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The case study of Inter Cars Ltd.“

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Wien, im Juni 2014 Eva Melicherčíková

Für meine Eltern
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List of Abbreviations

Central and Eastern European Countries (CEECs)

European Franchise Federation (EFF)

The European Union (The EU)

The United States (The U.S.)

International Franchise Association (IFA)

US Commercial Service report (US CS report)

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1 Introduction

The aim of the master thesis on the theme *Market entry through franchising: The case study of Inter Cars Ltd.*, based on the literature review of current international franchising research literature and the market entry analysis of the case, is to examine the motivation of a firm to internationalize its activities through the franchising or the mix of franchised and company owned units. Moreover, the stress is on the concept of franchising in the relevant market entry theories that were identified. The aim is to answer the main question, thus, how to succeed in the market entry to a new market, with the theoretical and empirical knowledge and with respect to the specificity of our case study.

More precisely, the theoretical concepts based on the literature review will be applied on the process of internationalization through franchising of Inter Cars Group. Inter Cars' fail of otherwise successful market entries in Europe will be analyzed and discussed in order to propose a new market entry strategy. Regarding the unsuccessful market entry of Inter Cars in the Austrian market, in the context of franchising, the author was asked to propose a new market entry strategy for the company, based on the analysis of available theoretical concepts and the unsuccessful attempt to enter the Austrian market in 2009.

The master thesis will be organized as follows. Firstly, in the introduction a brief overview of the aims of the master thesis are discussed. Section 2 provides the general characteristic of franchising and the current stage internationally, in Austria and in the automotive industry. Moreover, the internationalization path, which a company can follow, is described. In the section 3, the methodology applied in the master thesis is explained. The section 4. brings the understanding of the case study of Inter Cars and the importance of the company in the B2B spare parts industry as well as the fail of the market entry in Austria. Section 5 will introduce the findings of the master thesis, the eclectic model based on the analyzed market entry theories concerning franchising will be proposed. Moreover, the new market entry strategy is introduced and the cultural, economic and the competitive analysis for Inter Cars is clarified. Finally, the section 6 serves to stress the discussion about the findings and the limitation of the study.

2 Literature review

2.1 General characteristic of franchising

"Being in business for yourself but not by yourself".
European Franchise Federation

The brief explanation of the term *franchising* and its historical development will be introduced. Although numerous explanations could be found, the aim is to bring the more actual definitions, following the widest concept to the strict legal definition with the stress on the needs of the case study.

Historically, in the context of granting a right to do a merchant by a king or other higher authority; franchising could be dated back to the 14th and 15th century, gradually developing with the expansion of trades and markets. However, franchising as the business system of products and/or services distribution through replicated business networks based on the licensing of property rights, brand and business concept, can be set in the early 20th century. (European Franchise Federation (EFF, 2013)

According to International Franchise Association (IFA, 2013) franchising adjustment represents the agreement or license between two legally independent subjects. This right allows a franchisee or the group of people as franchisees to merchandise products or services, using the brand name or trademark of another business. Namely, the trademark of the second subject in the franchising relationship is the core of a franchisor´s know-how. Moreover, franchisees accomplish the right to market product or service, using operating methods of a franchisor, obtains obligation to pay a franchisor fees for these rights and receive residual claims. On the other hand, a franchisor has the obligation to provide rights and support to franchisees as agreed.

As Bradach (1997) stated, franchising is an integral part of shifted trends in the economy in the beginning of the 21th century. From industry to industry, the local units of a chain replace the so called *mom-and-pop proprietors* that used to be on every corner. Nowadays, chains are a dominant form of organization with significantly growing tendency.

Because of the growing trend of networks system in the economy, there are many initiatives to establish some guidelines for the franchising. Some of them are used in this thesis to demonstrate the current state of franchising. According to European Code of Ethics for Franchising (2008) "[F]ranchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept. "

In the European Union, the EU Anti-Trust Law regulates franchising as „...vertical agreements for the purchase or sale of goods or services where these agreements are concluded between non-competing undertakings, between certain competitors or by certain associations of retailers of goods; it also includes vertical agreements containing ancillary provisions on the assignment or use of intellectual property rights; for the purposes of this Regulation, the term "vertical agreements" includes the corresponding concerted practices." (Commission Regulation, 1999) Except of the EU regulations, national law and practices have to be taken into consideration by the market entry through franchising system as well.

Franchising faces its strengths and weaknesses as well. Firstly, according to Bradach (1998) there is a strong contradiction and plurality of targets that have to be considered by expanding through franchising. There is a need for *uniformity, strengthening of a trademark and quality* on the one hand. On the other hand, the requirement to confront local needs of a host country is present, thus, the need to strengthen *the local responsiveness*. Secondly, Michael (2000) argued that operating in franchising increases a *free-riding*. Moreover, quality is a condition difficult to incorporate into the contract, this seems to decline in decentralized service chains over time and have to be taken over control.

To sum up, the franchising enables a franchisor to get an access to a local market know how and to spread an investment risk involved in a new market entry. A franchisor owns trademark that can be used by a franchisee after a contract accomplishment. A brand name of a franchisor includes a word, name, symbol, device, or any combination of these, used, or intended to be used in the commerce to identify and distinguish the goods of a manufacturer or seller from goods manufactured or sold by the others. Moreover, a franchisor can provide support to a franchisee, in the form of advertising, marketing, training or sometimes financing as well. The form of support differs considerably over the individual franchisors and/or branches. For the liability to use a franchisor trademark and support, a franchisor receives payment from a franchisee in the form of fees or royalties. On the other hand, a franchisee gets an access to a franchisor‘s trademark, including brand name, symbols or a system-specific know how. A franchisee expands the business with a franchisor support and pays fees for that. The cooperation of these two entrepreneurs is based on the specificity of intangible assets and an incentive system of initial fees and royalties. (IFA, 2013)

2.1.1 The current state of franchising internationally

The growing interest in franchising on the theoretical and empirical level will be briefly explained. The increasing importance of franchising in the business will be described by the growth of franchising sector compare to the other branches of the US economy, as being the economy in which franchising has arisen. From 2001 to 2005 the franchising business growth was 41% compared to other businesses growing only 26% over the period. After the year 2005 the slow stagnation of growth took the place. This trend could be explained mostly by the world economic crisis and subsequential recession. (IFA report, 2012) It can be concluded that before the crisis, franchising was growing much more rapidly than other sectors, moreover, after the downturn, the slowdown was not so strong compared to other branches.

The term of internationalization explains the attitude of a firm towards foreign activities or actual activities abroad of a given company. (Johanson and Wiedersheim-Paul, 1975) Internationalization through franchising is becoming more and more popular in the 21th Century. According to International Franchise Association (IFA) report, franchise businesses growth will be at a slightly slower pace in 2013 than in 2012, however, the industry continues to overtake growth in other sectors of the US economy. Taking in the account the interdependence of the economy, the growth of the franchising has faced similar tendency as in 2012. Haller (2013) examines that “[T]he number of franchise establishments in the US will increase by 1.4 percent in 2013, just short of the 1.5 percent growth in 2012, from 746,828 to 757,055 (an increase of 10,227).” The job creation in franchising will slightly decrease from 2.1 percent in 2012 to expect 2.0 percent in 2013, from 8.1 million to 8.262 million jobs created. “The output of franchise establishments in nominal dollars in 2013 will increase by 4.3 percent (following a 4.9 percent increase in 2012) from $769 billion to $802 billion (an increase of $33 billion). The gross domestic product or GDP of the franchise sector is projected to increase 4.1 percent in 2013 (following a 4.6 percent increase in 2012) from $454 billion to $472 billion (an increase of $18 billion). This is approximately 3.4 percent of U.S. GDP in nominal dollars.” (Haller, 2013)

Despite of the general economic recession, it can be concluded that franchising plays a significant role in the US economy and can be described as one of the engines for the growth of the US economy. In consequence of the globalized world economy, the following trend of strengthening the position of franchising can be expected in other economies as well. Thus, the relevance of franchising on the theoretical as well as empirical level could be legitimized.

2.1.2 The current state of franchising in Austria

In this chapter a growing trend of franchising in Austria will be described. The understanding of the current state of franchising in Austria enables us to analyze our case study and bring more complex results, why the market entry through franchising did not bring an expected success for the examined company. Starting with literature review, the current state of franchising in Austria is analyzed by Windsperger (2004), Huber (2010), Glatz and Chan (1999) and more.

Glatz et al. (1999) stresses that the growing trend of franchising in Austria is composed of the mix of the development in home-grown systems with the Austrian origin, and the influx of foreign franchise systems in a home county. The application of franchising increased speedily in the period of 1992 and 1995. The reasons for the success of the Austrian franchising system can be explained by economic and political factors from franchisor and franchisee perspective. The number of Austrian origin franchising systems increased, and they expanded rapidly by the market entries in the new markets of the Eastern Europe. Secondly, the membership in the European Union and no border limits within Europe made Austria an attractive country for foreign franchised entries. Close cooperation with Germany could be mentioned, facing any language or cultural barriers.

Besides of other factors mentioned, the success of franchising has been based on a strong public interest and a support from the Federal Chamber of Commerce, banking institutions and private consultants. As Glatz et al. (1999) stated, the very first official Austrian franchise conference take a place in November 1995 in Vienna.

Huber (2010) turns the attention to extraordinary expansion in the terms of internationalization in Austrian economy in the last decade, which part of it is the exhibition of franchising as well. Significant implication of internationalization was the opening of Central and Eastern European Countries (CEECs). It can be stressed that opening of boarders and the unit market within European Union was one of the driving forces for Austrian foreign direct investment abroad, examining 30% invested in the CEECs in 1998. Furthermore, opening of the under-saturated CEECs´ markets also influenced and developed other forms of cross-border cooperation of businesses such as franchising, subcontracting or other forms of relationships not well documented by official data, however being important for the economy of this region. (Huber, 2010)

From another point of view, the current situation of Austrian franchising, described by US Commercial Service Report (2012) stresses that franchising as a business model does not play such a significant role in the Austrian economy compared with the country of its origin, the United States. However, franchising takes approximately 5 % of retail sales of the whole Austrian economy. Strong position has franchisee businesses of local origin that counts for half of them. Furthermore, a strong position possess the franchisors from Germany, with around 25 % of franchised business units, followed by the United States, with about 10 % of all franchises operating in Austria, counted on the number of franchised units. Moreover, German franchisors, as given by the psychical distance, including cultural and physical proximity of the countries, either set up a headquarters in Austria or franchise directly over the borders. On the other hand, the majority of American franchisers are prepared to establish franchise units in Austria directly. Master franchising is the mostly preferred mode by the U.S. franchisors. (US CS report, 2012)

2.1.3 Franchising in Austrian automotive and spare parts industry

The case study of Inter Cars concentrates on the specific sector of the automotive industry and spare parts distribution. For better comprehension of trends and specificities of the automotive industry this chapter will be dedicated to the brief overview of automotive and spare parts franchising specificities.

Automotive franchises, except of fast-foods or clothing sector, are a part of very quickly growing £22 billion industry that can be distinct with relatively stable growth and no indication of downturn. (Franchise Direct, 2013) Generally speaking, automotive franchises cope with minimal overheads as a result of the mobile nature, with any commercial leasing incorporated. With the stable growth of the number of car users, this industry is considerate to have a stable growth. From another point of view, the experience from the economic crisis in 2008 and following recession, the automotive industry seems to be more vulnerable than it is proclaimed as the purchase of a new car is the first thing that could be postponed during a downturn. However, for the automotive spare parts and repair tools sellers, this means, that people would rather repair a car than purchase a new one, so that automotive repair tools sale will face the growth in the recession as well. This could be confirmed by the decrease of new vehicles sales by -8,2% in 2012 compared to 2011, however 12, 1 million of new vehicles were purchased with the major markets of Germany, France, the UK and Italy. Customers tend to change a vehicle every 8, 2 years in average, depending on the economic development of the country, e.g. in Poland the average age increases to 11 years of vehicle change, however, in more developed countries decrease the average using age of cars. (JATO Dynamics, in: Inter Cars Annual Report, 2012)

In case of our case study of Inter Cars, the automotive repair tools franchisor, the interdependence of the automotive sector and repair tools sector could indicate similar features. However, as the automotive industry needs tools to operate the business, automotive tools sales franchises will be always needed. Moreover, during the time of economic uncertainty, motorists may choose to postpone the purchase of a new car and prefer repairing. Considering this tendency, automotive repair tools franchises would be especially valuable to clients who may need more repairs or new tools purchase, thus, the market entry in this field should be valuable in the time of recession as well, however the slowdown could be expected. (Franchise Direct, 2013)

As proclaimed by Inter Cars´ annual report (2012) the spare parts distribution market recognized significant growth potential. Some market drivers could be identified:

- the growing number of registered cars and growing intensity of vehicle usage
- an increase in the average age of registered vehicles and the average mileage
- the liberalization of regulations about independent spare parts distributors access to licensed garages
- elimination of market barriers to the import of second-hand vehicles
- increasing complexity of repairs due to the advanced technologies in the manufacturing of vehicles
- the strong development of sales networks,
- the extension of the range of products, development of sales support programs
- the development of proprietary product lines and improvement of computer systems (Annual Report Inter Cars, 2012)

2.2 Franchising and theoretical approaches

The rapidly growing trend of franchising as an expanding strategy initiated in the last few decades an extensive research on this theme. According to Windsperger (2004) the current stage in franchising research could be explained by well-developed theoretical approaches, namely transaction costs theory (Williamson, 1985), agency theory (Brickley and Dark 1987), signaling theory (Gallini and Lutz, 1992), search cost theory (Minkler, 1992), eclectic paradigm (Dunning, 1988), screening theory (Dnes, 1992) and property rights-theory. (Furubotn, 1972)

To focus on our study, some of the theoretical approaches will be chosen to explain the links of the case study of Inter Cars and the development of an eclectic model that aims to explain the market entry aspects through franchising. The eclectic model would be composed from the most appropriate elements to explain the success and fail of the market entry on the Austrian market of spare parts and repair tools. The aim of this chapter is the literature review of the current stage of theoretical approaches and following application on our specific case study focusing on the research question of market entries of Inter Cars.

First of all, the general factors influencing the market entry will be examined. According to Koch (2011) there are some internal and external factors that influence the market entry and the market entry mode selection.

Table 1: The market entry mode selection factors

Internal	External factors
The previous experience of using a specific market entry mode	Characteristics of the country business environment, cultural, political and economical
Sufficiency and reliability of information inputs	Market growth rate
Management risk attitude	Image support requirement
Market share target, profit target	Global management efficiency requirements
Company size and resources	Market barriers
Competences, capabilities and skill available in a company	Popularity of a company in the overseas market

Source: own-made

2.2.1 The transaction costs theory in franchising

The transaction cost theory is primary based on the classical journal article of Coase (1937) on the nature of a firm. Although being introduced in the year 1937, the theory started to be highly recognized since the mid-1970s in both, research and public sphere. The transaction cost theory was specially extended by the works of Williamson (1971, 1979) and Arrow (1974). (Mahoney, 2005) As Coase (1937) examines the theory of transaction costs, it is the theory of the costs for using the price mechanism. As he supposed the presence of bounded rationality of a contract partner, the transaction costs will then always appear. Additionally, the opportunity costs were taken into account, thus, the costs of incomplete market information appear as well. Moreover, Coase (1937) stated that a company is willing to expand, if the internal costs will be lower than by outsourcing the activity to a external provider, vice versa, the company´s activity will be rather outsourced to a external provider, if it is less costly than providing the activity internally. Following above mentioned reasoning, the transaction cost theory could answer the question of the internationalization decision between franchising and/or company-owned stores. In this chapter, the importance of transactions in the market mechanism and resulting transaction costs will be briefly examined, with the focus on franchising in the Theory of transaction costs.

Transaction cost theory is the attempt to demonstrate why companies exist, why they expand and source out their activities to the external environment. The necessary precondition is the basic idea of every company to minimize both, the internal, the bureaucratic costs of exchanges within the company, and to minimize the external costs, costs of exchanging resources with the external environment. Thus, a decision maker has to consider the transaction costs made internally with the potential externally made company costs. (Businessmate.org, 2014)

The market transactions and the resulting transaction costs seem to appear in all the national or international economies, being a decisive part of every firm. Williamson (1985, 1973, and 1985) extended the Coase´s theory of transaction costs by the examination of transactions in the business characterized by some attributes. "… The principal dimensions for describing transactions are *the asset specificity, uncertainty, and frequency*." According to Williamson (1985), economic transactions are defined by its *frequency* and *investment characteristics* set in the uncertain environment. *The frequency* of the transactions is supposed to be recurrent, characterized by *repeated*, regular actions or it can have an *occasional* character or a *single* action. *The investment characteristics* can be divided into three major categories: *nonspecific* (i.e. purchasing standard equipment), *mixed* (i.e. purchasing customized equipment) or *idiosyncratic* (i.e. purchasing specific equipment). After taking in to consideration these characteristics of transactions, the most efficient way of business model could be examined. (See Figure 1) Moreover, Hendrikse and Windsperger (2011) inferred that transaction costs are the consequence of *bounded rationality* under the conditions of heterogeneous and exploiting unpredictable business, cultural and institutional environment, thus in the environment of uncertainty.

To decrease the transaction costs that appear by the market transactions, the establishment of the enacted agreement between contract partners could be beneficial. "In this situation, the contract design is an adaptation mechanism, incentive and information processing

mechanism that assigns specific rights and control rights, in order to regulate the transactions between the partners." (Hendrikse and Windsperger, 2011)
The importance of an efficient contract design is stressed by Wittman (2008) as well. The way to optimize the allocation of precaution, optimize the allocation of risk and minimize an opportunism of franchise partners is the establishment of efficient contract.

According to the transaction costs theory and the concept of opportunism, before the internal or external investment that differ regarding the transaction costs, the degree of relationship-specific investment and its frequency of exchange should be taken into consideration. (Williamson, 1986)

Maher (1997) empirically supports the Williamson´s concept of opportunism, confirming that transaction costs economics is crucial to understanding of the organization of economic activities and the establishment of contract forms. By analyzing the case studies from different industries, when investment was non-specific, the transaction was regulated by classical contract and market governance. Where transactions frequency was recurrent, more elaborate governance procedures were applied with highly specific bilateral contract structures. Nevertheless, the market structure cannot be omitted. As stressed by Maher (1997), the market structure influences significantly the contractual relations. "Where markets have few firms on one side of the relationship, although investment could be characterized as non-specific, few outside options exist. In this case the risks of opportunism are high." (Maher, 1997, 168)

			Investment Characteristics	
		Nonspecific	Mixed	Idiosyncratic
Frequency	Occasional	Purchasing standard equipment	Purchasing customized equipment	Constructing a plant
	Recurrent	Purchasing standard material	Purchasing customized material	Site-specific transfer of intermediate product across successive stages

Figure 1: Source: Williamson (1986): Illustrative transactions

Furthermore, we will specify the understanding of the transaction costs theory through the lens of franchising contract specificities. "Environmental uncertainty prevents the franchisor from setting detailed contract terms and hence it increases the need for ex-post adaptations by allocating residual decision rights. The greater the environmental uncertainty, the less complete is the franchise contract and the more residual rights and the less specific decision rights are assigned to the franchise partners." (Hendrikse and Windsperger, 2011, 17) However, in franchising, high transaction specific investments force both, the franchisor and the franchisee to higher bilateral dependency of contractual partners. Indeed, the hostage effect appears, influencing the partners´ willingness to act collaboratively. Further, the bonding effect of high transaction- specific investments increases the self-enforcing power of contract and decrease the need for implementation of specific contractual conditions. (Hendrikse and Windsperger, 2011)

Proposition 1: The higher the internal transaction costs of market entry, the more likely will it be done externally (e.g. in cooperation with a franchisee partner)

2.2.2 The agency theory in franchising

Franchises are two-headed beasts. (Rubin, 1978)

"The relationship of agency is one of the oldest and commonest codified modes of social interaction. We will say that an agency relationship has arisen between two (or more) parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems. Examples of agency are universal." (Ross, 2013, 134)

According to Mahoney (2005) the agency theory creates a substantial assumption in the study of the principal- agent problem that appears in nearly every business relationship, from corporate governance in strategic management to franchisor-franchisee relations that is the subject of our study. In general, the agency theory may be described by the separation of ownership and control, to emphasize other market efficiencies. However, the different incentives of a principal and an agent violate the relationship and crate the principal- agency problem, supported by asymmetric information on the market.

The agency theory is chosen as a part of our analysis as the principal- agency problem strongly influences the franchisor-franchisee cooperation. The understanding of franchising in the context of the agency theory allows us to understand the management of franchising business.

Some researches argue that franchising could be seen as the solution of the agency problem. (Rubin 1978, Michael 2000, Hendrikse and Windsperger 2011). To solve the problem of agency theory, Michael (2000) argued that franchising is one of efficient organizational form that yields to higher profit and faster growth with substantial reduction of agency costs. The moral hazard associated with the cooperation with local managers operating within a dispersed chain units is decreased by operating through franchising, making the residual claimants of local managers reduce the agency costs relative to working with corporate employees. Rubin (1978) analyzed the control of opportunism in the franchise. Franchising seems to solve the agency problem of motivating site managers by dividing the tasks, associated residual claims and higher effort of franchisee to employee. Franchising ought to be superior to the employment relationship because the responsibility is given to the franchisee. The residual claimant status of an agent decreases the opportunism and crate an additional effort.

What is important for the empirical applicability of the theory is that the agency theory is based on realistic behavioral assumptions. The agency theory counts with the bounded rationality of participants, the possibility of opportunism and goal conflict, Secondly, the agency theory focus on the economic incentives behind all the business partnerships and the profit maximization through intermediate product markets, the incorporation of intangible assets of knowledge, technology and goodwill. Thirdly, the stress is given to the information asymmetry problem and the relevance of information transfer, which is really becoming the basis in current economy. Fourthly, the agency theory proposes same useful answers like incorporating of monitoring activities and performance measurements. (Doherty, 1998/1999)

According to Doherty (1999, 383) although the recognition of information asymmetry is a central topic to both theories, the agency theory and the transaction costs theory, their perspectives on the issue differ. "By the agency theory, information can be purchased through expenditure on monitoring. Transaction cost logic, on the other hand, cannot reduce information asymmetry and the result is the failure of the market form of exchange. (Kochar, 1996 in Doherty (1999, 383)) In the context of retailer market entry mode strategy, this is one of the most fundamental differences between the theories and a major factor contributing to different entry mode choices. It is to an elucidation of how information asymmetry occurs in international retailing, and thus provides a basis for the utilization of these theories as an explanation for entry mode choice, that this paper now turns."

According to Hendrikse and Windsperger (2011) to reduce high agency costs resulting from asymmetric information and opportunism, both a franchisor and a franchisee could decrease the residual losses by elaborating their monitoring activities and performance measurements. Indeed, they can make an effort to allocate the greater residual decision rights. "The higher the behavioral uncertainty (due to moral hazard and adverse selection), the more residual rights should be transferred to the local entrepreneurs, and the less specific rights are formulated in contracts." (Hendrikse and Windsperger, 2011, 18) However, the monitoring costs always appear and influence the efficiency of franchising as a business form.

According to the agency theory, in the agency relation the litigations do not take place; the enclosed contract will be self-enforced on the franchisee contractual site. (Michael, 2000) Between franchisor and franchisee the financial incentives such as fees, rents and royalties should be adjusted, however, the same incentives serve as a support for the quality of both, the product and relationship development. (Lafontaine, 1992b in Michael 2000) Contrastingly, the bargaining power theory stresses the financial incentives as decisive as well as the importance of the adaptability of the contract to unconsidered uncertainty that appears during the duration of the contract. (Michael, 2000)

To briefly compare the transaction cost theory with the agency theory; we can conclude that there is a difference in the analyzed unit of a firm and its costs vs. the relationship of the business partners. According to Mahony (2005), the modern agency theory is quite distinct in the regard of analyzed unit from transaction costs theory. Modern agency theorists tend to be too optimistic that various governance mechanisms (e.g., the market for corporate control or the market for managers) could help to solve the agency problems.

- *Proposition 2: To decrease the agency problem, franchising could be recommended as an appropriate market entry form. In order to ameliorate the market position, the dual structure is recommended*

2.2.3 Theory of international production (OLI paradigm) in franchising

...cooperation and competition are increasingly becoming complementary modalities for resource creation and allocation in market-based economies (Dunning, 2011, 184)

The Theory of internalization of production (OLI paradigm) of Dunning (2001), firstly presented at a Nobel Symposium in Stockholm in 1976, is one of the transaction cost based theories of foreign direct investment and international production developing from the mid-1950s to the present, examining the firm specific ownership advantage, transfer and internationalization. (Mahony, 2005)

The OLI paradigm aims to demonstrate the value added activities by international players. Three aspects, namely, location (L), ownership (O) specific characteristics and (I) internalization ability influences a firm´s success and profitability. With three OLI dimensions we are able to determinate *who* (O-ownership), *where* (L-location) and *why* (I-internalization) would engage in business activities abroad. (Dunning, 1993) As Dunning (2001) pointed out, the OLI parameters are context specific and vary with the types of value-added activities and vary across firms and industries. Furthermore, they alternate with geographical dimension, thus, across regions and countries. According to the OLI paradigm, the scope and arrangement of international production is given by three sets of forces:

- *Ownership-specific asset (O): who will create the additional value?* The (net) competitive advantages of one firm over another in supplying any particular market or set of markets crates the added value of a company. This advantage results from the firm's privileged ownership or access to a set of income-generating assets, or from the potential to co-ordinate these assets with other assets across national boundaries, so that it increase their profitability compare to their real or potential competitors.

- *Location- specific asset (L) where it will be created?*

  The location- specific asset of different countries is a non-transferable element bounded to the environment of location, given by the economic, political or socio-cultural benefits. From a firm´s point of view, a firm going internationally, has to recognize and exploit the location-specific advantage of a host country to create an added value.

- *Internalization (I) How it will be created?*

  The scope and extend of international production depends on a firms choose to locate their value- adding activities outside their national boundaries, however, keeping this multiple activities within the organization being internally created. (Dunning, 2011)

To sum up, the success of international production determinates the (O) ownership-competitive advantage in offering assets not available in a host country. The self-perception of firms, to be in their best interest to create extra profit by establishing a foreign production that will be able to compensate for the additional costs associated with operating abroad and thus, use the local-specific asset of different countries. Internationalization of production depends on firm's decision to create the extra revenue by placing their activities in the foreign markets. As follows, the subsequent growth of their foreign activities may be created and influence positively or negatively the further internationalization.

To apply the OLI paradigm for the needs of franchising, Dunning (2011) examines the non-equity alliances as becoming more and more influential in economy, facing a plurality of intra- and inter- firms cooperative ligations. On the first sight adverse qualities, cooperation and competition are progressively developing in interdependent modalities for the creation and allocation of capital in market-based economies, what franchising brings together. As Dunning (2011) stated, the concept of individualistic entrepreneurs or self-determining sources of intellectual capital are no longer feasible.

Dunning (2011) indirectly considered a franchisor as a promoter or coordinator of internally or externally created and collected assets, which is being arranged with a certain degree of influence and control. Furthermore, in franchising, the ownership advantage (O) of franchisor depends not only upon the internally achieved ownership advantage. However, the competence to innovate, bring efficient price mechanism and quality control of assets depend also on other partner with which they have an ongoing cooperative connection, namely a franchisee.

According to OLI paradigm, a franchisor is willing to enter a foreign market through franchising, when his home market (L) location advantage of utilizing his (O) ownership specific advantage is less significant than the possibility of servicing the foreign markets from a foreign location. With another words, a franchisor will go internationally, when the advantage of exporting goods and services from a production, placed in their home country would be more costly or less profitable than the advantage of serving the foreign markets from a foreign location. As follows, the decision to which extend the export will be internalized within the firm (e.g. intra-firm exports) or delegated to a third party (e.g. inter-firm exports) demonstrates the relative transaction costs of these two possibilities of trans-border economic involvement. Both, the intra-firm exports and the growth of inter-firm strategic alliances involvement demonstrate the requirements of a company not only to catch technological and marketing synergies given by the foreign business environment, however, to acknowledge and gear the created assets of external competitors, suppliers, customers and the knowledge offered by different educational and innovatory systems, thus, so called intangible asset of a franchisee. (Dunning, 2011) Moreover, a franchisor is willing to enter a foreign market through franchising, when the costs and benefits of accessing the ownership- specific asset (O) of another entrepreneur, by some form of cooperative agreement, are more advantageous than by competition (e.g. through direct acquisition or merger). The element of internalization (I) is now understand as a function of overlapping the advantages of international cooperation. (Dunning, 2011)

Proposition 3: In franchising the (O) ownership advantage of franchisor is not only internally achieved, however, externally extended by the franchisee´s competence to innovate, bring efficient price mechanism and quality control.

2.2.4 The property rights-theory in franchising

In this subchapter another to franchising relevant theory will be introduced. According to Mahoney (2005) the theoretical background of the property rights-theory can be dated to Coase (1937, 1960), peaking with the neoclassical economics tradition of Alchian and Demsetz (1972), Barzel (1989) and Eggertsson (1990).

The aim of the property rights view is to increase economic efficiency through the understanding of property rights fundamentals. The property rights theory stresses the significance of intangible asset on the distribution of ownership rights. The theoretical background of the property rights theory stressed that in the long run, the three criteria of efficiency, namely *universality, exclusivity and transferability of property rights* are present. The attribute of universality means that all the scarce resources are owned by someone. Exclusivity explains that the property rights are exclusive and particular ones. Transferability represents the resources´ attribute that they can be allocate from low to high yield uses. (Mahoney, 2005) As Demsetz (1967) defines in one of his classical articles, property rights as an exchange of two bundles of rights are present in every market transaction. The market *exchange of bundles of rights* are usually related to the physical exchange of products or services, however, the worth is related direct to the rights exchanged itself.

To concentrate on the property rights-theory in franchising, Windsperger (2004) examines the franchise system as the efficient form of business, incorporating an intangible system-specific asset of franchisor with local market asset introduced by a franchisee, in order to create additional residual income. Thus, the allocation of residual decision rights in franchising networks depends on the distribution of intangible knowledge assets between a franchisor and a franchisee. Windsperger (2003) refers to the intangibility of knowledge assets of one contractual part as an in-transferable skill or know-how involving a tacit component. Regarding franchising, the intangible knowledge asset may refer to the brand name or the system-specific know-how of a franchisor on the one hand. On the other hand, a franchisee poses the intangible and in-transferable local market skill. Thus, the cooperation is directed by the distribution of property right given by power to influence the use of the tacit component, system specific know-how, trade mark or a local market knowledge.

Mudziev and Windsperger (2011) explain the allocation of decision rights in franchising networks for the allocation of residual decision rights in a relation between franchisor and franchisee. "In franchising, residual decision rights refer to the authority to influence the use of the franchisor's system-specific assets and the franchisee's local market assets, which are intangible and hence difficult to specify in contracts." (Mudziev and Windsperger, 2011,

450) Windsperger and Ridl (2006) stressed the importance of an access to the intangible local market knowledge and resources for a franchisor as the intangible asset of a franchisee significantly influence the distribution of property rights and, thus, the financial status of a franchisor. It should be in the franchisor interest of a franchisor to alleviate its bargaining power, organizational and financial position to a franchisee. (Windsperger and Ridl, 2006)

Regarding the analysis of Austrian franchisee market, Windsperger and Rajiv (2006) point out that intangible asset significantly influence the distribution of asset ownership, its redirecting and structure. On the contrary, the influence of less intangible, so more contractible local market asset of a franchisee does not approve its influence on the asset ownership structure. “[T]he more intangible the local knowledge assets are, the higher will be the influence of franchisee’s financial assets on the proportion of company-owned outlets.” (Windsperger and Rajiv, 2006). Moreover, it shows the interdependence of financial and organizational terms in franchising stores. The structure of decision rights in the context of franchising is given by the contractibility of system-specific assets of franchisor and the contractibility of franchisees’ local market assets. It can be concluded that there is a significant influence of the intangibility of a franchisor and a franchisee assets on the distribution of property rights in their relationship. From the characteristics of the asset, its contractibility can be inferred. The more intangible asset is, the more difficult is its contractibility. On the other hand, the more tangible asset is present in the business relation, the easier is it for contractual partners to set the commitment. (Mudziev and Windsperger, 2011)

- *Proposition 4: The more intangible the local knowledge assets, the more property rights should owned by a franchisee.*

2.3 The Internationalization path

By the internationalization there are many possibilities how to manage this process, except of the accidental preceded, the market entry through the Uppsala model, Driscoll´s model or by the aimed entering through franchising, the dual structure could be proposed. The mentioned process will be briefly explained.

2.3.1 The Uppsala model theory

According to the Uppsala model of Johanson and Wiedersheim-Paul (1975) the internationalization process is a graduating process of cumulative decisions of a firm to expand and internationalize with gathering knowledge and resources. The process is stipulated by gradual higher need of control by the entry modes and wider range of operations available. Because of the tendency to avoid uncertainty and lack of knowledge about a host country, the expansion begins on the first stage with export to culturally or physically closer countries in the neighborhood. Then, the sales representatives operate as encompassing smaller resource commitment, following the establishment of a sales subsidiary ensues.

Thus, the Uppsala model proposes the following process of internationalization, taking into account different degree of involvement of a firm:

- no regular export activities
- export via independent representatives (agent)
- sales subsidiary
- production/manufacturing

According to the Uppsala model, the market entry may follow the gradual stages in order to increase involvement in a market. Firms prefer to enter the market with lower commitment as exportation, licensing or franchising, in order to increase subsequently the foreign direct investment and in progressive manner continue to establishing own subsidiary. However, this process can vary, by the firm *born to be global* that skips some stages or in other case, firms that use to internationalize through another mode as being experienced as successful.

On the other hand, another research shows that companies may expand with discontinuous internationalization process as well. The emergent process on an *ad hoc basis* in reality often appears, when random opportunities are identified by the internationalization *ad hoc* or on the place, in a new market. Alternatively, companies tend to maintain on the prosperous level of entry mode, where they use to have good experience and performance. (Zietlow and Hennart, 1997; Hutchinson et al., 2007; Hutchinson and Quinn, 2006) Moreover, more experienced companies in terms of internationalization through franchising do not need to tend to progress automatically to higher equity modes; thus, the contractual mode could be more appropriate and successful in the long term.

2.3.2 Driscoll´s theory

According to Driscoll (1995) there are three main factors influencing directly the market entry that have to be considered, in order to achieve the objectives of internationalization process, mainly internal (firm´s comparative advantage or previous experience) factors, external (political, economic and socio-cultural conditions of the environment in a host country) factors and moderators (e.g. policies and regulations).

Then, the decision of the market entry mode should be made on the level of involvement:

- Export entry mode
- Contractual entry mode
- Investments mode

2.3.3 Motivation of using the dual structure of franchising and own stores

To extend the theoretical knowledge of market entries through franchising, some scholars analyze the advantage of the adoption of two complementary modes, namely franchising and company-owned stores, to combine their interdependent advantages and decrease the disadvantages. (e. g. Bai and Tao, 2000; Bradach, 1998; Cliquet, 2001; Michael, 2000; Sorenson and Sorensen, 2000; Spranger, 2005; Windsperger, 2004) The tendency to determine the best entry mode was finally moved forward and many authors have detected the dual market structure being more complementary and efficient. The interdependent attributes, the leverage of strength and the amelioration of weaknesses, offer extra potential for a network growth and its dynamics. In this chapter, the plural form will be introduced; the complementarities of franchising and company-owned units as well as the implication for our case study will be introduced.

The dual structure (e.g. *plural form, contract mixing, dual distribution or tapered integration*) of both, franchise units and own-store units, operating in a specific market or a country, is the subject of the literature review for this chapter. To bring a brief characteristic, Bradach (1998) emphasized the company affiliates as by the chain owned physical facilities, operating by hiring employees, who are managed through a traditional hierarchical structure by an authority relationship binding them to the chain. However, by the franchised units, the chain contracts with a franchisee as with independent partner, who invests the capital in the unit. "The franchisee pays the chain an initial fee and an ongoing royalty (typically about 4 percent of revenue) and agrees to adhere to certain operating standards specified in the contract. In return, the franchisee may use the chain's trademark and receives the unit's profits, minus the royalty payment."(Bradach, 1998, 278)

To determine the complementary strength and weaknesses of franchising and own-store units, the main features will be compared. Firstly, there is a *higher quality of own- stores vs. free-riding problem of franchises units.* Michael (2000) pointed out that operating through franchising will never bring such a quality in comparison with owned-store units. The reason for the depreciated quality of products and services, or the overall running a business, is given by the tendency to free-ride on the behalf of a franchisor. However, according to Michael (2000), a higher quality followed by subsequent extended uniformity is the characteristic of company owned units, where a problem of not reflected local needs of customers increases. A company owned unit does not reflect the requirements of local responsiveness in that way how franchising is able to do. Thus, the plural form of running a business to optimize the strength and weaknesses of both, franchising and own-store units is proposed in order to increase the average quality and to reflect adequately the local needs of customers.

Bai and Tao (2000) pointed out the main difference *in the intensity of incentives* that influence the behavior of contractual parties as well as the general business development of a chain. While *a low-powered incentive contract* may be the characteristics of managers in company-owned units remunerated by fixed wages, *a high-power incentive contract* where indicated in franchised units. The reason is the difference in paying a part of their revenue as a royalty instead of a typical wages system that does not demonstrate such a motivating power.

Bradach (1998) represents the pros and cons of the plural form as follows. As the chain consisting of company-owned units secures *a system perspective*, the franchise units provide the reflection of *local perspective* of a host country. In general, doing business is about balancing these two perspectives, to leverage the strength and improve the weakness of each other. According to the

Bradach´s research (1998) of plural business chains form, *the ratcheting effect* appears. The influence of company-owned outlets to franchised units was indicated and conversely. The company-owned units increase the system´s overall *level of uniformity and quality*. Thus, the higher level of uniformity and quality performance in company-owned units increase the overall standard of the chain, for the franchised units included. In contrary, *a local responsiveness* was indicated being higher in the franchisee arrangements. The explanation may be seen in the franchisee´s contract structure that motivates to search for opportunities to innovate and to create some additional profit. A higher level of local control enables the franchisees to make variety of decisions to face the local needs and, thus, optimize the local responsiveness. On the other hand, the chain units with a higher degree of centralization restrict local responsiveness with substantial increase of uniformity.

Nevertheless, using a plural form, Bradach (1998) indicated *the local learning process*, when company units used to imitate the local responsiveness of the local franchisee of the same brand. This replication and the local learning effect increase the overall local responsiveness of a chain. It can be concluded that the local responsiveness was indicated being higher by using a plural form as a consequence of the *local learning effect* and *external control process of a chain*. The plural form enables to create, test and implement a greater variety of innovations and ideas. The plural form allows for the uniformity as well as system adaptation, control with simultaneous innovation of a chain. These attributes are interconnected through the learning effect and external control process of the business units. (Bradach, 1998)

By the preference between franchising and company owned units, Sorenson and Sorensen (2000) distinguish between *the firm´s aim to explore a new market or a firm aims to exploit* already operating business activities. As franchised outlets show higher efficiency in the exploration phase, it would be efficient to apply them in the phase of exploration of some new business possibilities, a new risk taking or innovation in a long-term perspective.

However, company-owned units are more efficient in an exploitation phase; it includes the profit potential exploitation of a network, by the refinement of current procedures, efficiency or production in a short-term perspective.

According to the Bai and Tao´s (2000) dual structure analysis, two types of *efforts* by the own-stores managers and/or franchisees may be identified. *A unit-specific effort* aims to improve the status of only one specific chain unit. However, a *general effort* maintains a positive effect on all the units of a company. The aim to use a plural for is the positive combination of both efforts in a chain. As franchisees are more involved in unit-specific effort, the sales managers of company-owned unit seem to improve the general status of a chain and trademark dedicated to all units.

Moreover, a *goodwill task* as having a positive effect on all business units is a stronger incentive by units' managers. While a *sales task* as a unit-specific improvement is more in the interest of franchisees than a goodwill task. Secondly, company-owned units are better in quality of products or services and the uniform standards retention. Moreover, Bai and Tao (2000) proved that *the commission rate* on the sales revenue being higher under a franchisee contract in comparison with the sales revenues from company-owned units.

These findings may be explained by a general proposition that franchise units tend to be more involved in a sales task than to a goodwill task that leads to higher sales revenues. These complementary advantages and disadvantages of both, franchise and company-owned units, namely unit specificities vs. general effort of improvement, the system-wide goodwill vs. unit-specific sales activities, and the lower profit vs. higher commission rates can be well-balanced by using a dual structure of a chain.

According to Spranger (2005) plural structures theoretically grant:

- the decrease of agency costs and organizing costs,
- the faster expansion of the chain system and surpassed resource scarcity
- the prevention of local specific risk,
- the reduction of principal-agent dependency as the disadvantage associated with franchisees
- the increased effect of self-correction in the system and risk sharing

- the profit from beneficial synergies, making the sum of the complementary synergism more valuable than the added individual values.

Windsperger (2004) refers to the complementarities of franchised and company-owned units. The organizational effectiveness and the corresponding rent-generating perspective of a dual structure seem to be more efficient in comparison with a pure franchised or company-owned form of a chain. Windsperger and Rids (2006) stressed the importance of *intangible local market assets* of a franchised unit, to acquire local market knowledge. A franchisor should be able to cover more appropriate the local needs as company-owned stores regarding the organizational and financial capabilities. On the other hand, the company-owned outlets enable the company to generate its growth through the own network as a system of internal capital market financing. Under the principle of the agency theory, lower monitoring costs linked to company-owned outlets as a low-powered incentive mechanism; seem to be more efficient than pure franchised outlets. By increased market uncertainty and opportunistic behavior, the increase of monitoring costs make franchised outlets more efficient as a reason of the high-powered incentive effect. (Windsperger and Rids, 2006)

As far as cross-country differences are concerned, Cliquet (2008) analyzed the cross-country differences and the tendency to use the plural form of a chain. It can be confirmed that the application of plural form in chains vary significantly across host countries specificities. According to Cliquet (2008), concerning the size of a market, the number of company-owned units is nearly three times greater in France and Brazil as compared to the United States. However, there were some factors on the chain owner identified. The higher the average total required investment and cash liquidity, the lower the occurrence of the plural form. Moreover, he longer the company exists on the market, the higher probability that plural form will be applied. The optimal proportion of franchise units to company-owned depends on the sector to which the chain belongs. Cliquet (2008) recognized as more efficient the direct control through company- owned units when quality control, supplier's credibility and customized adaptability of services are decisive for a chain. However, in retail sector system, franchising can be proposed, as the product offerings could be standardized. This conclusion comes from the rival agency-theory argument, as the greater willingness of franchisees to offer the customers more personalized services. On the other hand, the suspected shirking attitude of managers of company-own units was also recognized. (Cliquet, 2008)

Michael (2000) proposed, in the context of a chain development, the increase of bargaining power and subsequential decrease of litigation costs between chain and its units through the *tapered integration* (i.e. plural form of franchised and company-owned units). Moreover, the selection of inexperienced franchisees and the subsequent training of franchisees as well as the guaranty of exclusive territories increase bargaining power and decrease litigation with its costs and uncertainty.

The tapered integration, as Michael (2000) calls the dual structure, leads to synergistic effects through the reduction of litigation and apparent contribution to the quality improvement of a chain. By the analyze of franchising as an organizational form influencing a market structure, performance, and welfare of a market, Michael (2000) votes for the dual structure of a chain with a quality argument. According to his research, the lower quality was recorded by franchise chains compare to the own-stores. The quality distribution between these two business forms is in favor of the dual form application.

Furthermore, it is worth considering possible third factors and other implications. Firstly, there is an influence of human resource training and direct control implications. It seems to be better engaged by the employees in own-stores as by franchisees. Secondly, a free-riding problem could be strongly present in franchising as by own-stores, thus, less effort results in a lower quality. However, the aim is not the critic of franchising, but to emphasize the different implementation fields of both, franchising and own-stores. Franchising allows the chain to expand faster and grow widely, by serving more affiliates in more dispersed locations, to achieve higher penetration level at lower but satisfactory quality. The own-stores strategy supports the quality attribute, although, having slow-moving growth, smaller size and probably less convenience. Regarding the arguments given, dual structure may alleviate the weaknesses of both market operational systems, with respect to a chain's strategy and a targets of a business model. Reinforcement of general quality level of own stores with a subsequent penetration in dispersed areas to accelerate a chain growth.

Finally, the costs of company owned units and franchised units will be compared. Regarding the company owned outlets, Norton (1988) pointed out that the company ownership of local outlets is characterized by the management of salaried managers that do not hold the whole responsibility and costs of their decisions.

Moreover, the monitoring cost of the owner of company owned stores appears. The reason could be a physical distance and/or dispersion of outlets, specificity of a product, transaction exchanged, shirking, excessive perquisite taking or motivation of employees. ”If economies of scale in brand names exist and the value of the enterprise could increase by rapid geographical expansion, the costs of identifying and selecting competent managers would exacerbate periodic monitoring costs and raise the costs of maintaining company owned outlets further.” (Norton, 1988, 78)

On the other hand, the costs of franchisee outlets have to be considered as well, namely, the transaction costs of a franchisor and a franchisee. Then, as already mentioned, the agency costs strongly appears in the franchised. The agency costs, however, have to be considered on both sites of relationship. The franchisee´s free riding problem on the behalf of a franchisor or an inadequate *quasirent* required by a franchisor for using a brand name are the problems usually identified by research. Thus, the balance of an efficient risk bearing have to be find in order to establish the prices equilibrium including fees and royalties vs. the loss of output or the loss of managers´ motivation. (Norton, 1988) According to Michael (2000), the ability to find the equilibrium and to achieve the negotiating goals depends on the relative bargaining power of both contract partners that is difficult to identify in forward.

2.3.4 The competitive analysis

Competiveness in modern companies plays a distinctive role and should be taken into consideration by practitioners in order to increase their competitive or strategic corporate intelligence (CI). Thus, the competitive analysis should be the starting point for every extension of a company to a new territory. Examination and evaluation of the gathered information is the way to deliberate appropriate strategic alternatives in light of organizational resources and requirements. (Fleisher and Bensoussan, 2002)

The competitive analysis may involve the separation of the gathered data to its constituent parts to understand each parts´ value, kind, quality and quantity to provide meaningful insights, derive relations, evaluate trend, identify performance gaps an evaluate opportunities available to a company. It is not about reasoning from universal to particular by synthesis, nor summarizing the data. (Fleisher and Bensoussan, 2002)

Firstly, the competitors have to be identified, and then the gathering of relevant information about the competition in the comprised area has to follow. In the form of personal visit, asking the relevant persons (e.g. customers or employees) or searching on the internet, come to relevant information is becoming easier in the current time. However, as Fleisher and Bensoussan (2002) stressed that the importance is given to the ability to convert the wealth of available, limited information into a beneficial form for decision making process. In order to identify some market niches and capture specific market segment, whose needs are not being fulfilled yet. The data have to be converted into corporate intelligence of a practitioner and integrated into the business strategy. Strategic and competitive analysis compresses environmental analysis, industry analysis, competitor analysis as well as temporal analysis models.

According to Bergen and Peteraf (2002), the construct of resource equivalence was introduced, as the extent to which some competitors possess the strategic advantage capable of satisfying the same clients as a focal firm. They identified three types of market competition that should be taken into consideration, the indirect competitors, potential and direct competitors with low or high equivalence of resource similarities. The competitive analysis is aim to be one a part of our case study to identify to possible market challenges.

3 Methodology

In this chapter, the methodology applied in our master thesis will be introduced. The aim is to briefly define the research method and conclude our procedures in the research. The chosen method may enable us to wholly answer our research question.

3.1 The case study method

"Doing Case Study Research: A linear but iterative process"
Yin, R.K. (2009)

By making a decision among the available research methods (e.g. experiments, surveys, histories, case study method, economic and epidemiologic research), which would appropriately answer our research question, a case study method was chosen. As the case study method was selected for the needs of our master thesis, this will be briefly explained. Our target, to design a good case study, to collect, present, and analyze data fairly will be strongly taken in the consideration. As Dul and Hak (2008) stress the empirical research includes building and testing statements about an object of study by analyzing evidence drawn from observation.

The reasons why the case study research method was chosen will be justify. The case study method allows us to demonstrate present circumstance, contemporary events, answer the questions *how* and *why* some social phenomenon works, to bring extensive and in-depth description of some social circumstances. The case study method enables researchers to obtain the holistic and meaningful characteristics of real-life events (e.g. individual life cycles, small group behavior, organizational and managerial processes). (Yin, 2009)

"A case study is a study in which (a) one case (single case study) or a small number of cases (comparative case study) in their real life context are selected, and (b) scores obtained from these cases are analyzed in a qualitative manner." (Dul and Hak, 2008, 4) It means that the single case study can be used, in which data from one instance are researched to meet the research objective. Moreover, the comparative case study can be used, in which data from two or more instances are required, to achieve the research objective.

Yin (2009) relies more on methods and techniques by composing a case study, emphasizing that a case study is the empirical examination and investigation of current circumstances in its whole extend and within its real-life conditions, particularly when the boundaries between the social phenomenon and situational context are not certainly appointed. "The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result, relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result and benefits from the prior development of theoretical propositions to guide data collection and analysis." (Yin, 2009, 18)

Gilliam (2000) points out that the crucial feature of case study is to investigate a specific "*case*" to answer research questions. Under the term "*case*" Gilliam (2000) distinguishes a unit of a human activity embedded into the real world, which can only be understood in its context, where the precise boundaries are problematic to determinate. Researchers seek a range of different kinds of evidence of the case settings, which are then abbreviated and collated to obtain the best possible answers for the research questions. Furthermore, no form or source of evidence is likely to be sufficient or sufficiently valid on its own. However, the multiple sources evidence is the key characteristic of case study research. (Gilliam, 2000)

Dul and Hak (2008) distinguish a theory-building, theory testing and practice- oriented case study research. Theory-oriented research aims to contribute to the development of theory. The academics and scholars are the primary users of research findings. However, practice-oriented research intends to contribute to the comprehension of distinct practitioners devolve in some specific practices or actions. The research outcomes are primary addressed to the members of a business community. To describe the proceeding by case study method, a research design will be briefly examined. Firstly, a study's questions have to be stated and its propositions, if there are any. Secondly, the unit/s of analysis has to be settled. Thirdly, the logic linking of data to the propositions and the criteria for interpreting the findings has to be determinate. (Yin, 2009)

3.1.1 Comparison of case study method

As Yin (2009) stress, a general misunderstanding should be overcome that the research methods (e.g. archival analysis, experiment, case study, history or survey) have to be systematized hierarchically. By the appropriate selection of research method could be misinterpretation that case study is applicable for the exploratory phase of research. However, surveys and histories are common for the descriptive phase. Thus experiments are the most suitable for explanatory or causal investigations.

To differentiate a case study methodology from a survey method, in a case study, a small number of n- units are analyzed mostly with visual inspection through qualitative data analysis. However, by survey, there are a large number of N- units under statistical quantitative data analysis. The obvious form of research question by survey attend to answer *who, what, where, how many, or how much?* Survey does not require control of behavioral events, although focusing on contemporary events. (Yin, 2009)

Experiment answers the research questions *how* and *why* some circumstances appear. Moreover, experiment as a research method strongly requires a control over behavioral events and focuses on contemporary events as well as case study does. (Yin, 2009) As Yin (2009) stated, archival analysis distinguishes from case study method in a range of research question concentrated mainly on *who, what, where, how many* or *how much* and does not need to focus on contemporary events. Although answering the same research question how and why something happens, history does not concern with current social circumstances or events. (Yin, 2009)

We can conclude that by the choice of appropriate research method, we take into the consideration the form of research question. Secondly, the amount of control that the researcher needs for analyzed problem. Thirdly, the choice depends on the analyzed events, if it is historical or contemporary one.

3.1.3 Limitations of the case study research method

On the one hand, as any other social science research method, the case study method has its advantages and disadvantages as well. The case study method is mostly criticized for the lack of accuracy and precision. This can be based on neglecting of systematic procedures, allowing equivocal evidence or biased views to affect the findings and conclusions processes in the research. (Yin, 2009)

As Yin (2009) stress that such lack of rigor is less likely to be present when using the other methods than the case study method. Furthermore, through the lens of the hierarchical view of research method, case study is only examined as a preliminary research method and cannot be used to describe or test propositions or hypothesis.

Many researchers believe the case study method to be uncomplicated to use. However, in fact, Yin (2008) point out the case study research is one of the hardest types of investigations to be applied, in consequence of the vacancy of routine procedures typical for other research methods. "Case study investigators therefore need to feel comfortable in addressing procedural uncertainties during the course of a study. Other desirable traits include the ability to ask good questions, "listen," be adaptive and flexible, have a firm grasp of the issues being studied, and know how to avoid bias." (Yin, 2008, 66)

On the other hand, as was already mentioned, the case study method facilitates the researcher to demonstrate present circumstance, contemporary events, answer the questions *how* and *why* some social phenomenon works. It enables us to bring extensive and in-depth description of some social situations. The case study method enables researchers to obtain the holistic and meaningful characteristics of real-life events. (Yin, 2009)

3.2 The case study method applied on the case of Inter Cars

To specify the case study of Inter Cars, one unit (a company) will be analyzed with "visual inspection" applying qualitative data analysis. The main research question that we investigate is the following:

Why Inter Cars does not succeed by the market entry in Austria and how the understanding of the theories of market entry of franchising would alter the procedures steps for future market entry?

After the specification of research objectives and propositions we can conclude that the aim of our empirical work is a practice-oriented research. Practice-oriented research in the case of Inter Cars includes the systematic and methodologically correct collection and evaluation of observable facts in the organization. The ambition is to propose the required changes as the result of a specific intervention or to propose an intervention. To define the criterion for success of a practice-oriented research, this depends on the reaching of an empirically correct conclusion about a practical object of study. (Dul and Hak, 2008)

The unit of analysis is the company Inter Cars analyzed in its real life context. We can point out that a single case study will be constituted. The results obtained from the case are going to be analyzed in a qualitative manner in order to reach the research objectives.

After defining our research as practice- oriented, we have to find out the relevant theoretical background on the topic of market entry through franchising. After literature research, we can conclude that there are relevant theories that can see as a relevant base to compare the real market entry with the theoretical findings. Exploration of literature for confirming relevance of applicability of the theories will follow. Furthermore, we will explore a practice-oriented research and a proposition of research that aims to contribute to a practitioner's knowledge.

We can conclude that the general objective of the study of market entry through franchising on the case study of Inter Cars is to contribute to the knowledge of a specific practitioner, namely Inter Cars Company participating in automotive industry in Europe, where Inter Cars play a representative role. The objective of this study is to contribute to the knowledge regarding the factors that influence the success of market entry through franchising by describing the case, understanding of relevant theories of franchising and proposition of some improvement for the company.

To understand the entire internationalization process of Inter Cars, relevant information was obtained through collecting data from various sources: from company's web site, relevant articles, the World Bank database and news reports about Inter Cars. Additionally, the data collection follows through e-mail exchanges with Inter Cars managers, the appointments agreements with those representatives of Inter Cars responsible for the internationalization process and interviewing the relevant persons to collect several additional pieces of important information. The interview was semi-structured in order to have answers concerning important questions about Inter Cars internationalization as when, how, where and why. Then, to ensure the data quality, an anonymous questionnaire was intended on relevant persons and the problematic questions were targeted.

4. The case study of Inter Cars Ltd.

In the following chapter Inter Cars Group will be introduced and the reasons for the analysis of Inter Cars group will be explained. Then, historical development and the current state of the company will be briefly described. The main focus will be given on the market entries of the company and the market entry fail in the Austrian market.

4.1 Characterizations of the company

Inter Cars Group was established in 1990 in Poland. Inter Cars company belongs to the largest distributors of spare parts for cars and trucks in Europe. The Group offers also equipment for repair garages and spare parts for motorcycles, tuning equipment. It is the largest independent distributor of spare parts in Poland. The business core concentrates on the B2B business activities, thus spare parts distribution to automotive services. To increase the recognition by ordinary customers, they involve in B2C business activities as well, by the project *Motointegration* of an online stores with spare parts for the final users.

Inter Cars operates in eleven countries of Central and Eastern Europe region (CEECs), in Czech Republic, Latvia, Poland, Slovakia and Ukraine. After the merger of JC Auto in 2007, Inter Cars operates in Hungary, Italy, Croatia, Belgium, Romania, Cyprus and Bulgaria. Inter Cars Group employs 5,000 employees, over 150 stores and is geographically the largest distributor of spare parts on a European scale

The successful idea that has made Inter Cars S.A. the market leader in import and distribution of spare parts for cars and commercial vehicles in Poland has been the idea of the direct distribution of its offers to garages. The base for this is a perfect modern logistics center, which is located near Warsaw. Including the area of 17,000 m^2 belongs to one of the largest and most advanced automobile parts stores in Europe. As follows, their decision to expand to Europe's emerging markets allowed The Group to generate a significant growth. Increased revenues generated by their foreign subsidiaries, has enabled the company to spread an investment risk in time of economic recession and decrease the dependency on the development in the dominant home market in Poland. The second aspect of The Group is the strong self-presentation. Parent company of Inter Cars SA organizes its own trade fair in Poland, one of the most influential in this field, presented by more than 170 world's largest producers of spare parts for cars and trucks and workshop equipment for 25.000 incoming visitors. A part of the firm´s propagation is a strong bonus system for clients, precise websites and the membership in many relevant international organizations, such as ATR International, AG, APRA or PROREP.

To introduce the position of the company in the European market and in the automotive business, basic economic data will be stated. In the year 2012 The Group reported growth in sales revenue of more than 9% in comparison with 2011, despite of the general market downturn in Europe. The improvement could results from increased scale of operations and geographical expansion of the sales network. In 2012, the Inter Cars established 25 new affiliate branches. Overall, at the end of the year 2012, the sales network of Inter Cars incorporates the total number of 274 stores, of which 152 were placed in Poland and 122 were established abroad. To compare with 249 affiliates in 2011, of which 147 were Polish branches and 102 were the foreign ones. In 2012, the gross profit on sales of Inter Cars was up to 4% on the previous year. The higher growth in profit, as compared to the growth in sales revenue, resulted from the increase in the sales margin of 30, 9%. (Annual Report Inter Cars, 2012)

As Annual Report of Inter Cars stated, by the year 2017 the expected revenues generated by foreign subsidiaries will account for 50% of the total spare parts sales. "Inter Cars S.A. aims at arriving at the most comprehensive product offer possible, in other words, we want to be able to offer anything that a modern garage needs." (Annual Report Inter Cars, 2012: 3)

The offer of Inter Cars includes both Premium brand products provided by original equipment suppliers, as well as cheaper parts, under the so-called economy brands. This is the third pillar of Inter Cars that enables them to meet the varied expectations of the market and clients. On the one hand, customers seeking top quality original spare parts have a wide range of Premium brands to choose from. On the other hand, there is an advantageous alternative to the usually more expensive parts offered by Authorized Repair Centers. (Annual Report Inter Cars, 2012)

Moreover, Inter Cars participates on the Q-Service system, the concept of the international network of professional independent automotive services. Involvement in Q-Service concept is based on strict selection and the fulfillment of entry criteria that include requirements for technological equipment, the minimum amount of the services offered the capacity of repair and client´s base. (Annual Report Inter Cars, 2012)

4.1.1 The development strategy of internationalization through franchising of Inter Cars

The strategy of Inter Cars is based on the substantial growth by internationalization through franchising. It includes the development of distribution network based on the franchised units and own stores, a use of dual strategy accordingly. Inter Cars provides a franchisee with business name, know-how, information system, warehousing and logistics facilities. A franchisee is responsible for the operation of the brand of Inter Cars, development of the logistics base, the entering of a new market segment and subsequent participation on profit. Moreover, a franchisee becomes a part of a European company with solid and extensive warehouse facilities. A franchisee may become from a "small" local distributor, the region's major player, could gain higher customer loyalty and the volume of purchases through Inter Cars. (Annual Report Inter Cars, 2012)

The Inter Cars Group’s structure is based on the subsidiaries spread over the European region of CCE countries and the geographical expansion of spare parts distribution (e.g. Inter Cars Ukraine, Inter Cars Ceska Republika, Inter Cars Slovenska Republika, Inter Cars Lietuva, Inter Cars d.o.o, Inter Cars Hungaria Kft, JC Auto SA, JC Auto s.r.l, Inter Cars Romania s.r.l.). Moreover, the activity of Inter Cars develops in more directions to diversify the investments portfolio by different projects in order to support the core business (e.g. Lauber Sp. z .o.o., Feber Sp. z o.o., Q-Service Sp. z .o.o., IC Development & Finance Sp. z .o.o., Armatus Sp. z o.o. and Inter Cars Cyprus Limited, Inter Cars Marketing Sp. z o.o. and ILS Sp. z o.o.) in the B2B as well as in B2C segment, through different projects. (Annual Report Inter Cars, 2012)

The strategy aims to improve the flow management and efficiency of spare parts distribution between manufacturers and end users (e.g. garages or direct customers). The quality of the flow management and products are the decisive element in order to increase the market power in Poland on ca. 25%-30% and in the CEE markets accordingly. The improvements of the market position are made through additional affiliates, regional warehouses and distribution subsidiaries in the CEE region. To sum up, the development strategy is based on the development of the distribution network in Poland and abroad, the development of the range of product offers, the development of partnership programs, the quality aspects as customer communication and online access to information, availability of the points of sales providing “one-stop shops”, new product lines. (Annual Report Inter Cars, 2012)

4.2. The market entries of the company

According to Inter Cars, the market entries are realized through the franchising directly, as having a good experience with this entry mode, by establishing the cooperation with an appropriate local franchisee partner from a host country. In the first stage of market entry, if a local partner is not available or not found yet, the own subsidiary is established and manage, until a franchisee will be found.

Inter Cars Poland

Formerly, the domestic market in Poland is the prime and most developed market for Inter Cars´ products. The Polish market of spare parts is relatively fragmented with many small brands available, however, with a consolidation trend toward a few strong brands. The main trend are common as in other markets, the intensive development of sales networks and product ranges, namely with propriety product lines and new product lines, such as garage equipment and salvage spare parts, strong sales support programs, just in time management of logistics and provision dates, extension of distributors position. Additionally, the largest distributors in the field of spare parts in Poland are Inter Cars, Fota, AD Polska and Group Auto Union Polska. The higher growth recorded in the domestic market than in export sales could be given by the higher sales network developed in Poland with 23, 1% total sales share compare to the overseas affiliates together facing 76, 9 %.(Annual Report Inter Cars, 2012)

To increase the independency of Inter Cars and to develop the vertical expansion and decrease the costs, in 2003 the business of technological advanced system of the recovery of vehicle spare parts was involved to the Group. A new company *Lauber* concentrates mainly on the technologically advanced recovery of used spare parts so that they can be used again as a reconstructed product with a whole functionality. (E.g. starters and power steering systems, alternators and booster pumps) Because of the spare parts recovery system, the purchase of new costly spare parts could be postponed or avoided that could attract more customers.

In the year 2004 another company, the manufacture of semi-trailers, trailers and casings for trucks, was joined to the Group. The products are sold mainly on the domestic market, although being successful in the Russian, German, Scandinavian, French and Czech market as well. *Feber* is not directly dependent on any supplier, trying to maintain its strong position on the market.

Q-Service was established in 2012 in order to provide experts consultancy, the organization of trainings and seminars regarding automotive services for franchisees in order to mediate attractive purchase offers for automotive goods and parts. Q-Service is one of the benefits for the franchisees in order to increase their knowledge and confidence by the sales and operating a franchised unit.

Inter Cars Ukraine

The master franchising in Ukraine and the first affiliate was established in 2000. The business scope remains the same as in the home Poland market, thus the distribution of spare part and automotive accessories in the Ukrainian market, both the branded products and cheaper but good-quality product version selling on the aftermarket. They are supplied by the Inter Cars and manufacturers directly, 30% of Inter Cars Ukraine's total purchases to 70% of local manufacturers. Inter Cars Ukraine as the second largest importer of the spare parts in the Ukraine, has an estimated share in the market to 5%. However, the strengthened regulation between The EU states and Ukraine complicated the business development.

Inter Cars Ceska Republika

The distribution of spare parts in Czech Republic has begun in 2004, now operating with 15 affiliates with a rapid growing tendency. The product range includes the majority of 60% sales of spare parts, 29% for commercial vehicles and tires and motorcycles accordingly. The goods provided by Inter Cars are on the level of 75%, the rest represents the manufactures from the European Union. The growth in sales recorded in 2012 is the consequence of the *state-of-the-art integrated IT system* operating on-line at all subsidiaries providing the customer with *IC-Catalog software* on an ongoing basis. Secondly, the Inter Cars in Czech Republic provides *the AutoCrew service system* that encompasses the direct sale to consumers.

Inter Cars Slovenska Republika

The market entry of Inter Cars was successfully done in the Slovak market in 2005, when the distribution of spare parts started with continuing growth to 13 independent garages. The growth in the Slovak market is supported by the significant growth of imported used cars, thus, the higher need of automotive spare parts. The main supplier for the company is Inter Cars with approximately 78% of total purchases. The logistic of the spare part is covered by the warehouse in Tychy, used also as the company's principal warehouse facility.

Inter Cars Lietuva, Inter Cars Hungaria kft, Inter Cars d o.o., JC auto srl, JC Auto S.A. (Belgium)

The other market entries will be chronologically introduced. Firstly, the successful market entries continue with 2006 entering the Latvian market operating now with three affiliates.

The Hungarian market entry was a result of the merger of Inter Cars S.A. and JC Auto S.A. on February 2008. The Hungarian market is covered by 8 affiliates with a major supplier of Inter Cars. The success of Hungarian affiliates is given by the dominance in distribution of spare parts for Japanese automobiles as well as the introduction of direct customer's online services.

Thirdly, the Croatian market is served by 12 own affiliates, where the first one was established as the merger of Inter Cars S.A. with JC Auto S.A. in 2008. In the industry of spare parts Inter Cars achieve a significant grow as the leader of spare parts sales for Asian cars.

Fourthly, in Italy JC Auto s.r.l. was acquired as the result of the merger of Inter Cars S.A. and JC Auto S.A. in 2008. Fifthly, the expansion continues on the Belgian market with the merger with JC Auto S.A. in February 2008. Sixthly, the company in Romania started its sales activities in 2008 taking the 5th place in Romania in the sector of spare parts distribution. Seventhly, Inter Cars Cyprus Limited was established in 2009 with slight growing tendency of sales amount. Eighthly, in 2011 the Inter Cars Bulgaria continues with one affiliate.

To sum up, The Group is represented in 10 countries in Europe, namely, Poland as a home market and the strongest one, followed by Ukraine, Czech Republic, Slovakia, Latvian, Hungary, Croatia, Italy, Romany, Bulgaria, Belgium and Cyprus. The Group owns or franchises 150 affiliates and belongs to the biggest distributors of spare parts in Europe. The Expansion on foreign market started in 2000, ten years after the establishment of Inter Cars. Furthermore, the expansion continues in 2007 with the merger of Inter Cars with JC Auto that enabled to increase the distribution network and wider assortment availability. The recognition of the company is being supported by the membership in international organizations as ATR International AG, APRA and PROREP.

The strategy concentrates on European markets with higher tendency to let the cars repair then to replace them in 5 years intervals. The further strategy would like to succeed in more advanced markets of Germany and Austria, thus, without any significant success yet. Inter Cars used the dual strategy operating with franchising and own stores at the beginning of the market entry. In Poland there are only franchised units, as well as in Slovakia, however, in Czech and Hungary still operates franchised units and own stores, until the appropriate partner will be found.
Regarding the supply chain issue, Inter Cars has formal agreements with some Group´s suppliers adopted for one year, however it do not force to generate a specific turnover for a supplier.

Finally, the future development of the company is planned in Germany and Austria; however, different market entries models were used. In Germany the joint venture were used and the cooperation with Cleverlog in Germany was established through the B2C project *Motointegrator*. This project is aimed to reach some know-how on the German market. For the Austrian market another strategy was used, the direct franchising partner was searched in 2009 in the period of one year, however, without success, what will be explained in the following chapter.

4.3 The fail of market entry in Austria

The aim of our master thesis is to analyze the market entry strategy to Austrian market in 2009 that was in the case of Inter Cars not successful and to propose the improvements. Through the in-depth interviews of the directly involved persons, the reached data will be introduced and the position of Inter cars will be analyzed.

Through the lens of Inter Cars Poland, the market opportunities and attractiveness bring them to the idea to further expansion in the Austrian market. According to the ex-post collected data, conversations and in-depth interviews, we can conclude following about the case.

The decision to enter the Austrian market came into force in Poland in 2008. To clarify the possibility of the market entry in Austria, Inter Cars Slovakia was chosen as an area development franchisee. The reason of the market entry through the area development franchisee in Slovakia is the proximity to the Austrian market, the long lasting good relationship, great economic indicators, as sales, quick improvement in the establishment and the grow of new affiliates in Slovakia and the overall reliance of Inter Cars Poland to the Slovakian franchisee.

In the first phase, the idea was to serve the border areas of Lower Austria by the area development franchisee in Bratislava, Inter Cars Slovakia. Inter Cars decided to expand through its franchisee partner operating in Slovakia, because of the low physical distance to Austria, their profitability, logistic system and so the probability of lower costs involved to a new market entry. Disposing with the warehouse in the average value of 600.000€ in Bratislava, providing the initial needs of new affiliates in Lower Austria to the distance of 100 km. The border area was seen as the initial market entry area by the further development to the central parts and the capital city of Vienna.

The initial investment was mainly embedded in the personality of a sales representative, with the excellent knowledge of local Austrian culture, German language and reach previous experience. He cooperated directly with the area sales manager for the west Slovakia, with the headquarters of Inter Cars as well as departments in Poland. By interviewing the sales representative, he asked nearly 50 auto services in the border area, providing them with the information about the cooperation possibility with Inter Cars and advertising materials. The majority of them did not know Inter Cars, thus the firm has no name in Austria and low credit for Austrian customers. Moreover, the majority of well-established auto services in Austria are the domiciliary ones, having a long tradition and stable customers.

On the other hand, there was a strong comparative advantage on the site of Inter Cars both, for potential franchisee partners as well as for potential customers. The potential franchisee were attracted on the well-established brand name of Inter Cars in Europe, favorable selling conditions, great logistics system and the proximity of worthy warehouse with free delivery two times in a day following the orders as well as interesting turnover bonuses. For the customers there were the best price offers in the area, branded and non-branded products, quick delivery and attractive customer loyalty program.

As Horn et al. (2005) stated, regarding the business reports, on the one successful market entry, there are four fails. Thus, in the case of Inter Cars nothing unusual happened. After the more than one year effort to establish the business relationship with a local partner, this attempt was not successful and no potential franchisees were found. As the Inter Cars Poland was not willing to dedicate higher investment to this market entry, they trusted in the negotiating and logistic capabilities of the Slovakian franchisee. It can be concluded that for such an important market entry, which could potentially opened the doors to the German market as well, not many resources were dedicated. The geographic area was chosen because of the proximity to Slovakian borders, could maybe not make the whole picture of the Austrian market, thus, not having so much demand as conceptualized by Inter Cars. The competitors on the local market were not considered, the direct, indirect, potential as well as new entrants. Thus, more specific targets were not specified, as potential market share revenue, that could be concluded from the competitive analysis and considering of own possibilities. Inter Cars concentrated primary on the sales representative, who should attract potential franchisee and established cooperation. However, the possibility of direct exporting was omitted as not being necessary in previous market entries attempts of Inter Cars. Moreover, the sales representative even having an excellent German culture and language knowledge was not a native speaker or an Austrian.

According to Johanson and Wiedersheim-Paul (1975) the most crucial barriers to internationalization process are the lack of knowledge about foreign countries, the lack of resources and a propensity to avoid uncertainty. The reason of the failure was, as by Inter Cars identified, in the Austrian potential partners' conservative approach, the willingness to cooperate predominately with some local firms and suppliers as well as different Austrian market specificities. As by Inter Cars examined, the biggest comparative advantages were the competitive product prices, however this advantage was not significantly reflected. It can be conclude that the lower importance of purchasing price in comparison to other factors, the different preference of buying habits, where a price is not such a relevant indicator as quality, localness and environmentalism was indicated. As indicated by Inter Cars, they stress the importance of the internal analysis of conditions, cost and possibilities through the tools as brainstorming, consultancies, advertising materials, flyers and the person of sales representative.

On the other hand, the analysis of external conditions in Austria were underestimated, the tools as SWOT analysis, the research of the competition in the market, similar firms´ market entries collection was not applied. Moreover, the whole market entry in the hand of one person, namely the sales representative, instead of team creation that would include an Austrian native speaker member, could be seen as quite risky. Thus, Inter Cars overestimated its own abilities to compete in the Austrian market. The analysis of external condition failed, e.g. as proposed by Horn et al. (2005) by creating a reference class of some examples of similar entries in the past in order to promote systematic learning from the success and failure of similar firms and counteract the tendency to fall into the *confirmation traps* of market entry promoters.

After the interviewing 9 relevant persons from Inter Cars involved in the market entry in the Austrian market, the following problems were identified:

Table 2: The reason of no-cooperation through the lens of Inter Cars

Confirmed as relevant by Inter Cars	Identified possibilities
56%	Austrian nationalism and localness
22%	Cultural differences
11%	Communication barrier
-	Bad previous experience of an auto service
11%	Fear to established new cooperation
-	High price of Inter Cars
-	Low quantity
-	Consideration as no-name brand

Source: own-made

On the other hand, by interviewing randomly selected 10 auto services, which were asked by the sales representative of Inter Cars in 2009 to establish cooperation, the answers were assigned as follows:

Table 3: The reason of no-cooperation through the lens of Austrian auto services

Confirmed as relevant by the auto services	Identified possibilities
-	Austrian nationalism and localness
10%	Cultural differences
20%	Communication barrier
10%	Bad previous experience of an auto service
20%	Fear to established new cooperation
-	High price of Inter Cars
-	Low quantity
40%	Consideration as no-name brand

Source: own-made

To sum up, different points of view could be seen on the both sites. Through the lens of Inter Cars, the cultural dimension, namely the Austrian feature of nationalism and use of local services and providers, were identify as strongly influencing the decision of auto services not to establish the cooperation with Inter Cars on the franchising or exporting level. It can be supported by the potential competitors´ analysis of Inter Cars, where the majority of successful Austrian auto services have a long history and are originally established in Austria. (E.g. Forstinger, Profi Reifen-und Autoservice or Denzel). On the other hand, this could be seen as a pure self-excuse of the unsuccess, because as seen by the Hofstede´s model, there are no significant differences between both, Slovakian and Austrian culture. Other point defined as problematic was a fear to established new partnership that could be explained by the lower market power of border areas. Moreover, communication barrier was identified. This could be solved by engaging an Austrian employee by Inter Cars.

Through the lens of local providers, no previous experience with Inter Cars as a brand in automotive sector was identified as the most influential. The providers confirmed that if they will achieve any previous experience with Inter Cars, the establishment of cooperation would be more probable. From the unknown partners name, the fear to establish a cooperation results, supported by the communication barrier. These problems were identified by auto services as a reason of a decision not to cooperate. Only one auto service decision not to cooperate was a result of previous bad experience. The interviewed providers confirmed that they would be more willing to cooperate in the form of export- import relation or franchising subsequently, if the brand would have a good name in Austria. Resulting from this brief research, for Inter Cars, the acknowledgment of their brand should have a priority. Then incorporating an Austrian team member would help to overcome the communication and cultural barriers and the resulting fear of cooperation.

The consequent question is, *when would be the interviewed auto services willing to establish cooperation with Inter Cars*. After interviewing the 10 of them, the answers were distributed as follows:

Table 4: The willingness to cooperate will growth if…

40%	Firstly, the establishment of a temporary export cooperation
30%	If the appropriate capital is available, franchising would be a good choice
30%	We are not willing to go to any cooperation, except of supplier-purchaser

30%	If a franchisor operates in Austria already
50%	If the franchisor operates in other German-speaking countries
20%	If the brand is well-known in German-speaking countries

40%	Fear of losing stable customers
40%	Unstable economic situation
20%	Low purchasing power

Source: own-made

We can conclude that for the Austrian partners, firstly the temporary cooperation through the export agents would be acceptable. Then, some internal problems could be identified, as absent of capital to catch new business opportunities or the overall unwillingness to open the door to the second party as a fear of influencing the business negatively. A brand recognizing was interviewed; the operating of the company in a German- speaking area would be a sign of recognition. Secondly, the operating directly in Austria would be appreciated or, minimally, the brand should be well-known in German-speaking countries. External factors were intended by the third set of answers. The cooperation was rejected because of a fear of losing stable customers. Moreover, the overall unstable economic situation in 2009 could be also a reason for higher unwillingness to cooperate. Consequentially, from unstable economic situation lower purchasing power of customers, results.

There is another perspective to be reflected. An interested franchisee could be attracted by a company, thus a franchisee will find the company. There are many web pages that connect the franchisor to franchisee. Or one representative affiliate could be established in Germany or Austria that make the brand well-known in German- speaking countries.

Finally, according to the literature research, some satisfactory decisions by the market entry of Inter Cars could be named; on the other hand, the decisions that should be modified will be examined as well. Firstly, franchising as a market entry mode can be seen as an appropriate choice. However, according to the interviewed auto services, the non- equity mode as an exporting would be more preferred. Secondly, the time period of the market entry in the year 2009 in the time of global recession could be identified as one of the reason of fail. Before the new market entry, the general economic situation should be taken into consideration. The well- prepared sales representative is an important point, however, the team should be extended by an Austrian member with relevant experience. Moreover, the success of market entry could depend on the capital dedicated to the market entry and the dual structure of managing an own stores and franchise unit would be recommended.

5 Findings

According to our objective to apply the theoretical concepts on the process of internationalization through franchising of the case study of Inter Cars Company, the findings will be discussed in the following chapter. Inter Cars' fail of otherwise successful market entries will be analyzed and discussed and the new strategy of the market entry will be proposed.

5.1 The Eclectic model

To extend the understanding of internationalization through franchising, to encompass the knowledge from literature review, an eclectic model for our applicability will be proposed.

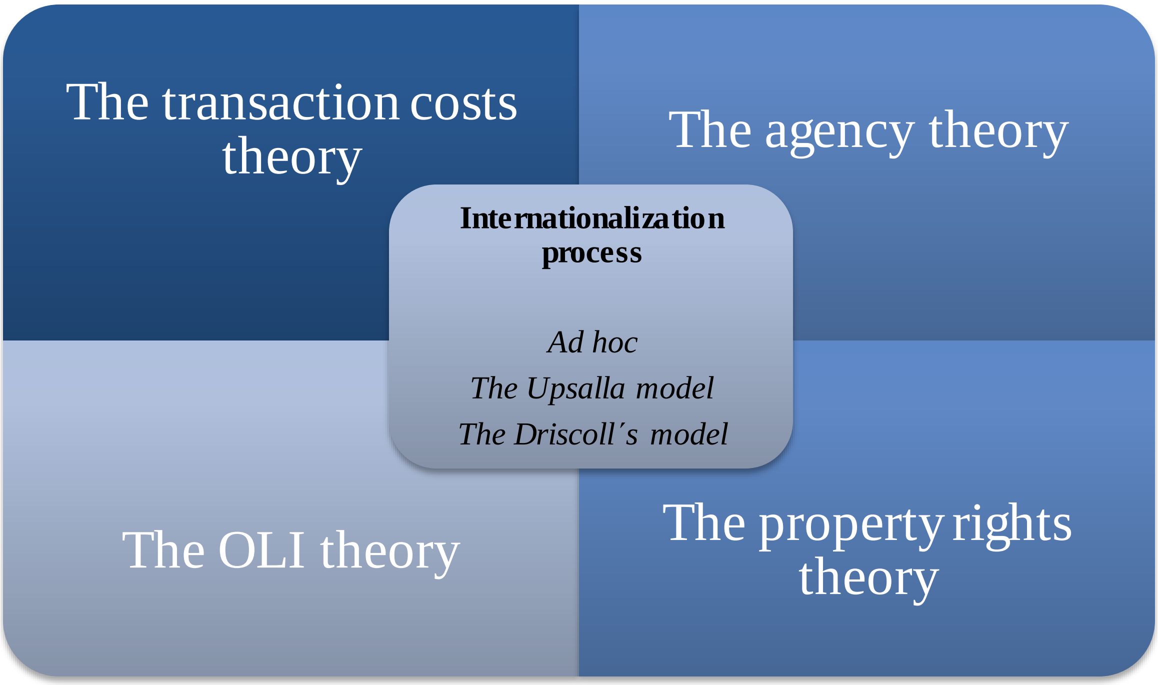

Figure 2: The eclectic model, source: own-prepared

According to the transaction costs theory, under the assumption of profit maximization and the bounded rationality, three dimensions should be stressed. The transaction theory point on the consideration of internal and the external costs, thus, providing the action by the firm internally, or externally, by finding an appropriate partner, considering the profit maximization assumption. In the case of Inter Cars, following the internal strategy of costs saving, the external partner should be fined for providing the affiliate in the Austrian market. Secondly, Inter Cars should take in to consideration the bounded rationality in the market and cultural, institutional and business environment uncertainty. Thirdly, after finding the appropriate partner, the efficient contract should be established in order to optimize the allocation of precaution, decrease the risk and minimize an opportunism of the franchisee.

Moreover, according to the transaction costs theory, considering the market entry strategy of Inter Cars, the *recurrent frequency of market transactions* would be optimal and *the investment characteristic* of Inter Cars can be seen as nonspecific, by purchasing standard products. Then, the transaction of Inter Cars should be regulated by classical contracting and market governance, although the frequent investment is required, highly bilateral governance structures and contract should be established. (Maher, 1997)

On the other hand, the environmental uncertainty will prevent the Inter Cars to set detailed contract terms and the need for ex-post adaptations will be required. This will lead to more residual rights and less specific decision rights settled on the franchisee. However, we can suppose that the bilateral dependency of partners will increase the hostage effect and the willingness to cooperate. (Hendrikse and Windsperger, 2011) To sum up, the importance of establishment an efficient contract for Inter Cars with potential Austrian partner is clear, however, the inability to set all the necessary conditions into the contract because of the market uncertainty and bounded rationality will prevent that, nevertheless, we can suppose that the hostage effect balance the environmental uncertainty.

According to the agency theory, Inter Cars should take into consideration the realistic premises of the agency theory, given by the bounded rationality, the risk of opportunism and conflicts, the stress on economic incentives and profit maximization, the incorporation of intangible assets (e.g. knowledge, technology and goodwill), the information asymmetry problem and the relevance of information transfer as well as incorporating of monitoring activities and performance measurements. Inter Cars should take the agency problem into consideration by internationalization, because it explains how to manage the relationship between the franchisor and the franchisee. Nevertheless, the elaborated monitoring activities and performance measurements may ensure the efficiency. (Doherty, 1998; Doherty and

Quinn, 1999; Mahony, 2005; Michael, 2000; Hendrikse and Windsperger, 2011; Rubin, 1978)

According to the Dunning´s (2011) OLI paradigm, the non-equity alliances are becoming more and more influential, as joining on the first sight adverse qualities, cooperation and competition, franchising connects the strong sites of both contractual partners. By franchising, the (O) ownership quality is not only internally achieved quality, however, depends on the external support of a franchisee. Thus, in the long term, Inter Cars' decision to expand, fulfilled the dimension of internationalization (I) by their new market entry strategy and attempt to enter Austria (L) through franchising, could be seen as favorable, as combining the ownership quality of both, Inter Cars and franchisees. Inter Cars decision is willing to enter the Austrian market´, as his home market (L) location advantage of utilizing his (O) ownership specific advantage was less significant than serve the foreign market from the foreign location. As already mentioned, the attractiveness of Austrian market was the incentive to penetrate on the market of spare parts through the franchising of Inter Cars.

According to the property rights theory, Inter Cars should consider the property right as playing a decisive role by the distribution of bargaining power, organizational and financial position in the relationship. In the case of Inter Cars it seem like the more intangible asset own the potential franchisee in the relation to their intangible local knowledge assets. Consequently, it can be expected that more decision rights would be dedicated to the site of a franchisee. Inter Cars should count with that and find the way how attract a local franchisee to an efficient cooperation.

Regarding our analysis of current most influential theories in the terms of internationalization with the focus on franchising, we would like to conclude for the case study of Inter Cars the following propositions that could positively influence the future attempt to market entry in the Austrian market. Consequently, a new market entry strategy will be proposed.

- *Proposition 1: The higher the internal transaction costs of market entry, the more likely will it be done externally (e.g. in cooperation with a franchisee partner)*

- *Proposition 2: To decrease the agency problem, franchising could be recommended as an appropriate market entry form. In order to ameliorate the market position, the dual structure is recommended*

- *Proposition 3: In franchising the (O) ownership advantage of franchisor is not only internally achieved, however, externally extended by the franchisee's competence to innovate, bring efficient price mechanism and quality control.*

- *Proposition 4: The more intangible the local knowledge assets on Austrian market, the more property rights should dedicated to a franchisee.*

Taking into consideration the internationalization process of Inter Cars, it does not actually follow the graduating process of cumulative decisions and gathered knowledge and resources while expanding. The internationalization process of Inter Cars is not stipulated by higher need of control and setting in higher equity modes. Despite the fact that Inter Cars has not followed the Uppsala model in the sense of gathering higher control and equity modes, by the choice of a host market, the culturally and psychically closer countries were opened. Then the sales representatives operate in a host market, as being not so costly, in order to find an appropriate local market partner and established a franchised affiliates. It can be concluded that the case study of Inter Cars follows the Uppsala model just partially in the sense of expanding in physically and psychically approximate countries, however higher equity modes are not seen as more advantageous as including more cost for a company. In order to profit maximizing, franchising as an equity mode is the most preferred, as they have a long lasting positive experience with the expansion through franchising. The second plausible entry mode, is the opening of own stores, however, this is considered as being more costly solution and in the long run, the search for a franchisee continues.

According to the Driscoll model (1995), before the internationalization three factors should be considered, in order to achieve success of market entry. Internally, Inter Cars should understand the firm's comparative advantage, identified as a purchasing price of spare parts and automotive tools as well as well-developed logistics system. Moreover, previous experience should be considered as well, namely the success achieved by franchise unit in many European countries, the own stores unit operating as well, and the long lasting sales grow tendency. If the weakness could be named as well, Inter Cars is well established in the CEE region, and have no or just little experience in the west Europe countries, as Germany, France or Austria, except of the recognition of the membership in the reputable German organization in the automotive and spare parts industry Auto-Teile-Ring GmbH (ATR). To consider the external factors political, economic and socio-cultural factor in Austria, are very favorable in being a part of united European market, the market entry barriers are low, thus, any policies or regulations on the economic or political level should not create officially any barriers to enter the market. However, the socio-cultural differences should be analyzed. The cultural impact analysis based on Hofstede is proposed, to understand the inter-cultural differences, and will follow in the next chapter. Ad Driscoll (1995) stressed, the decision of the market entry equity involvement should follow. The cost saving criterion and good experience by the franchised units, directed the decision to contractual entry mode. However, it can be concluded that for the opening of a market export entry modes would be effective as well and could create the way of market entry in the Austrian market.

According to some scholars (Bai and Tao, 2000; Bradach, 1998; Cliquet, 2001; Michael, 2000; Sorenson and Sorensen, 2000; Spranger, 2005; Windsperger, 2004), for the company with previous positive experience with the market entry through franchising, but when facing the difficulties by the finding of an appropriate franchisee, the using of dual structure serves as a good tool to overcome the disadvantages of franchising and gathering the pros of own store units. In spite of the higher costs included the strategy help to solve the weaknesses and ameliorate the strengths.

- potential problem of free riding in franchised units vs. motivation of local managers
- higher quality level of own-stores vs. depreciation of quality in franchising
- uniformity vs. local perspective
- Higher vs. low-powered incentive contract
- Explore vs. exploit a market
- Unit- specific effort vs. general chain effort

5.1 New strategy for the market entry of Inter Cars in Austria

According to the theoretical background and the proposition of the eclectic model encompassing the most influential theories of market entry, the agency cost theory, the OLI paradigm, the transaction costs and the property rights theory; new market entry strategy will be concluded.

Taking into consideration the internal and external factors influencing the market entry of Inter Cars, in 2009 Europe facing an overall market's downturn, it would be appropriate to repeat the market entry in the period of a general market growth. From the internal factor the improvement of the sufficiency and reliability of information inputs. It was remarkable that Inter Cars did not devoted a lot of time to a market research before the market entry, thus we recommend and provide to integrate classical research tools as a competitive analysis, SWOT analysis as well as the cultural impact analysis based on Hofstede.

According to the Uppsala model, as a market entry to the new type of a market, the Austrian one, the graduating involvement in the market would be recommended. The market entry through exporting, temporary or regularly would be a good starting point. This initial step could increase the acknowledgment and popularity of the brand abroad. Then, as to follow the strategy of Inter Cars and their good experience with franchising, this stage could follow. Moreover, we recommend applying the dual structure, franchised and own store unit, in order to combine the opportunities of both modes. It confirms our first proposition and the aim of Inter Cars, to minimize the transaction costs of the market entry that will be minimize through the exporting in comparison with franchised units. In the second level, the dual strategy will minimize costs through the elevating of the pros and cons of the both model as confirmed by the research.

Regarding the willingness to enter the market through franchising as having good long-lasting experience with this entry mode, it would be a good decision as it is proved that franchising decrease the principal-agency cost. However, to find, or to be find by a relevant franchisee partner, the acknowledgment or a good name of the Inter Cars brand would be decisive. Otherwise, the local partners will not have any intention to cooperate, as seen till now. It is recommended to follow the market entry of Germany, where a joint venture was established. The cooperation on the B2C project *Motointegration*, online shop for end users, enables to get the market know-how for Germany. Moreover, as already mentioned, the need of finding a local person as a sales representative in the Austrian market is a distinctive recommendation as well.

The third proposition of the importance of both partners, would be relevant, after a finding an appropriate local franchisee. Not just begin of the cooperation, but the long-lasting, competent cooperation on the common business is important to maintain. The third proposition stresses the importance of the contract settlement, the appropriate distribution of competences and roles.

In the case of Inter Cars, on the first sight it seems that they are in the weaker position as a potential local partner. They are not known in Austria, have no recognizable brand-name as other well established Austrian spare parts distributors with the long history and are a new one on the market which is not already saturated. In this case, the fourth proposition aims to transfer more property right to a local partner, as this possess more intangible local knowledge assets. On the other hand, there is a slower way to make the Inter Cars brand recognizable in the Austrian market, for example, as in Germany by the joint venture through in the form of online B2C store, to get the local market knowledge.

Moreover, from the status perspective, Inter Cars should maybe change the focused area. From the purely border areas, it would be useful to establish one unit in the bigger city as well, in Vienna for example, in order to increase the status of a company. As a part of the new strategy recommended for Inter Cars, the SWOT analysis, the competitive analysis and the cultural impact analysis based on Hofstede will be introduced.

5.1.1 SWOT analysis of Inter Cars

To refine the decision making process, to explore avenues of new attempt of market entry and to identify possible areas for change in the expansion process, the SWOT analysis is proposed.

Internal factors

The strengths of Inter Cars:

- high expansion and sales growth and in the CEE´s states
- the logistic system with free delivery
- attractive customer loyalty program and selling bonus system
- significantly lower price and high quality of spare parts
- membership in reputable organizations of automotive world

The weaknesses of Inter Cars:

- limited resources, e.g. budget to attempt of market entry
- limited number of people dedicated to market entry
- no Austrian member involved in the process
- market entry through franchising, without dual strategy
- no previous experience in the Austrian market

External factors

Opportunities of Inter Cars

- the market trend of repairing cars instead of buying a new one
- higher failure rate of new models, environmentalism support the repairs
- the market gap in the spare parts and automotive repair part
- increasing price of spare part in the Austrian market
- pure cover of authorized garages in Lower Austria

Threats of Inter Cars

- harder acceptability of an unknown brand on the market
- local loyalty of Austrian customers, environmentalism
- different buying habits and distinct appreciation of products criterion
- quality more important than the biggest advantage of price
- strong brands well established in the Austrian market (Birner, Derendinger, Stahlgruber, Trost, indirectly Forstinger, ATU oder Denzel)

5.1.2 The cultural impact analysis based on Hofstede

One of the very well-known tolls to analyze the host country culture is the cultural impact analysis based on Hofstede. To understand the Austrian culture is a significant point by market entry that was overlooked by Inter Cars. In this part we serve you the brief Austrian culture analysis.

Low power distance

According to the cultural impact analysis based on Hofstede, the power distance includes the extent to which the less powerful members of a society expect and accept the power to be distributed unequally. In Austria a low power distance, characterized by decentralized power, independency, direct and participative communication, equality of rights of hierarchy members, accessibility of superiors, consultation between managers and their teams and informality, is welcome.

Individualism

Individualism characterized the degree of interdependence of the society members, if this is characterized by *I* or *We*. Austria could be seen as a strongly individualistic society, where business relationships are stressed by the contract base on mutual advantage, decision are taken on merit of the subject only.

Masculinity

The dimension of masculinity identifies the driving factors in the society, competition vs. cooperation, achievement and success vs. general welfare, being the best vs. liking what you do that is reflected in organizational behavior as well. The Austrian society is characterized by being highly masculine, success oriented according to *live in order to work*. By the local cooperation the decisive solutions, competition and performance will be emphasized and conflict are solved by fighting them out.

Uncertainty avoidance

Uncertainty avoidance examines the cultural dimension of a society to manage the fact that the future could never be known. There is a possibility to try to control the future or let it happen without the significant interventions. In Austria the strong preference of avoiding uncertainty is present, given by rigidity in codes of beliefs and rules, cultural needs for rules, being precise and punctual is the norm, they act in the believe that time is money, innovation factors may be hidden more than security that is preferred element in individual motivation. Decision making process takes a careful analysis of all available information, intuition and feeling not taking in to the consideration.

Pragmatism

The pragmatism describes the tendency of a society that every argument and phenomenon can be explained in the practical terms, although, much that happens around us cannot be explained. According to Hofstede (2014) the challenge is not to know the truth but to live a virtuous life. The Austrian society is described as a pragmatic culture, with strong normative orientation, where truth is not generally given, however, depends on the situation, context and time. Austrians show the sight of an ease adaptability of traditions to changed conditions over time, with inclination to save and invest.

Indulgence

Being indulgent (vs. restrained) speaks about extent, to which people try to control their desires and impulses. The Austrian market could be characterized as a strongly indulgent one, people have a tendency to fulfill their desires and impulses, enjoy life and have a fun, possessing a positive attitude and acting optimistically. Austrian business partner, except of other dimensions, stress the importance of its leisure time and enjoy the success. (http://geert-hofstede.com/austria.html, 2014)

To sum up, by the market entry of Inter Cars in Austrian market, the Austrian and Slovak culture will be confronted. To compare, according to the cultural impact analysis based on Hofstede, the Slovak culture is strongly hierarchical organized what is in contrast with independent working style of Austrian, taking the responsibility to all the members of the team. The level of individualism in both cultures is nearly the same; however, with a higher level in the Austrian culture, thus the business partnerships have to be settled on the appropriate levels. Both countries are highly masculine, thus, with tendency to achieve success and good performance, Slovakian market is considered as being more masculine, success oriented and driven by goals achievement. The stress on rules and believes is included in the higher percentage reached in uncertainty avoidance dimension, where Slovakia is less concerned on rules and tends to act more freely compare to Austrian people. Regarding the pragmatism, Slovakia could be regarded as clearly pragmatic culture, believing that truth depends on situation, context and time, strongly present also in Austrian culture. Major difference is in overall tendency to cynicism and pessimism, *considering some things as they cannot function* in Slovakian culture. Contrasting the Austrian tendency towards optimism and enjoyment the live, *regarding things as the can function.* (http://geert-hofstede.com/austria.html, 2014)

Finally, taking into consideration these differences, Inter Cars should penetrate the market with respect to local culture, reflecting the relative discrepancies and differences, as it was not taken into consideration by the first attempt. A strong tendency in Slovakian culture to pessimism, could make the initial failure of attempt to enter Austrian market prevent other attempts, However, this would bring to long run perspective. Moreover, different perception of power distance and waiting for the instructions from above, can make all the procedures in business boldly slower, people preventing to take responsibility and decisions in own hands. That could also prevent the success of market entry of Inter Cars.

5.1.3 The competitive analysis of Inter Cars

Regarding Inter Cars in the Austrian market, the hierarchy of competitor awareness will be analyzed. Direct competition that could potentially correlate with the focal firm interest on the market in terms of customers serving includes mainly Birner, Derendinger, Stahlgruber and Trost.

Direct competitors of Inter Cars

In the terms of direct competition, the pros and cons of the firms Birner, Derendinger, Stahlgruber or Trost, strongly placed in the Austrian market, will be introduced. According to competition analysis, these were identified as the direct competitors in the Austrian market. (Bergen and Peteraf, 2002)

Birner

Birner is the original Austrian business established in 1931 with a remarkable growth, still handled by the family members of Birner. The first place in the market is stressed by the 27 affiliates in the whole Austria employing 520 people. The core business is in spare parts distribution of all brands, then the equipment and tools for work stations. Birner has a strong position in the lower Austria as well as a strong name in Vienna, well-developed logistic system and customers network system. (http://www.birner.at/ueber-uns/, 2014)

Derendinger

Deringer is an Austrian company in the field of spare parts, operating with 29 affiliates and 330 employees with the stress on quick delivery system with 80 delivery cars. Derendinger offers more than 250,000 parts for around 15,000 vehicle types. All products are sourced from reputable supplier for a good retail price. The stress is given to the serving of Upper Austria, with a fast delivery system, Derendinger online store covering B2C business as well, consulting and sales in 29 stores, local customer service with 27 sales representatives and service technicians, technical support hotline and trained employees. (http://www.derendinger.at/de/ueber-derendinger/portraet/,2014)

Trost

Trost, established in 1904 in Germany, is still partially in the hands of Trost family. In the year 1996 begun Trost operate as the first full-service-concept including technical, organizational and communication service. Through the acquisition of Meteor Group in April 2008, the expansion in CEE region begun, (e.g. Germany, Austria, Romania, Slovakia, Czech Republic and in Ukraine) Now, with 130 locations in seven countries are served by nearly 3000 employees and generates sales more than 500 million euro. In Austria 8 affiliates were established, operating mainly in Vienna with three affiliates.

Stahlgruber

This company was established in 1923 in Deutschland, now Stahlgruber operates within 170 countries, in Austria with 15 stores with the assortment of around 500.000 spare parts articles. The affiliates are mainly in the Lower Austria. (http://www.stahlgruber.at/, 2014)

Potential competition

Firms available in the target market that currently do not serve the same sort of customers, serve different market needs, however, face the similar resource endowment, could be define as potential competitors. These should be taken into consideration by the competitive analysis as by the middle term competitive risk. By Inter Cars case study, *Profi Reifen- und Autoservice* could be a potential competitor, as by the growth of its portfolio could serve the same customers' needs as Inter Cars, although, now concentrating mainly on the tire service and sales. (Bergen and Peteraf, 2002)

Profi Reifen- und Autoservice

Profi Reifen- und Autoservice founded in Austria in 1971 is the Austrian number 1 in the tire retail sector and automotive service and selling of spare parts. Oriented on private and firms customers, serves them in more than 40 affiliates with Service quality in the focus, active abroad as well with partners in 21 countries with more than 2000 services available. The pros are the availability also in border areas of Lower Austria, strong marketing with interesting web page and the online shop available with payment after montage. The pros and cons in one, depending on the point of view, is the specialization on the tires assortment and corresponding service and sale. (Profi Reifen- und Autoservice, 2014)

Indirect competition

Firms with different products, but serving the same customers need, could be seen as an indirect competition. In terms of Inter Cars, Forstinger, Midas A.T.U. and Denzel in the Austrian market could indirectly take the customers of Inter Cars, which choose an expensive brand of cars and would prefer the exclusive service. (Bergen and Peteraf, 2002)

Forstinger

In 1962 opened Mr. Forstinger the first warehouse in Austria with the idea to encompass the entire necessary assortment for vehicles with professional consultancy for top prices. Until now, Forstinger is the leading automotive retail seller, operating with 114 affiliates in the whole Austria including spare parts sector, tuning and bicycles with a very long Austrian tradition and good image. The pros of Forstinger are the long tradition in Austria, wide assortment, and repair service within 24- hours and many affiliates. The minus of the firm could be seen in the loss of traditional automotive customers as they started with diversification and strong, modern image, the unsuccessful of expansion abroad. (Wörlem in: Parlamentny Kurier, 2005)

Interestingly, Forstinger starting its internationalization process in Slovakia in 2005 did not reach success as well, thus, ended his operational activities in Slovakia in the 14 of April 2014. Regarding the internationalization strategy, Forstinger chose for his first market entry Slovakia, because of the market proximity with the capital city of Bratislava handling with great strategic and logistic location, significant market growth and favorable economic conditions (e.g. flat tax system), similarities of Slovakian and Austrian customers as well as under saturation of the automotive market sector. Forstinger entered the Slovakian market through the own store affiliate, opened in the business area of Bratislava, planned to opened another 8 to 10 affiliates in three years. Their market entry was directed through the cooperation with Action Global Communications agency, the leading emerging markets strategic communications consultancy, starting his activities in Slovakia in 2001. As already mentioned the market entry was not successful and ended their business activities in 2014. (Action Global Communications, http://actionprgroup.com/, 2014)

Midas

Midas, established in Chicago (the US), belongs to one of the largest auto service providers in the world, operating mainly in form of franchising by more than 3000 affiliates in Austria, Australia, Belgium, Brazil, France, Italy, Canada, Mexico, New Zealand, Poland, the United States and many others. The first affiliate in Austria opened in 1992 with a growing tendency, now operating with 9 affiliates in Wien and 2 in Lower Austria. Midas is strong in Wien and lower Austria, however, not direct in border areas. Their philosophy is based on the system of direct service without booking an appointment in the workshop before, free cost estimation for the customer and free Quick-check (e.g. general control by every visit for every customer). Moreover, customers-oriented approach and focus on long-term partnerships with customer, suppliers and employees. (Midas, 2014) http://www.midas.at/

A.T.U

A.T.U was established in 1985 in Germany, with the first affiliate opened in Austria in 1997. The pros of A.T.U. are in the strong name in Europe with more than 650 affiliates operating in Germany, Austria, Switzerland, Nederland and Czech Republic. A.T.U. stresses the strong international logistic network with delivery within 1-2 days and free shipping over some amount. A.T.U. is strongly customers-oriented and environmentally friendly, supporting many recycling and environmental programs, directly building their own recycling points. The con is the weak representation of affiliates in Lower Austria and the foreign establishment. (A.T.U, 2014)

Denzel

Denzel, established in 1934 by Wolfgang Denzel, is one of the biggest companies in Austria with the concentration on quality and exclusivity. However, the representation of Denzel in Austria only by 13 affiliates in big cities, overlooking the border areas with strong focuses on expensive brands of automobiles (e.g. BMW, Porsche, Hyundai, Mitsubishi or McLaren) (Denzel, 2014)

6 Discussion

In the discussion we would like to summarize the aim of the master thesis for readers and state the major results of the case study of Inter Cars. By analyzing the case of market entry attempt of Inter Cars in the Austrian market, the aim of the master thesis was to identify the reasons of the initial fail of the company as well as their pleasant steps. The initial aim was to state a new market entry strategy, the elements that were missing in the first attempt and to complete a whole picture of a CEE region´s company trying to enter a well-developed Austrian market in the specific B2B sector of spare parts distribution. The data were collected from the direct involvement in the company, from the interviews and observation. Both engaged parties were asked, Inter Cars as well as the addressed auto services.

We can conclude that the fail of the market entry of Inter Cars is the mix of several reasons. Mainly, the internal factors as an insufficient financial capital dedicated to the market entry, indirect involvement of the main company in Poland, stronger interest for an German market, where different strategy of market entry was applied (through the joint venture with a local company and the involvement in the B2C project of online purchase of spare parts direct to customers, where the local know how is aim to be reached), creation of the team, where no Austrian member was included, stress on the market entry through franchising, however, in this case the cooperation would be easier through exports managers. We can follow with external factors, as the time period of market entry planned in the years of world economic crisis, the area of interests with slower purchasing power for spare parts products, no acknowledgment of a company by local market, no competition analysis that would show that strong local brands with a long tradition are available on the market. Moreover, the missing objectivity by the ex-post evaluation of the case, where mostly external factors, where identified as the reason of the market entry fail.

Our analysis of a case aims to help the company by the second attempt of the market entry planned for the year 2015. The stress is given on the progressive building of brand recognition on the Austrian market, following the strategy applied on the German market, more financial resources dedicated to the market entry, building a team including an Austrian member, We propose to use the dual strategy by opening both, an own store and a franchised unit. We propose to include the capital city in the planned market entry area, as Vienna could serve for an establishment of a representative store unit in Austria and the brand acknowledgement.

The aim of the theoretical part was to summarize the main research finding relating to the most influential market entry theories with the stress on franchising. From the theoretical part some proposition for the case study was concluded. We can state that market entry through franchising is a very popular solution, when a possess a good brand name in the area, ameliorate to decrease the transaction cost and helps to decrease the agency cost problem by motivating a franchisee in the different way as the local managers are. However, when the franchising does not succeed, the dual strategy of combined franchised and own store units helps to ameliorate the pros and cons of both market modes.

6.1 Limitations

The limitations of the study could be concluded from the applied qualitative research method. The individual case study limits the general validity of the results, the research findings could be tied preferentially to this specific research of the market entry of Inter Cars. However, for the similar companies in the same or similar industry facing the similar problems, the case study could be used as comparison. The qualitative character of the research brings the limitations, as it is not common that two companies will behave or act through their expansion similarly and in a fully predictable manner. We can state that the research has an individual validity and specificity as well as limited applicability.

For the future research, the extension of the research of a market entry through franchising on other firms and their specific experience of the market entry in Austria would be interesting to analyse. Additionally, to conclude some qualitative research with extended general validity of research findings would be recommended.

7 Zusammenfassung

Die Diplomarbeit beschäftigt sich hauptsachlich mit dem Thema Markteintritt durch Franchising in Verbindung mit der Fallstudie des Unternehmens Inter Cars und Ihr Misserfolg von dem Markteintritt in den Österreichischen Markt in 2009. Die Hauptfrage ist, wie man bei dem Markteintritt in einen neuen Markt erfolgreich sein zu könnte mit dem theoretischen und empirischen Wissen und in Bezug auf die Spezifität unserer Fallstudie von Inter Cars.

Die Fallstudie von Inter Cars Ltd, basierend auf der Auswertung von den aktuellen internationalen Franchising Forschungsliteratur Quellen und der Markteintritt Analyse, die Motivation eines Unternehmens seine Aktivitäten durch das Franchising oder die Mischung von Franchise-und Firmenbesitz Einheiten zu internationalisieren. Darüber hinaus ist die Diplomarbeit auf das Konzept des Franchisings in den relevanten Markteintritts Theorien, die identifiziert wurden, gebildet.

Darüber hinaus, die Analyse von aktuellen Theorien, die Franchising zur Frage stellen, wird auf die Fallstudie von Inter Cars geprüft. Inter Cars-Gruppe wurde 1990 in Polen gegründet und gehört zu den größten Distributoren von Ersatzteilen für Autos und Lastwagen in Europa. Die Gruppe bietet auch Geräte für Werkstätten und Ersatzteile für die Motorräder und Tuning. Das Unternehmen konzentriert sich auf die Kerngeschäftsaktivitäten im Bereich B2B, die Ersatzteillogistik und Kfz-Dienstleistungen. Durch ein Online-Shop Projekt von *Motointegration*, das die Ersatzteilen für die Endnutzer anbietet, ist das Ziel die Anerkennung von allgemeinen Kunden.

Das Ziel unserer Diplomarbeit ist die Markteintrittsstrategie von Inter Cars in den österreichischen Markt im Jahr 2009 zu analysieren, die im Fall von Inter Cars nicht erfolgreich war. Der Misserfolg zu analysieren und die mögliche Verbesserungen vorschlagen. Durch die ausführlichen Interviews der direkt beteiligten Personen werden die Daten eingeführt und die Position des Inter Cars analysiert.

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8 Curriculum Vitae

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Geburtsort	Zvolen, Slowakei
Geburtsdatum	24 Januar 1987

Schulbildung

2012 – jetzt **Masterstudium, Universität Wien, Internationaler Betriebswirtschaftslehre**
Kernfachkombination: Energie-und Umweltmanagement, Internationale Logistik, Besonderheiten: teilweise Englisch- und Französischsprachiger Studiengang

2006 – 2011 **Master- und Bachelorstudium, Wirtschaftsuniversität in Bratislava, Slowakei**
Fakultät für Internationale Beziehungen,
Abschlussarbeit: Weiterentwicklung der internationalen Organisationen (EU, ASEAN, AU)

2002 – 2006 **Gymnasium in Zvolen,** Slowakei, Schwerpunkt: Informatik, Fremdsprache

Weiterbildung

2011 Goethe-Zertifikat in Deutsch B2
2005 Cambridge-Zertifikat in Englisch C1
2004 Studium im Language Center in Torbay Devon, England

Berufspraxis

2013- jetzt **Manager der internationalen Beziehungen, Ansett Rail Europe, Mauthnergasse 4, Wien**

2012-2011 **Assistent Buchhaltung im Finanzministerium der Slowakischen Republik**
Administrative, Rechnungswesen in SAP- System, Microsoft Office

2010 **Assistent Manager, Tesco Stores SR, Inc.**
Administrative Aufgaben, Übersetzung der Unterlagen in Englisch für Management Trainees

2009 **Praktikum im Wirtschaftsministerium der Slowakischen Republik**
Administrative Tätigkeiten, Beratung der Diplomarbeit

Sprachkenntnisse und sonstige Kompetenzen

Muttersprache: Slowakisch
Fremdsprachen: Deutsch - Verhandlungs- und vertragssicher in Wort und Schrift (C1)
Englisch - Verhandlungs- und vertragssicher in Wort und Schrift (C1)
Französisch Verhandlungs- und vertragssicher in Wort und Schrift (B2)
Tschechisch - Verhandlungs- und vertragssicher in Wort (B2)
Russisch – Grundkenntnisse (B1)

IKT-Kenntnisse und Kompetenzen: Fundierte Kenntnisse der Microsoft Office Tools, SAP, Outlook

Sonstige Fähigkeiten und Kompetenzen: Interkulturelle Kompetenz, Kommunikations- und Präsentationsfähigkeit, vielfältige Erfahrungen in der Team- und Projektleitung, Empathie, flexible und kommunikativ

In meiner Freizeit arbeite ich als Fitness-Trainerin, TaeBo- und Yoga-Instruktor, Interessen für alle Sportarten besonders Wandern, Snowboarden, I mag Reisen, Lesen der Psychologie- und Sachbuches, Führerschein Kategorie B/ 200 000 km