because of brand equity each brand brings to the relationship (Wright & Frazer, 2007; Wright, Frazer, & Merrilees, 2007). Further, in order for franchisors to create an internal co-brand they behave in a similar manner to early stage franchise systems. Franchisors look to convince franchisees that the co-brand is worth adopting and thus modify the concept and costs. Throughout the process franchisors adopt risk-averse behaviour to minimise conflict. Once the external and internal co-brands are established, asymmetrical behaviour recommences. This manifests itself in the form of standard monitoring operations and franchise sales. Standard monitoring operations include the re-establishment of staff training, supply chains and communications. Franchise sales and management includes the incorporation of the co-brand into relevant literature for prospective franchisees.

Finally, this research is significant because it seeks to explain the development of internal co-brands in mature franchise systems. This has not been previously explored in the relevant

literature. Secondly, smaller franchise systems can seek to replicate this behaviour at a far earlier stage of development.

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