



Ca' Foscari
University
of Venice

Master's Degree programme
in International Management
Second Cycle (D.M. 270/2004)

Final Thesis

**Replication in an International
Franchise Strategy**
The Eataly Moscow case

Supervisor
Prof. Vladi Finotto

Graduand
Giulia Vianelli
832185

Academic Year
2016 / 2017

“Culture eats strategy for breakfast.”

Peter Druker

ABSTRACT

This thesis' aim is to investigate franchising as a replication strategy for the internationalization of Italian food and beverage companies. The focus is on two determinants of replication strategy: knowledge transfer and the tradeoff between local adaptation and global integration. In particular, how they are influenced by the choice of franchising as governance of the new business unit. The case study of this dissertation is represented by Eataly Moscow opening project. The analysis highlighted the main issues that an Italian food and beverage organization faces in undertaking an international franchise in a culturally distant market.

Table of contents

| | |
|--------------------|----|
| INTRODUCTION | 13 |
|--------------------|----|

1

LITERATURE REVIEW: REPLICATION STRATEGY

| | | |
|--------|---|----|
| 1.1. | Replication as a strategy | 15 |
| 1.2. | Capabilities framework | 17 |
| 1.2.1. | Capabilities in the internationalization context..... | 19 |
| 1.3. | Knowledge flows | 20 |
| 1.3.1. | Forward knowledge flows..... | 20 |
| 1.3.2. | Backward knowledge flows..... | 22 |
| 1.3.3. | Political character of replication process..... | 22 |
| 1.4. | Tension between adaptation and standardization..... | 24 |
| 1.4.1. | Integration - Responsiveness framework | 24 |
| 1.5. | Flexible replication theory | 26 |

2

FRANCHISING FOR INTERNATIONALIZATION

| | | |
|--------|---|----|
| 2.1. | The choice of governance | 29 |
| 2.1.1. | The franchising..... | 30 |
| 2.1.2. | Governance and organizational learning..... | 34 |
| 2.1.3. | Governance and knowledge transfer..... | 36 |
| 2.1.4. | Governance and local environment..... | 36 |
| 2.2. | A franchising framework..... | 37 |
| 2.2.1. | Ownership structure | 38 |
| 2.2.2. | Business format..... | 40 |
| 2.2.3. | Contract design | 41 |
| 2.2.4. | Size and age..... | 42 |
| 2.2.5. | Relationship between franchisor and franchisee | 42 |
| 2.3. | Partner selection process..... | 43 |
| 2.3.1. | Opportunistic selection, strategic selection and market selection | 44 |
| 2.3.2. | Criticalities..... | 45 |

| | | |
|------|---|----|
| 2.4. | Decentralization of decision making autonomy..... | 47 |
|------|---|----|

3

ITALIAN FOOD AND BEVERAGE: EATALY AS A NEW CONCEPT

| | | |
|--------|---|----|
| 3.1. | The company | 53 |
| 3.1.1. | The philosophy | 53 |
| 3.2. | Made in Italy..... | 56 |
| 3.2.1. | Exports data and Russian Embargo | 56 |
| 3.2.2. | Dimension and internationalization | 57 |
| 3.2.3. | Competitive levers..... | 60 |
| 3.3. | History of the brand and Eataly store development..... | 63 |
| 3.3.1. | The first project and Slow Food support | 63 |
| 3.3.2. | International expansion and latest developments..... | 65 |
| 3.3.3. | International competitors | 66 |
| 3.4. | The brand format | 68 |
| 3.4.1. | A synergistic system | 68 |
| 3.4.2. | Market | 70 |
| 3.4.3. | Restaurants..... | 71 |
| 3.4.4. | Departments..... | 72 |
| 3.4.5. | Education..... | 75 |
| 3.5. | Eataly's foreign strategy | 76 |
| 3.5.1. | The governance type | 76 |
| 3.5.2. | Italian stores, franchised stores and joint venture stores..... | 78 |
| 3.5.3. | A new international franchise project..... | 81 |

4

EATALY MOSCOW

| | | |
|--------|------------------------------|-----|
| 4.1. | Methods | 89 |
| 4.2. | The project timeline | 93 |
| 4.3. | Product related issues | 94 |
| 4.3.1. | Format unfamiliarity..... | 96 |
| 4.3.2. | Embargo impact | 98 |
| 4.3.3. | Entry barriers..... | 101 |

| | | |
|--------------------------|------------------------------------|------------|
| 4.4. | Relation with the franchisee | 102 |
| 4.4.1. | Franchisor involvement | 103 |
| 4.5. | HR management | 105 |
| 4.5.1. | Knowledge transfer | 106 |
| 4.6. | A process view | 109 |
| CONCLUSIONS | | 113 |
| REFERENCES | | 115 |
| SITOGRAPHY | | 119 |

List of Figures and Tables

| | |
|---|----|
| Figure 1.1 - Dynamic capabilities of international organizations. | 20 |
| Figure 1.2 - The I-R framework. | 25 |
| Table 2.1 - Implications of governance choice in the replication process..... | 30 |
| Figure 2.1 - Examples of product distribution franchises and business format franchises ... | 31 |
| Figure 2.2 - Distribution of jobs in Business format franchising, US 2016..... | 33 |
| Figure 2.3 - Distribution of GDP contribution in business format franchises, US 2016..... | 33 |
| Table 2.2 - First 10 positions of Franchise Direct's top 100 global franchises 2017..... | 34 |
| Figure 2.4 - A franchising framework..... | 38 |
| Figure 2.5 – Franchisee selection approach..... | 43 |
| Figure 2.6 - Factors that influence the centralization of decision making autonomy | 48 |
| Figure 3.1 - Slogan in Eataly Munich..... | 54 |
| Figure 3.2 - Eataly Manifesto. | 55 |
| Figure 3.3 - Distribution of 33.676 food companies based on dimension (in number of employees), year 2011..... | 58 |
| Figure 3.4 - Average dimension (in number of employees) of food industries in Italy and in the main European countries, year 2010 | 58 |
| Figure 3.5 - Distribution of the Gross Value Added among the actors of the value chain, year 2011 | 59 |
| Figure 3.6 - Distribution of food companies for target market (% on total companies of the sector), year 2011 | 59 |
| Figure 3.7 - Main competitive levers of food companies in % on total companies of the sector | 61 |
| Figure 3.8 - Eataly's very first draft made by Oscar Farinetti..... | 63 |
| Figure 3.9 - Whole Foods Market store in the US..... | 68 |
| Figure 3.10 - Eataly Torino Lingotto..... | 69 |

| | |
|--|-----|
| Figure 3.11 - Example of synergy at Eataly..... | 70 |
| Table 3.1- Eataly worldwide stores, 2017. | 76 |
| Table 3.2 - Comparison of Eataly stores: Italian, joint venture, franchising. | 79 |
| Figure 3.12- Incidence of restaurant and market over total turnover..... | 79 |
| Figure 3.13 - Extract of price benchmarking table. Source: Internal documents. | 85 |
| Figure 3.14 - Extract of Product Policy. Source: Internal documents..... | 88 |
| Figure 4.1 - Eataly Moscow map. | 90 |
| Figure 4.2 - Eataly Moscow location next to Kievskaja station and European mall..... | 90 |
| Figure 4.3 - Eataly Moscow project timeline..... | 94 |
| Figure 4.4 - Data structure: Product-related issues | 95 |
| Figure 4.5 - Example of public reaction to Embargo on Social Media | 100 |
| Figure 4.6 - Data structure: Relation with the franchisee | 102 |
| Figure 4.7 - Data structure: HR issues | 105 |
| Figure 4.8 - A process view..... | 110 |

INTRODUCTION

This thesis aims to investigate franchising as a replication strategy for the internationalization of Italian food and beverage (F&B) companies. It focuses, in particular, on the main issues faced by Italian organizations in undertaking an international venture. Replication is the transfer of a business format from a replicator to a target entity, with the purpose of establishing a new unit similar to the original in significant aspects. The matter of knowledge transfer is widely studied by recent literature, together with the impact of pressures for local adaptation and global integration. These two factors shape the direction of replication process and influence the choice of governance for the new unit. Among different governance types, the franchise was shown to foster adaptation and exploratory behaviors. The franchise agreement is, thus, the object of this thesis, since the goal is to investigate the replication in culturally distant markets.

Eataly Moscow opening project is the case study for this dissertation. Thanks to a six months internship in the company, i had the opportunity to directly observe the processes that took to the final opening of the franchised store. The data I collected was studied through an inductive analysis known as Gioia methodology. The case highlighted the bottlenecks encountered during the project in relation to the transfer of knowledge and the level of adaptation to the local environment.

The first Chapter of this thesis is an overview of recent literature on replication strategy, where the starting point is the contribution of Winter & Szulanski (2001). The chapter is, then, developed focusing on the role of dynamic capabilities in managing knowledge flows and the tradeoff between adaptation and standardization. Chapter 2 deepens the analysis of replication strategy for internationalization focusing on the franchise agreement. A franchising framework is presented together with considerations above its use for expansion in heterogeneous and culturally distant markets. Chapter 3 is characterized by the presentation of Eataly and its internationalization approach. In this chapter, an overview of Italian F&B industry is illustrated, with a particular focus on the opportunities and threats represented by foreign markets. Finally, in Chapter 4

Eataly Moscow case study is investigated through Gioia methodology. The analysis highlighted the links between raw data, resulting in theoretical concepts that explain the dynamic relationship between the issues encountered during the project.

LITERATURE REVIEW: REPLICATION STRATEGY

1.1. Replication as a strategy

In order to establish economic activities in a foreign market, a business organization may decide to replicate its business model giving rise to a number of similar outlets characterized by the same offer. Winter & Szulanski (2001) define replication as a strategy, which suggests that “replication is considered as a way of creating value in organizations” (Friesl & Larty, 2013). The pillar of replication strategy is the creation of similar routines across intra-organizational units, by transferring them from a sending unit to a recipient unit. The transfer of knowledge embedded in routines is, thus, the mechanism by which achieving replication. The benefits stem from the capability to manage the replication process while improving efficiency of best practices and enhancing flexibility.

According to Winter & Szulanski (2001), the challenges to be faced by the replicator are: the discovery and formulation of a business model, the assessment that takes to large scale replication and the issues connected with knowledge transfer. The business model is defined as a “complex set of interdependent routines that is discovered, adjusted and fine-tuned by doing” (Winter & Szulanski, 2001). The outcome is the creation of a template that entails a series of practices similar to the original in significant aspects.

The head quarter is required to handle a set of dynamic capabilities, defined by Winter & Szulanski (2001) as the “replicator’s knowledge of the business model traits that must be reproduced in each outlet, of actions that can be taken to reproduce those traits, and of environments in which such traits have satisfactory business value”. The replicator has to manage different locations and different pools of human resources while facing much resistance from local agents.

Literature differentiates dynamic capabilities from operating capabilities. Operating, or ordinary, capabilities are necessary to carry out the activities of production of products and provision of services that define the company’s core offer (Teece, 2014). While ordinary capabilities allow to do things right, dynamic capabilities are

about doing the right things at the right time. They involve non-routine activities that enable the firm to manage ordinary capabilities, “orchestrating the firm’s resources to address and shape rapidly changing business environments” (Teece, 2014).

Dynamic capabilities allow to define what Winter & Szulanski (2001) refer to as the Arrow-core, which represents the relevant information for the potential creation of value through the replication of a template. It includes knowledge about what it is replicable, how the template is created, and the features of the environment in which it is worth replicating. This knowledge is not fully available to the replicator and must be acquired through experiential learning.

Learning-by-doing, or trial and error, approach is the successive accumulation of knowledge acquired through direct experience and, if necessary, correction of the actions. This process is valuable in the context of knowledge because it deals with information, which main characteristic is to be usable infinite times improving, rather than reducing, its potential.

Experiential learning process is composed by two-phases: the exploration and the exploitation. Through the exploration phase the arrow core is gradually uncovered: new routines are developed and the chain adapts its template influenced by new knowledge. Exploitation phase’s goal is to take what learnt during the exploration and apply it successfully. Exploitation entails the incremental improvement of the existing routines while implementing standardized practices.

According to Winter & Szulanski (2001), by creating new outlets through experiential knowledge the replicator will adjust time by time the hypothesis about the arrow core, until a successful template is defined and exactly replicated. However, they did not clarify how to identify the moment in which the template is ready. In other words, when exploration phase ends and exploitation phase starts. Moreover, the success of replication strategy can be addressed not only to the arrow-core information but also to contextual and not easily (if not impossibly) replicable elements, such as the personality of a manager.

Therefore, a casual ambiguity exists when the replicator has to decide if the success of a model is replicable everywhere or it is too dependent on contingency factors.

The arrow core is, thus, not perfectly knowable and the template will be imperfect. According to Winter and Szulanski “at some point business considerations will make leveraging a priority” and the company will decide to replicate the template as strictly as possible in order to leverage the large scale cost advantages.

1.2. Capabilities framework

A capability is defined by Teece (2014) as “a set of current potential activities” that results in the production of final products or provision of services through the combination of firm’s resources. Winter (2003), as reported by Frasquet et al. (2013), recognized three categories of capabilities: ordinary, dynamic, and learning capabilities. They are all linked one another, since ordinary capabilities can be influenced by dynamic capabilities and learning capabilities foster the creation and development of new dynamic capabilities.

According to Teece (2014), ordinary capabilities involve activities of administration, operations, and governance, necessary to carry out company’s core activities. The measurement of ordinary capabilities is relatively simple since it can be benchmarked internally through dimensions such as labor productivity, or externally to industry best practices. The optimal level of ordinary capabilities development is represented by the achievement of higher efficiency and best practices in administration, governance, and operations, other than in the disposal of advanced equipment and human resources with relevant skills.

Much of the knowledge required to achieve best practices can be easily accessed, codified and transferred. For this reason best practices spread very quickly across the industries and rarely provide competitive advantage, neither say anything about the right path to follow in the future. Strong ordinary capabilities can be sufficient for competitive advantage only in a static and weak competitive environment.

Moreover, the solely focus on efficiency of the ordinary capabilities can lead to competency trap. Levitt & March (1988) define competency trap as the situation in which a “favorable performance with an inferior procedure leads an organization to accumulate more experience with it”, thus, making not convenient to experiment

and experience new and superior procedures. Competency trap hinders the capacity to change, making the organization static.

Dynamic and learning capabilities are those required to achieve real competitive advantage, they are future oriented and look forward to change and adaptation. Dynamic capabilities realize a threefold activity: first of all they allow sensing opportunities in relation to customers' needs. Resources are then seized to address those needs, exploiting the opportunities and capturing value. They finally enable a continuous transformation to cope with environmental dynamism (Teece, 2014).

In order to better understand the contribution of dynamic capabilities in the establishment of competitive advantage, it is interesting to differentiate imitation from replication. Both processes are similar, in the sense that they aim at reproducing a set of behaviors and knowledge. Organizations frequently attempt to imitate the activities of more successful companies, in order to close the gap and be able to share the benefits of innovation. If the imitation is easy to practice the competitive advantage of the first mover¹ is rapidly eroded. Oppositely, in the case of replication, the organization reproduces and leverages a formula that is already in use in some of its own units. As reported by Baden-Fuller & Winter (2005), who cited Nelson & Winter (1982), if the business model to be reproduced entails a strong competitive advantage, then its replication is expected to be easier to perform than its imitation. Therefore, whether dynamic capabilities are beneficial to replication strategy depends on how they allow the organization to replicate faster than competitors can imitate or innovate.

Knowledge is one of the prominent resources that support dynamic capabilities development. In the internationalization context, "the ability to link and leverage knowledge is increasingly the factor that differentiates the winners from the losers and survivors" (Bartlett & Ghoshal, 2002). This because activities based on knowledge-like resources make imitation more difficult.

¹ First mover is an individual or an organization who is first in entering a new market or providing a new product, usually through disruptive innovation processes. First mover advantage derives from the fact that first mover doesn't have to share gained profits until a competitor gets access to the market or innovation.

The combination of intangible assets, dynamic capabilities and a good strategy is, thus, paramount to company's success. While the purpose of dynamic capabilities is to direct ordinary capabilities and allocate resources to build competitive advantage, learning capabilities allow to reconfigure and adapt it to dynamic environments.

1.2.1. Capabilities in the internationalization context

In order to build a strong competitive advantage in a dynamic foreign market, an organization is required to master a specific set of capabilities. Frاسquet et al. (2013) recognized three main dynamic capabilities that international companies need to develop: knowledge acquisition and learning capability, adaptation capability, and entrepreneurial vision.

Managing activities in different markets involves the need to capture new knowledge and melt it in the firm's strategy and operations. According to Vahlne & Jonsson (2016), top managers learn to "build on experiences from entrance into new markets". This means that, as a firm enters in a new market, local knowledge accumulation is achieved through a direct experience of exploitation and exploration processes. Learning becomes a path dependence process that allows to develop new dynamic capabilities different for each organization.

Adaptation capabilities are necessary to understand and meet the target market and local peculiarities. International organizations face different customer pools that entail different preferences, tastes and needs. The target market is characterized by specific regulations and a different management styles. All these elements may be unfamiliar to the headquarter which has to be proactive in the adaptation of the organizational practices to local environment.

Finally, entrepreneurial vision involves the ability to sense and seize new opportunities, exploring and developing routines able to transform the business model. Moreover, once a potential source of value is recognized, entrepreneurs have to decide whether or not to seize it, and when. The process is not a passive "response to an external stimulus" (Frاسquet et al., 2013) but a proactive behavior that aims at creating and capturing value from different markets.

Between these dynamic capabilities there is a continuous interaction, for example an effective new knowledge accumulation enhances adaptation capabilities. The organization has to manage these capabilities all together in order to achieve a fit between processes, stakeholders, and environment. This requires that exploration and exploitation processes take place simultaneously and according to a shared vision in all the organizational levels. The capability to run these processes together is defined by Kauppila (2010) as ambidexterity and represents a forth dynamic capabilities required to international companies (Vahlne & Jonsson, 2016).

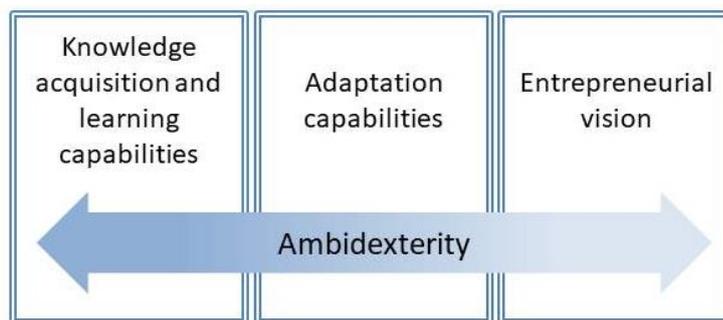


Figure 1.1 - Dynamic capabilities of international organizations.
Source: Frassetto et al. (2013), Vahlne & Jonsson (2016), Kauppila (2010).

1.3. Knowledge flows

1.3.1. Forward knowledge flows

The replication strategy stems from the transfer of a business model from a replicator to a recipient entity that converts knowledge into practice. The success of the process depends on whether the organization is able to establish forward and backward knowledge flows. Forward knowledge flows are based on the transfer of information from the replicator to the recipient. At first, the replicator should identify the knowledge to transfer and the best means to do it. Literature on replication highlights two different approaches of forward knowledge flows: template-based replication and principle-based replication.

Template-based replication

Routines are defined by Winter and Nelson (1982) as “repositories of organizational knowledge”. Therefore they are considered instruments of knowledge transfer and are used directly as templates, reducing the need for codification. The successful

knowledge transfer depends on the recipient entity's repeated observation of the template in action. This allows the assimilation of the tacit knowledge embedded in organizational routines that is used to perform them. The template approach aims at communicating how to do rather than explaining why. It entails the "attempt to reproduce as accurately as possible the context of the required learning, as well as providing detailed teaching and coaching by people from the source site who possess the tacit knowledge" (Baden-Fuller & Winter, 2005).

Despite much of the knowledge must be codified in the template, the codification generally fails to capture every relevant information. This is due to the fact that part of the underlying knowledge may lie in contextual elements or may be tacit. Tacit knowledge is based on emotions, experiences and insight information. For this reason it is not possible to write or speak it in tangible form, which makes it extremely difficult to codify. If codification is too limited the template risks being poor and difficult to replicate. In this case the existence of an effective working example to be observed and used in the replication process is advantageous (Baden-Fuller & Winter, 2005).

Principle-based replication

Principle-based replication can integrate or substitute template-based replication. It entails a series of rules, or principles, that communicate the reasons why the transferred routine should be performed. The lack of indications over how to carry out single tasks implies a certain degree of abstraction. For this reason, principles can be accompanied by codified integrative information in terms of flow charts, process descriptions, and models. These integrations aim at making principles more clear but do not represent detailed instruction for the implementation of the processes (otherwise they would be templates). The business unit can use the codified materials to acquire the missing knowledge and better understand the principles. Eventually, the recipient entity can explore its own ways to implement successfully the processes.

The best means to transfer knowledge embedded in routines are those that allow each member of the organization to access the information, understand it and put it

in practice. Researches indicate that a higher codification of routines enhances the success of this process, however a complete codification of the mechanisms embedded in routines is not possible (Zander & Kogut 1995, Winter & Szulanski 2001). In fact, according to Baden-Fuller & Winter (2005), whether to use a template-based or a principle-based approach depends strongly on the kind of knowledge embedded in routines. In case detailed information about routines is emphasized but they are not familiar to the recipient unit, then template approach is favored. In the opposite case, where tasks are known or readily knowable, principles can provide the casual frame for their application.

Therefore, principles provide the tools for a more effective search of new solutions where adaptation is beneficial.

1.3.2. Backward knowledge flows

Emerging literature is acknowledging the importance of backward flows that take place from the foreign unit to the headquarter. In this way, new information emerged in the local context feeds successive cycles of replication. Through the process of experiential learning, the inefficiencies are successively adjusted. Routines are adapted and continuously developed while the organization learns from the direct application of the process. The new knowledge discovered through trial and error has positive implication for the organization only if it is sent back to all the units that may benefit from it. They need to be able to access, understand and experience it, in order to potentially start new cycles of replication.

1.3.3. Political character of replication process

Friesl & Larty (2013) focused on the role of the target unit in knowledge transfer for a successful replication strategy. When the replicator sends knowledge to the receiving unit, the latter is required to perform a twofold activity: the assimilation of knowledge and the practice of routine. Feldman (2000), as reported by Friesl & Larty (2013), identified the understanding of knowledge embedded in routine as an “ostensive” aspect. The ostensive aspect is then translated in the practical performance of the acquired routines which is defined “performative” aspect.

The success of knowledge transfer depends on how well the ostensive aspect is assimilated, and how the performative aspect adheres to it. Since the ostensive aspect constitute a “mental reference point” (Feldman and Pentland 2003) during the execution of routine, its analysis helps to highlight the potential reasons for a distortion of the final performance.

The ostensive and the performative aspects are influenced by mainly two factors that characterize the target unit: local knowledge base and the alignment of interests. The knowledge base consists of the prior knowledge of the organization, its values, behaviors, and practices. Different groups of agents that share different backgrounds may find rational to perform the same routine in different ways. “The ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” is defined as absorptive capacity and depends on the knowledge base of the organization (Cohen & Levinthal, 1990). The ostensive aspect, therefore, depends on the coherence between the knowledge base of the recipient unit and the new information that the replicator wants to transfer.

On the other hand, the performative aspect is influenced by the relation between the interests of the replicator and of the target unit. A misalignment of interests may result in divergent visions over which ostensive aspects should be inferred from routines and how they should be performed. Local interests may depend on the target market, the competitive environment in which the business unit is immersed, and its relationship with the replicator.

According to Friesl & Larty (2013), the political character of replication process stems from the fact that individual units have a significant role in shaping the process of forward and backward knowledge flows. The researchers investigated the possible deviations that may arise from the correct execution of the process, in particular in internationalization context.

When knowledge is replicated across nations, local knowledge base and local interests can considerably differ. It is, therefore, more difficult to create the shared system of values and understandings that is necessary to carry out the process. Moreover, as the target unit experiences the performative aspect the knowledge embedded becomes more and more tacit, giving space to deviations between

ostensive and practical knowledge. Deviations can slowly result in the creation of inappropriate rules which shape the knowledge that flows backward to the replicator. Misleading backward knowledge flows can finally influence the choice of new templates and the modification of routines at the headquarter level. In this case, the overall strategic direction of the organization may be deviated by the actions of a single business unit, solely based on local circumstances.

1.4. Tension between adaptation and standardization

According to researchers (Ambrosini & Bowman, 2009; Aspara et al., 2010; Eisenhardt & Martin 2000; Teece et al., 1997), a satisfactory outcome of replication strategy is influenced by the ability of a company to adapt routines to new markets, customers and environments. The ever present tension between the headquarter control and local environments characterizes the process of international expansion. The concept of knowledge adaptation raised a debate called by Winter & Szulanski (2001) “Replication dilemma”, which highlights the difficulty of delineating a tradeoff between benefits of standardization and need for adaptation. Despite being a certain level of adaptation necessary, deviations from the template might potentially harm the whole replication process. Since deviations enhance the complexity of knowledge transfer, they are worthwhile only if they do not distort the core elements of the template.

Every organization is deeply embedded in its domestic culture. When approaching another market, it should become similarly embedded in local culture (Burt et al, 2016). This allows the parent company to transfer selected routines while simultaneously adapting others to the local environment, creating “new management practices out of selective adaptation, innovation and change” (Morgan, 2001). As a consequence, local responsiveness effort is balanced with the global integration and efficiency required by the HQ.

1.4.1. Integration - Responsiveness framework

The pressures for global integration and local responsiveness are well explained by Swoboda et al. (2014) in the I-R Framework illustrated in Figure 1.2 (Bartlett & Ghoshal, 1989; Bartlett & Beamish, 2011). Pressures for global integration push the

managers to focus on low costs and efficiency, taking decisions that enhance the level of standardization of the organization. Local responsiveness, on the other hand, is related to the specific requirements of local markets in which the MNE established business units. Some examples of the local pressures are: preferences and tastes of the local customer base, legal requirements concerning topics such as human resources or tax payment, the competitive environment, and the sophistication of the local technology.

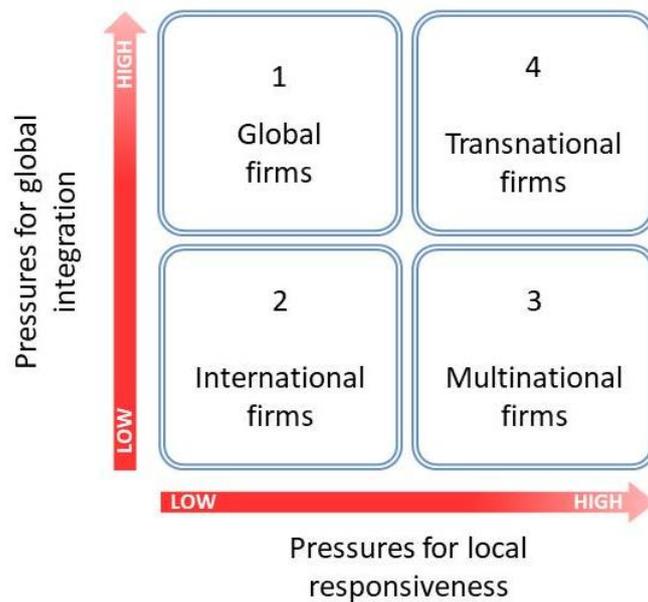


Figure 1.2 - The I-R framework.
Source: Swoboda et al., 2014.

The axes of the framework represent the pressures for local responsiveness and global integration. The resulting matrix represents MNEs' possible strategies in responding to these pressures. The differences between these strategies are determined by factors that influence potential competitive advantage: economies of scales, national disparities, nature and configuration of skills and accumulation of knowledge. Four different types of MNEs emerge on the basis of the strategy they undertake:

1. *Global firms*. Global firms seek standardization of their offer in order to achieve cost efficiency through economies of scale. The knowledge flows

mainly from the HQ towards the business units, which works merely as a “pipeline for benefits and strategies” (Swoboda et al., 2014).

2. *International firms.* International firms’ strategy is home market oriented, since their business plan is adapted to the domestic environment. They tend to replicate the same offer in foreign units which resemble extended branches of the parent company. The skills and knowledge originated in the home market are not leveraged worldwide but used to copy the domestic format. As a result, foreign units remain highly dependent on the parent company.
3. *Multinational firms.* Multinational firms focus their efforts towards the pressure for local responsiveness and are particularly attentive to local peculiarities. Their business units are more autonomous and activities are distributed to favor products and services differentiation.
4. *Transnational firms.* Transnational companies’ goal is the simultaneous adaptation to local needs and achievement of global efficiency. Headquarter and units are interdependent as resources and knowledge are allocated and leveraged worldwide.

Through case studies investigations, Swoboda et al. (2014) identified transnational strategy as the most successful strategy for international expansion. Performance is higher when firms are able to respond to local markets while achieving global integration. Moreover, they showed that the effectiveness of a strategy depends on the sector of specialization of the organization. Since food companies need to focus more on local environment in terms of customer tastes and preferences, they are more likely to perform a multinational/transnational strategy.

1.5. Flexible replication theory

The above considerations over the complexity of knowledge flows and the pressures faced by a MNEs towards global responsiveness and global integration, underline the impossibility to create a template to be replicated exactly in any location. According to flexible replication theory (Jonsson & J Foss, 2001), the template has to be treated as a hierarchy of characteristics more or less flexible.

Hierarchically higher components represent the guiding principles of the organizations and, coherently with the above mentioned principles-based replication, they are to be exactly transferred. Moving downward in the hierarchy, the elements become less and less paramount to the causal understanding of the business model. For this reason, hierarchically lower features are allowed to be adapted to local circumstances. The adaptation of lower-level components takes place through a successive process of exploration and exploitation, simultaneously realizing scale economies and learning economies.

The proportion of fixed and variables components depends on the differences between the local environment and the home market and their dynamism over time. Jonsson & J Foss (2001) state that “the proportion of fixed to flexible features in a format for replication depends negatively on the heterogeneity and dynamism of the target markets”. Therefore, when the parent company approaches a heterogeneous market, the number of flexible elements to be adapted is higher compared to a culturally and geographically closer region. The article highlights also the relevance of carrying out “organizational mechanisms for lateral and reverse knowledge flows” in order to nourish the experiential learning process necessary to realize an effective adaptation.

FRANCHISING FOR INTERNATIONALIZATION

2.1. The choice of governance

In entering a foreign market through replication strategy, an organization may decide to open a directly owned unit or to establish a partnership agreement. Different choices of governance entail different approaches in carrying out the replication process. The company owned unit is directly and entirely controlled by the parent company, which bears full management risks and costs. The partnership can take the form of a joint venture or a franchising agreement. Both partnership solutions are considered less risky than a direct investment, including a second agent who takes risks and costs of the venture. However, the control exerted over the process is shared too, reducing the influence of headquarter.

On the one hand, the franchising agreement consists of the rent of the right to use the franchisor's brand, receiving its support and selling its products and services. On the other hand, joint venture is a more generic business arrangement where the parties agree to combine their resources with the aim of realizing a specific activity. Of the mentioned partnership governance forms the franchise is characterized by appealing features in facing geographically and culturally different markets.

The establishment of a franchised foreign unit requires the evaluation of a tradeoff between the costs to monitor the partne and the risk of damaging franchisee's behaviors for the franchisor's reputation. However, as reported by Gillis & Combs (2009), "franchising is more than a simple tradeoff between rising monitoring costs and the risks of poor quality". As a matter of fact, the governance choice has a deep impact in the management of exploration and exploitation processes in the target market.

Next paragraphs analyze franchising main features and the implications of governance choice in the process of replication (showed in the table 2.1). Finally a franchise framework is presented, based on recent literature, focusing in particular on franchisee selection and distribution of responsibilities.

| Internationalization through replication | |
|---|--|
| Franchised unit | Company owned unit |
| Explorative learning | Exploitation |
| Facilitate adaptation but not knowledge flows | Facilitate standardization and knowledge flows |
| Higher performance in heterogeneous markets | Higher performance in homogeneous markets |

*Table 2.1 - Implications of governance choice in the replication process.
Source: Sorenson & Sorensen (2001).*

2.1.1. The franchising

The franchising is a partnership contract between the parent company (the franchisor) and the franchisee. The franchisee buys the right to distribute products or services using the franchisor’s brand in exchange of royalties and fees. Royalties and fees represent profit and part of the financial resources of the franchisor. They can be allocated in the development of capabilities in order to support, control and influence the franchisee (El Akremi et al., 2015).

A franchise contract refers to a specific territory and the franchisee can manage one or more units. It lasts for a fixed period of time, usually between 5 to 30 years. The franchisor may decide for an earlier termination of the contract, that represents the gravest sanction for franchisee’s noncompliance with the agreement. The franchisee, in fact, does not purchase the ownership of the brand, but rents temporarily the opportunity to use it. As long as franchisor’s success depends on franchisee’s success, the first exercises a certain level of control over the partner and offers managerial assistance. On the other hand, the franchisee agrees to run the business according to the indications of the franchisor.

The parent company has several advantages in undertaking a franchising contract. The franchise can be seen as a less expensive source of capital because it allows to reduce investments and costs involved in the venture, sharing the related risks with a partner. The new unit is owned by the franchisee with its direct investments,

whence franchised units managers are more incentivized towards better performance than employed managers.

However it is not uncommon that the franchisee engages in opportunistic and free-riding behaviors due to conflicts of interests between partners. For this reason, the first concern of franchisors is the protection of their own brand and the safety of the related know-how. In other words, the franchisee is supposed to carry out the same activities that differentiate and identify franchisor's brand without damaging it. Therefore, the franchisee needs full support by the franchisor, including the supply of equipment, products, knowledge, and business practices.

History and development

Even if rudiments of the modern franchising were practiced from Middle Ages and along history, its use as we know it today spread after WWII in the United States. One of the first franchised chains was established in 1886, when John S. Pemberton produced a beverage which is known today as Coca-Cola. In the following years more attempts to practice franchising were observed, but was only around 1960 and 1970 that the business formula evolved to become as it is today. Along history many franchising types have raised but the most common is business format franchise, opposed to product distribution franchise.



Figure 2.1 - Examples of product distribution franchises and business format franchises.

Product distribution franchise consists of the sale of manufactured products to the franchisee, who has the right to distribute them using franchisor brand in exchange of fees or minimum purchasing amounts. It is more similar to a supplier-dealer

relationship, including the exclusivity and some additional support actions from franchisors. Coca-Cola, Ford Motor Company, Exxon and Osim are well known product distribution franchises. On the other hand, business format franchise is a more complete form of governance. It includes an integrated system of practices that is provided to the franchisee in order to run the business. Some examples of business format franchises are: McDonalds, KFC, Starbucks Coffee and Dunkin' Donuts.

Nowadays US is the leader country of franchised chains, due to the proliferation of fast-food restaurants and motels grown using the franchising formula. In 2016 PWC published a study on the economic impact of franchising in US economy. From this data results that over 800 thousands franchises operate in the country, precisely 2.3% of US nonfarm private sector. The study refers also to the effect of franchised chains in other non-franchised businesses of the economy that are influenced in terms of consumption and jobs.

Franchises provide directly nearly 9 million of jobs, 16,1 million if considered also non-franchised businesses. They represent respectively 5,6% and 10,1% of jobs in the total economy. The total output produced is \$2,1 trillion, which counts for the 6,8% of the total output of the country. The output generated directly from franchise activities is \$868,1 billion, 2,8% of the country's total output. Franchises contributed directly to the US GDP with \$541,1 billion (contribution of 3,4% on total GDP of the country). Considering also non-franchised businesses influenced by franchises, the total contribution reaches \$1,2 trillion (contribution of 7,4%).

Business format franchising is the most common franchise type in US, it is relevant in ten lines of business: quick service restaurants, table/full service restaurants, business services, lodging, personal services, food retail, retail products and services, commercial and residential services, real estate, and automotive. According to Figures 2.2 and 2.3, the most significant business sector in terms of jobs generated and GDP contribution is represented by F&B. It is composed by quick service restaurants (45,5% jobs, 30,5% GDP), table/full service restaurants (12,9% jobs, 8,7% GDP), and food retail (6% jobs, 5,6% GDP).

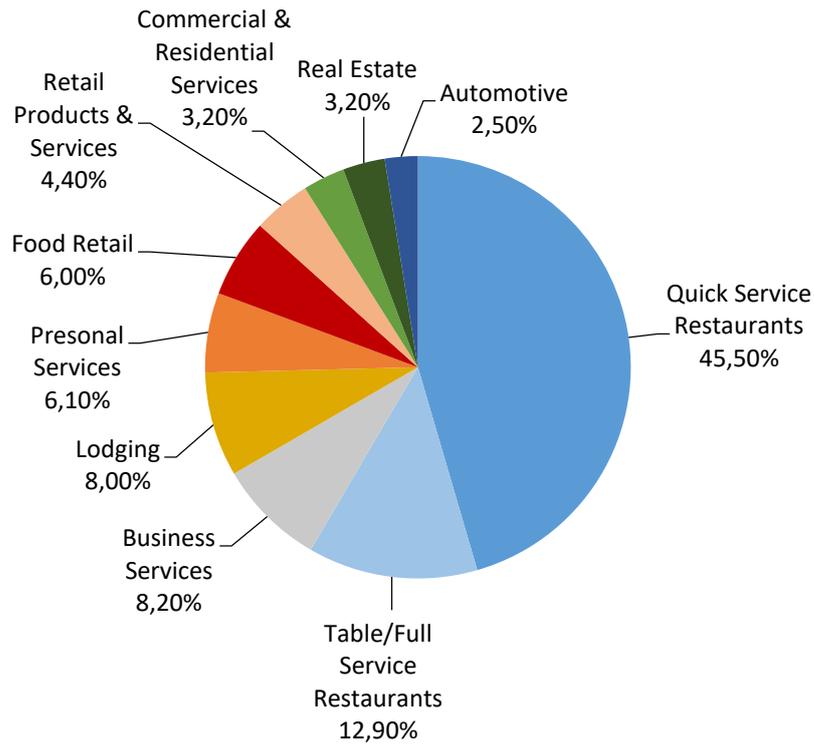


Figure 2.2 - Distribution of jobs in Business format franchising, US 2016.
 Source: PWC, The Economic Impact of Franchised Businesses: Volume IV, 2016.

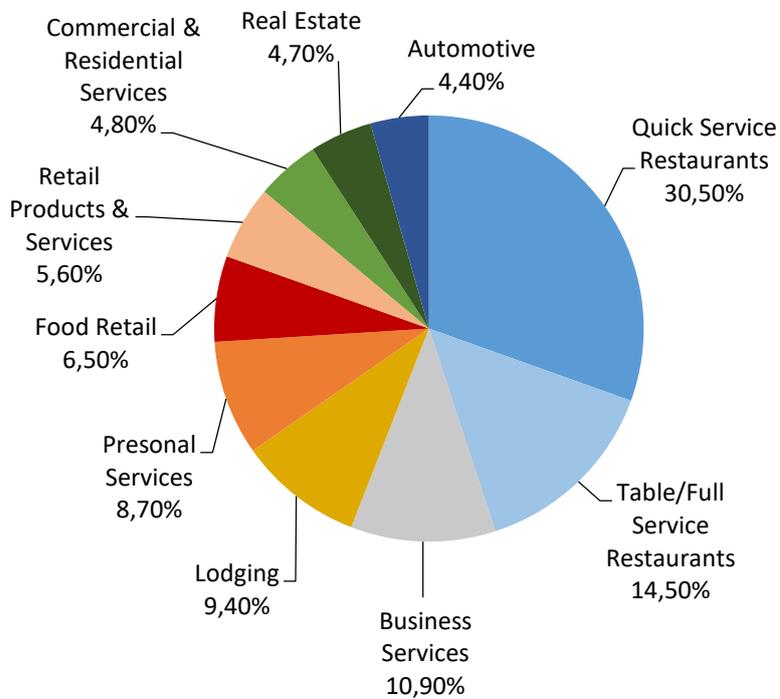


Figure 2.3 - Distribution of GDP contribution in business format franchises, US 2016.
 Source: PWC, The Economic Impact of Franchised Businesses: Volume IV, 2016.

Table 2.2 is an extract of the first 10 positions of Franchise Direct’s top 100 global franchises 2017, in which franchises are ranked according to characteristics like system size, based on number of units, revenue, stability and growth, number of years in operation, market expansion, best practices, environmental and social policy.

| Rank | Franchise Name | Country | Industry Franchises |
|------|----------------------------|---------|---------------------|
| 1 | McDonald’s | USA | Fast Food |
| 2 | KFC | USA | Chicken |
| 3 | Burger King | USA | Fast Food |
| 4 | SUBWAY® | USA | Sandwich & Bagel |
| 5 | 7 Eleven | USA | Convenience Store |
| 6 | Hertz | USA | Car Rental & Dealer |
| 7 | Pizza Hut | USA | Pizza |
| 8 | Marriott International | USA | Hotel |
| 9 | Wyndham Hotels and Resorts | USA | Hotel |
| 10 | Hilton Hotels & Resorts | USA | Hotel |

Table 2.2 - First 10 positions of Franchise Direct’s top 100 global franchises 2017.

It is sufficient to observe this extract to notice the relevance of food franchises over the other sectors: 5 out of 10. Moreover, the complete rank shows that 39 out of 100 franchises companies belong to the food industry. To confirm US leadership over franchised chains, 80 out of 100 franchises are originated in the US, 10 of which at the top of the ranking.

2.1.2. Governance and organizational learning

A different governance choice influences the unit’s behaviors and the allocation of resources. The parent company needs to evaluate which one, between exploration and exploitation activities, is more likely to provide competitive advantage and in which proportion both approaches should be supported. In fact, the level of control and monitoring exerted by the parent company over local units is different for franchises and company owned unit and, eventually, it influences the managers’ tendency towards exploratory or exploitative behaviors.

In a company owned unit, the hierarchy uses supervision to discourage harmful behaviors. Whether supervision is operated through direct activity observation or results monitoring, it encourages exploitation rather than exploration (Sorenson & Sorensen, 2001). In this context, any deviation from the accepted practices can be perceived as a potential damaging behavior. Managers, therefore, would rather implement existing routines than risk with new ones. When the focus of monitoring mechanisms is financial results, managers have higher autonomy concerning how to achieve them. However, the missed achievement of results produces negative consequences for the accountable managers. For this reason, a risk averse manager tends to favor accepted practices rather than follow innovative approaches that raise the uncertainty in the variability of returns.

Moreover, incentives to managers of directly owned units are usually weak in motivating exploratory behaviors, promoting instead action towards maximization of the unit's profitability. In sum, company-owned units aid standardization and efficiency at the cost of innovation and local adaptation.

Monitoring exerted upon franchised units is less systematic and strict. Since franchisees rarely integrate their information system with the franchisors', the HQ cannot access to all the relevant data for a results-based performance analysis. A manager who runs a franchised unit is generally more tolerant to risk and, therefore, he/she is more willing to accept the uncertainty of innovation paths. This is due to the fact that the franchisee focuses on long term perspective, which is where the returns of exploratory behaviors lie. On the contrary, managers of company owned units tend to be focused on the short term perspective, because they are worried on the immediate results and pay more attention to their promotions and careers.

In conclusion, a company owned unit has the tendency to exploit the existing routines rather than exploring new ones, while managers of franchised units are more likely to undertake a process of exploration, thus innovation, rather than exploitation.

2.1.3. Governance and knowledge transfer

Knowledge transfer between units fosters organization uniformity and standardization in operations, increasing the efficiency of the chain. However, as reported by Sorenson & Sorensen (2001), in franchising organizations exploratory behaviors raise the variability of practices, limiting the transferability of information and, thus, the standardization.

Through the adaptation of procedures that fit local environment, managers of franchised units create knowledge of little value for those who operate in different contexts. The ability to acquire new knowledge depends on its similarity with the knowledge base of the organization. As explained Chapter 1 (paragraph 1.3.3), two entities can transfer new knowledge more easily if they share the same knowledge base. The new information generated at the unit level refers to local environment, thus, the level of similarity with the organization's knowledge base is low, increasing the difficulty of the process. Moreover, the greater autonomy of the franchisee may induce free-riding behaviors, which can result in damaging actions over franchisors' brand reputation and, in any case, hampered standardization through deviations from accepted practices. The franchise, therefore, increases local adaptation and reduces costs of coordination and control. However, it potentially generates lower quality and greater variability.

Company owned units, on the other hand, facilitate knowledge transfers. The knowledge generated at the business unit level is easily transferred to the Headquarter thanks to the greater control exerted by the parent company. This depends also on the full accessibility of information systems. Therefore, a higher percentage of directly owned units increases standardization and centralization. Moreover, the choices of the Headquarter are based on a system perspective rather than local perspective.

2.1.4. Governance and local environment

According to Sorenson & Sorensen (2001), the success of franchised unit over company owned varies and depends on the homogeneity and dynamism of target markets. A homogeneous local market is considered culturally similar to the domestic market, which makes it easier to exchange knowledge between the unit

and the parent company. Company owned units are the right governance type in a homogeneous environment, where the benefit of efficient and standardized operational procedures and the reliability of performance are easier to achieve. Homogeneous markets, thus, facilitate exploitation activities.

On the other hand, heterogeneous environments are culturally and geographically distant from the domestic market, requiring a proper exploration phase before establishing exploitative routines. Since franchisees are more willing to bear the risks of exploratory behaviors and more incentivized to focus on local needs, franchised units established in heterogeneous markets increase performance and stability.

Therefore, the choice of corporate ownership for a new unit performs better in homogeneous markets. On the other hand franchises do better in heterogeneous environments, where the need for local adaptation makes the exploration approach more suitable.

2.2. A franchising framework

As explained above, business format franchising is the most common form of franchise and entails various kinds of support from the franchisor to the franchisee. Some examples are: training, on-site guidance and operations manuals, designs, accounting systems, etc. Nonetheless, franchisees are obliged to manage their activities according to franchisors' directives. However, despite the popularity of this governance type, the failure rate of new franchise ventures is high. As reported by Nijmeijer et al. (2014), in US 50%-85% of these initiatives tend to fail.

There are many reasons why a franchise endeavor could fail or succeed, and different variations in strategies and operations that influence the possible outcomes. Nimeijer et al. (2014) built an integrative framework that aims at explaining how structure- and process-related factors influence the outcomes of a franchise agreement. Five major factors were identified as related to franchising success or failure: ownership structure for the system and the units, design of the business format, design of the contract, age and size of system and units and the relationship between franchisor and franchisee.

Following a franchising framework is illustrated as reported by Nimeijer et al. (2014), with some integration from other studies.

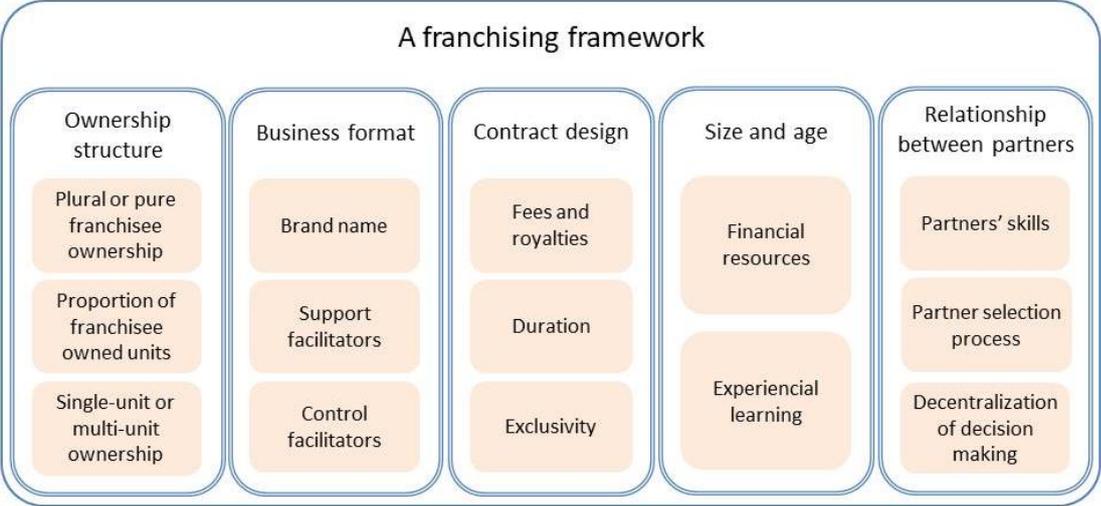


Figure 2.4 - A franchising framework.

Source: Nimeijer et al. (2014), El Akremi et al. (2015), Watson (2008), Alinay & Okumus (2010), López-Bayón & López-Fernández (2016).

2.2.1. Ownership structure

Ownership structure focuses on the ownership proportion of units between the franchisor and the franchisee. The definition of ownership structure depends on three choices. First, whether both the partners or only the franchisor should own units. Second, in the case of plural ownership, the proportion of units owned by the franchisee. Third, whether each franchisee should own one or more units and consequently delegate daily management to unit managers.

Plural or pure franchisee ownership

Gillis & Combs (2009) define as turnkeys those chains in which units are owned only by franchisees. As described above, franchised units tend to increase adaptability and variability, induce free riding behaviors, and potentially reduce the overall quality. However, turnkeys are more interested in generating royalties and, thus, attracting new franchisees to join the chain. Variability is not an issue until the loss in quality does not damage too much brand reputation and new potential franchisees are not discouraged. Turnkeys focus on “building a brand name and a

set of operating routines for the express purpose of selling business opportunities” (Gillis & Combs, 2009).

Where brand reputation and standardization are more important it is more and more common for companies to grow in chains composed by franchised units and company owned units. These systems are defined by Gillis & Combs (2009) as chain builders. Setting up mixed governance units, the chain builder is able to balance exploration and exploitation.

The expansion of a business model through a mixed governance chain produces benefits and costs that characterize both franchised and company owned units. The franchising, reducing risks and costs beard by the parent company, makes convenient to expand in markets that are not worthwhile to pursue with a company-owned approach. On the other hand, the risk of moral hazard from franchisee’s side increases the need to protect brand reputation and, thus, the monitoring costs. The franchisee, for example, can benefit from the franchisor’s reputation while providing an inferior service damaging brand image. Oppositely, company owned units increase the parent company’s risks and investments but reduce monitoring costs.

The performance of a mixed governance chain depends on the synergy between the franchised and company own units. “Chains leverage their experience in company units, over which they have control, to model responses in franchised units, over which they have much less” (Raji Srinivasan, 2006). Nimeijer et al. (2014) state that chain builders outperform pure-franchisee ownership. In fact, plural form of governance increases economic efficiency while facilitating the creation and diffusion of innovation.

Proportion of franchisee owned units

In case of plural ownership, franchisee may own different proportion of units and, according to Nimeijer et al. (2014), various studies highlighted that it depends mainly on local environment, strategy, and business format.

With regard to the environment, franchisee owned unit proportion should be increased if units are located in geographically dispersed markets. Moreover, when

legal environment is strict and the chain is establishing its first unit in that market, a franchise is more advantageous (Nimeijer et al, 2014). Concerning the strategy, franchisors perform better if the franchisee proportion is aligned with their financial and marketing plans. Finally, business format characteristics suggest that if franchisors manage highly valuable resources and/or based on tacit knowledge, they should reduce the franchisee ownership proportion. However, if local knowledge is relevant to apply the business format at unit level, then the proportion should be increased.

Single-unit or multi-unit franchisee ownership

For the franchisee multi-unit franchisee ownership is more advantageous. It means higher survival rates and lower production costs as learning benefits increase, due to the transferability of knowledge from one unit to the other.

For young franchisors the failure chances raise if more units are owned by the same franchisee but, as the system grows, it becomes a success factor. In fact, multi-unit franchises imply that both fee's variability and resources to be allocated in order to find new franchisees decrease. Moreover, in case of multi-unit ownership franchisors need to persuade less franchisees in order to induce adaptability and change. However, these franchisees are less responsive to local needs than single unit owners, since they own more units in possibly dispersed areas. This is also due to passive ownership, which means that units are managed by unit managers rather than directly by the franchisee.

2.2.2. Business format

Determinants of business format are brand name and format facilitators for support and control. Format facilitators are defined by Nimeijer et al. (2014), according to Kaufmann and Eroglu (1998), as "operating and management structures that should ensure that franchisees deliver the product and services required by the franchisor".

When brand name is strong and recognizable it results in positive outcomes, both for franchisors and franchisees, in terms of profits, sales, growth and satisfaction.

The presence of some form of support from the franchisors is also positively correlated to performance. The type of support does not influence much the franchisee, what counts more is the quality of the aids. High quality and instrumental supports are, in fact, important factors in franchise success and franchisee satisfaction. According to El Akremi et al. (2015), training is one of the most important supports that the franchisors provide, in particular if knowledge is partly tacit and difficult to codify. A long and proper training is a critical tool to transfer knowhow and enhance communication with franchisee.

Control facilitators are represented by initial control, standardization of some operations, and the degree of decentralization in decision making. The use of attentive methods for the selection of a suitable franchisee, in terms of expectations and attitudes, leads to higher satisfaction and success. Standardization hampers innovation but, if it is operated strictly following operations manuals, for the first period results in positive outcomes. Conversely, in the following years an adaptation approach would be better performing. Moreover, for pure franchises, the use of standardized routines enhances the performance while it reduces it in plural form chains (Giis and Combs, 2009, as reported by Nimeijer et al., 2014). Decentralization also yields superior performance results in terms of competitive advantage and franchisees satisfaction.

2.2.3. Contract design

Different elements of contract design have been analyzed and reported by Nimeijer et al. (2014) but there is no high correlation with positive or negative outcomes.

Higher level of initial and ongoing payment required from the franchisee is generally related to higher survival chances. However, if payments are too high they will result in dissatisfaction and worse relationship between franchisor and franchisee. Length has been shown as unimportant to achieve higher results. On the other hand, exclusivity in territory affects positively both franchisor and franchisee outcome, as long as it avoids the establishment of a similar business which would capture revenues.

In sum, it is important that contractual features and directives are clear and perceived as fair from both sides. Franchising is generally considered as unfair, since

more power is held by the franchisor. Therefore, reasonable contractual conditions positively affect franchisee's attitude and increase the likeliness of the overall project success.

2.2.4. Size and age

Both size and age influence the success of franchising but from the article of Nimeijer et al. (2014) is not clear in which direction. However, according to Watson (2008), small and younger franchisors face higher financial constraints in funding the venture. In case they cannot rely on internal resources, to raise capital they are required to pay higher interest rate and provide a greater security level, since they are associated to a higher risk.

Financial gap is not the only element that differentiates small and younger businesses than greater and older ones. According to the dynamic capabilities framework, the maturity of franchised chain allows the development of better capabilities thanks to experiential learning (El Akremi et al., 2015). Established franchisors built and refined over time an infrastructure to support franchisee. They can transfer knowledge more easily due to earned understandings about codification of routines and implementation of formal procedures, enhancing the system's efficiency. On the other hand, young franchisors find more difficult to build a strong and trusting relationship with the partner, due to the insufficient experience. In conclusion, older chains are expected to yield higher performance because they are more experienced (El Akremi et al., 2015).

2.2.5. Relationship between franchisor and franchisee

Closeness of the relationship between franchisor and franchisee, commitment, trust, communication, dependence, and cooperation are elements that positively influence the franchise activity. These factors are related and can influence each other's, for examples cooperation can be enhanced by communicating better and more often. Consequently, higher cooperation helps avoiding conflicts.

The franchisee is required to possess good management and marketing skills. Current capabilities are valued more than past experiences, as long as self-

employment and past business activities bring fewer advantages than the ability to align management efforts to the franchisor’s strategy.

Franchisors need to develop skills towards the effective management of resources and the relationship with franchisees. They should be able to select the more suitable franchisees, influence their attitude, and delegate the right proportion of responsibilities in order to avoid conflicts and potential opportunistic behaviors.

Franchisee selection and delegation of responsibility influence the establishment of a durable and trusting relationship between partners. Given the importance of these processes, it is worth to focus on their impact on the outcome of the franchise agreement.

2.3. Partner selection process

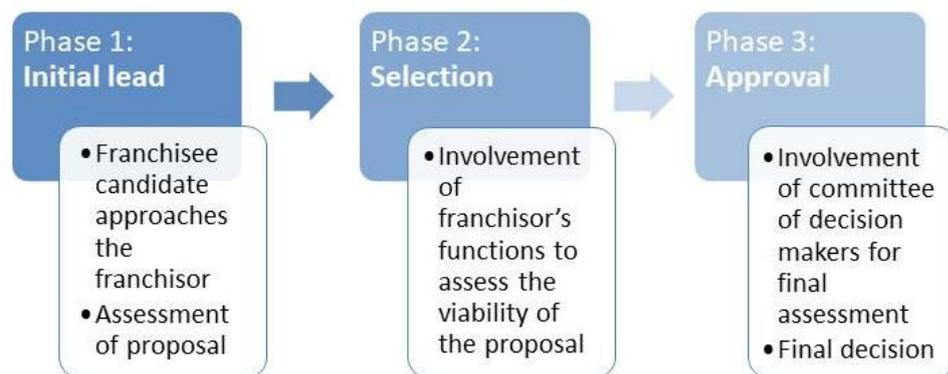


Figure 2.5 - Franchisee selection approach.
Source Alinay & Okumus (2010).

The process that takes to partner selection is particularly important to establish a relationship based on mutual commitment towards the franchising success. Alinay & Okumus (2010) built a threefold process of decision making that franchisors can follow in order to select the right franchisee.

The “initial lead” is the first step of the process, in which contact is established between the potential franchisee and the franchisor. Franchisee candidates are individual organizations, like financial investors, real-estate development companies, bankers, and current franchisees. The proposal from the franchisee usually includes a potential location. The goal is to explore and familiarize with candidates, building a direct relationship that involves informal meals or a tour of

the location. Once a proposal meets preliminary requirements it is submitted to the franchisor's project manager.

The second phase is called "selection" and entails the involvement of the relevant functions of the organization. Financial viability is assessed and a brand standard manual is provided in order to ensure that the franchisee is fully aware of brand requirements. The franchisor evaluates the characteristics of the proposed location, such as accessibility, traffic, visibility, neighborhood, etc. The second step is dynamic: "there is an ongoing communication with the different departments and the different levels of the company" (Altinay & Okumus, 2010).

"Approval" is the last phase of the process and consists of the presentation of the proposal to a committee of final decision makers, which components depends on the organizational structure and dimension of the parent company. Since the committee relies heavily on the previous conclusions, it is not a repetition of the second phase, but a final assessment of the efficiency and effectiveness of the proposal before committing company's resources to the project.

2.3.1. Opportunistic selection, strategic selection and market selection

The above decision making process is defined as opportunistic selection of the partner, in which it is the franchisee that approaches the franchisor. According to Doherty (2008), it differs from the so called strategic approach that refers to the active franchisor's research of franchisee. Alinay & Okumus's (2010) approach refers to a situation in which the franchisor has already established units in the local market, or at least has already targeted it. In fact, the "initial lead" phase is usually performed by the country manager.

Doherty (2008) focuses the process of market choice. Initially, a market screening identifies the key demographic and economic features, such as population, social structure, GDP growth, unemployment, inflation, and currency fluctuation. Regulations, such as import duties and trade relationships, are also considered important because represent potential relevant entry barriers. These evaluations are deeply influenced by brand features, for example if it is conceived for the niche market or the mass market. Market's attractiveness factors, such as retail environment, available IT infrastructures, potential price positioning and sales

estimation, help making the final decision. A modest presence of competition is considered as a “comfort factor” because it confirms the availability of a target market. Once market is selected, and requirements of the possible partner are determined, the decision making process described by Alinay & Okumus (2010) may take place.

The opportunistic approach is favored by pure franchisee ownership systems, where a new franchisee is seen more as a source of financial resources than the opportunity to leverage brand competitive advantage through experiential learning. The franchisor does not perform a deepened analysis of the potential franchisee but not all the proposals result in the franchising contract. Franchisees are required to prepare a business plan in which relevant information over market, location and project are presented. The franchisor provides also terms and conditions required for the new franchising opening.

2.3.2. Criticalities

Chemistry and cultural gap

The deciding elements in partner selection are “chemistry and the potential of the franchise relationship to be sustainable in the long-term for both parties” (Doherty, 2008). Assessing whether there is “chemistry” between partners facilitates the construction of a solid team between them. Moreover, franchisees need to possess the necessary capabilities to meet brand conditions, which depend on the overall organizational strategy. The more the franchisee results aligned with the strategy, the easier it will be to communicate and work together in the same direction. For this reason, in particular between distant markets, an effective transmission of the requirements is paramount even before the final decision is made. Communication has also a relevant role in overcoming the cultural gap which may exists between franchisor and franchisee. The broader the cultural gap, the more difficult is to build a stable relationship and the more important is the role of chemistry.

Cross functional perspective and rivalry

According to Alinay & Okumus (2010), the evaluations that take place during negotiation are to be of a cross-functional perspective. It means that information

should flow across all relevant organizational functions and alternative solutions, potential problems and opinions should be disclosed by those who possess a wider expertise over them. Therefore, brand managers worry about the preservation of brand image and reputation, financial department about the sustainability of the project and the potential profitability, and the like for other functions.

However it is not easy to provide a fluent and dynamic internal and external knowledge exchange due to rivalry between functional units, and between functions and target market managers. Rivalry between functions reduces the amount of supplied information and may leads to ignore relevant knowledge. Moreover, the need for a fast response from the analysis leverages the negative effects.

Negotiation inside the company was found to be more complex than negotiation outside, due to these internal conflicts. A country manager can see function managers as possible obstacles to the establishment of a franchise. Altinay & Okumus (2010) report that country managers claimed that functional units tend to negotiate for the lowest profit possible, in order to achieve more easily their profit targets. They often require what country managers define as “unnecessary” information for the evaluation process. On the other hand, country managers usually earn their incentives on the base of the positive outcome from the selection process. Therefore, it is country manager’s personal interest to push for the franchisee approval, which may influence its objectivity.

Bureaucracy

The difficulty of ensuring a dynamic flow of information between function and outside the organization is sometimes aggravated by an excessive bureaucracy in the selection process. This results in frequent repetition of steps in the selection and approval phase, where the same issues are discussed more than once, slowing down the decision making process. A conservative attitude towards franchising is also found to be possessed by the organizations, which hampers the approval of suitable franchisees and eventually the ability to compete in new markets.

Adverse selection

Compared to regular entrepreneurs, the pool of self-selected franchisees tends to be composed by a higher proportion of the “lower tail of the skill distribution of entrepreneurs” (Williams, 1998). Consequently, skills and capabilities possessed by franchisee candidates are fewer and lower than those of independent entrepreneurs. This because, thanks to the franchisor’s support in the establishment and management of the local unit, also less experienced candidates are confident enough to invest in a new business. The access to a strong brand reputation and to experienced routines appears safer than facing the market as an independent entrepreneur. For this reason the relevance of selection process is even higher and increasingly mature franchisors will accumulate knowledge about which characteristics to build on and which to reject immediately.

2.4. Decentralization of decision making autonomy

The necessity to maintain brand reputation and the fear for opportunistic behaviors may drive the parent company to centralize the decision making authority. The franchising, therefore, would become a mere exploitation process of a business plan provided by the Headquarter.

However, as highlighted in the previous sections, the pressures for adaptation make some degree of franchisee empowerment necessary to meet local requirements. The contribution of the franchisee’s entrepreneurial spirit makes the adaptation more effective because it is performed by a common effort of the partners. To assume that franchisees behave as entrepreneurs is quite safe, since their commitment to the venture’s success maximizes also their returns. Moreover, a centralized strategy risks to provide signals of distrust, damaging the partnership and causing misbehaviors. For this reason a certain level of autonomy can be seen as an efficient tool to cope with pressures for adaptation and increase franchisee motivation.

López-Bayón & López-Fernández (2016) reported the main fields in which the apportioning of responsibility between franchisors and franchisees represents a

critical decision. They identified five different areas of analysis: pricing, human resources, merchandizing, advertising, character of franchisor’s resources.

| | Centralization | Decentralization |
|----------------------------------|---|--------------------------------------|
| Pricing | Price Positioning | Adaptation within price ranges |
| HR | Supervision in recruitment selection and training | Day to day activities |
| Merchandising | Core elements | Lower level elements |
| Advertising | At country level | At region level |
| Nature of franchisor’s resources | Older chains More tacit knowledge | Young chains Less tacit knowledge |

Figure 2.6 - Factors that influence the centralization of decision making autonomy.
Source: López-Bayón & López-Fernández (2016).

Pricing decisions autonomy

López-Bayón & López-Fernández (2016) argue that pricing decisions should not be decentralized, despite the potential advantages of price adaptation. However, legislations (EU antitrust) forbid the franchisors to impose price, but they may suggest a price range that the franchisee is required to respect.

Uniformity of prices across different units of the same franchisor fosters brand image standardization and keeps prices under control. When the franchisee is allowed to adapt prices to local environment two main risks emerge. First, if the franchise agreement entails exclusivity of territories, the franchisee may be tempted to apply monopolistic prices. Second, if more units of the same franchised brand are established in the same territory, the franchisee may implement behaviors of intra-brand competition. This means that the franchisee could lower prices to compete with the other chain’s units, stealing their customers and creating conflicts that harm brand image.

Since price is an extremely important communication tool, it is better for the Headquarter to maintain a certain degree of control over pricing decisions.

Human resource decisions autonomy

Generally, human resources management is an area of responsibility decentralized to franchisees. Since distance hampers the monitoring of labor, the franchisee is better positioned to manage daily tasks and activities. In fact, according to the agency theory and as reported by López-Bayón & López-Fernández (2016), the higher the cost of supervision, the eager is the franchisor to delegate responsibilities to the franchisee.

The higher knowledge over specific local circumstances and legal HR requirements makes the franchisee sensitive enough to supervise recruitment, selection and training of employees. However, to ensure a certain level of uniformity and to avoid free-riding behaviors, franchisors maintain some degree of control over recruitment, selection and training, while they give full responsibility to the franchisee for day-to-day activities.

Merchandizing decisions autonomy

With merchandizing López-Bayón & López-Fernández (2016) refers to assortment and outlet decoration decisions. Regarding these two merchandizing areas, potential free-riding behaviors are considered to be less harmful of franchise success, in particular because they involve large investment and are not easily reversible. Moreover, the knowledge of the franchisee over customers' taste and preferences is more suitable to manage merchandizing policies rather than standardized practices are. Therefore, decision authority over merchandizing should be distributed according to flexible replication strategy, discussed above in Chapter 1 (paragraph 1.5). Some elements of high importance to the core business are to be standardized while others features should be adapted according to local knowledge.

Advertising decisions autonomy

López-Bayón & López-Fernández (2016) differentiate between nationwide and local advertising but do not mention franchisor's approach in case of international franchising contract.

On the one hand, nationwide advertising is often kept under the franchisor's control in order to generate scale economies and maintain a uniform image. Centralization

of national advertisement allows to hamper a typical franchisee's opportunistic strategy: the refusal to uniform to system-wide promotions. In this way, franchisors indirectly enforce central decisions, since the customer base will expect a certain level of service once it was advertised.

On the other hand, local advertising is better delegated to the franchisee, who possesses higher knowledge of local conditions and will take better informed decisions over which media to use and how to manage public relations. The relevance of local advertising for the franchisee stems from the fact that it can be tailored to specific local buyers.

In conclusion, at the country level a uniform advertising is advantageous and should be managed by the franchisor. At the regional level should be better responsibility of franchisee.

Franchisor's resources character

As reported by López-Bayón & López-Fernández (2016), the "franchise package" offered by the franchisor consists of the brand value and a set of practices. The features of these resources influence the convenience of franchisors to delegate responsibilities to the franchisee.

The more developed the chain and the more established the brand value over customers, the less damaging would be a free-riding behavior that deviates from conformity. This because when a chain is entering for the first time in a specific territory it is important to send a clear message to the local customers, that still have not consolidated their expectations. This would induce a younger franchisor to concede less autonomy to the franchisee, in particular expanding in a new environment.

However, a young chain, which has not developed specific stable business practices to warrant the success of large scale replication, would benefit from innovative ideas coming from an entrepreneurial franchisee. Moreover, earlier deviations are less costly and problematic to manage than in a well-established franchise chain. There is, thus, no clear direction to follow in deciding whether is preferable to increase the autonomy of franchisees in younger or older chains.

López-Bayón & López-Fernández (2016) argue that a higher level of autonomy is potentially more problematic in well-established chains, where the mere exploitation of assessed business models is proved to provide success. However, the more tacit is the knowledge embedded in the routines to be transferred, the harder will be to make them understandable to the franchisee.

An entrepreneurial franchisee will be less willing to accept frequent training sessions or interferences from the franchisor, necessary to transfer business practices in which higher level of tacit knowledge is embedded. This is also due to the fact that the direct costs required to attend to the training are often beard by the franchisee. In conclusion, the more difficult is to codify the knowledge the more problematic may be the relationship between autonomous franchisees and their franchisor.

ITALIAN FOOD AND BEVERAGE: EATALY AS A NEW CONCEPT

3.1. The company

Eataly is an enterprise specialized in the retail and provision of Italian high quality F&B products. It represents the meeting point between the two antipodes of Italian F&B sector: small artisanal shops and large scale distribution. Precisely, Eataly is totally dedicated to the excellence of Italian traditional gastronomy but its structure is inspired by the big department stores.

The Eataly format represents a new concept in F&B competitive environment. The offer is characterized by three souls: the retail of products, the presence of restaurant points and a space dedicated to didactic. However, the result is not a supermarket nor a restaurant or a cooking school: it is all of them together. The idea is the creation of an informal thematic space, focused on tradition, artisanal production and the excellence of Italian territories. The layout of Eataly's stores is more similar to a market than a supermarket, whence the visitor has the impression of staying in the main square of an Italian town.

The company's values are not limited to a strong passion for quality food, but they emerge from the belief that a better informed and thoughtful choice of what to eat can deeply enhance our life. Consumers are invited to be active participants of an experience that allows them to eat, shop and learn about high quality traditional Italian F&B products, and to do it at a reasonable price. Here are two of the most peculiar slogans: "Life is too short not to eat well" and "You are what you Eataly".

3.1.1. The philosophy

The bond between the words "eat" and "Italy" inspired the concept that induced Oscar Farinetti to found the company in the first place. The name itself suggests that Farinetti aimed at promoting the connection between good food and the country by translating it in a business organization. The aim is not limited to the creation of a space where it is possible to eat good Italian food. Farinetti aspired to build a place in which the "Italianity" could be felt in the air, where the typical conviviality of the dining table was bound to the inheritance deriving from centuries

of tradition, common to every Italian. As Joe Bastianich said “the hearth and soul of Eataly is the best of Italy in spirit and offerings”. Moreover, Eataly is always excited to give value to foreign products and other culinary traditions when they are coherent with the principles of the company. Its philosophy embodies the commitment to quality, sustainability, affordability and responsibility towards products, producers, territories and local traditions.

Eataly is a place for everyone: Farinetti wanted to prove wrong the assumption that good food is available just for a narrow group of privileged people due to its high costs and exclusivity. He conceived an assortment of the best Italian gastronomic tradition at a reasonable price, by reducing the length of the supply chain from field to fork and removing intermediates between local producers and distributors. Eataly in fact, not only owns part of its key suppliers, but buys directly from artisans and represents their main distribution channel.

"Eating is an agricultural act" is the title of a paper written by Wendell Berry and it is so appreciated by Farinetti that dominates in every store. It suggests that Eataly’s goal is not simply to provide a product but to allow its clients to be part of the offer itself, acknowledging them about their power and important role, as consumers, to open the agricultural process by selecting what to eat. As in Eataly Manifesto below, the aim of marketing and communication efforts is to help consumers making this choice, stressing the enthusiasm for good food as an improvement of our lives: “Eat better, live better”.

EAT BETTER, LIVE BETTER



Figure 3.1 - Slogan in Eataly Munich.

THE EATALY MANIFESTO



0. WE'RE IN LOVE WITH FOOD

We're in love with high quality food and drink. We love the stories about it, the people who produce it, and the places it comes from.



1. FOOD UNITES US ALL

Good food brings all of us together, and helps us find a common point of view.

We believe that one of the greatest sources of joy is what happens around a dinner table.



2. OUR PASSION HAS BECOME OUR JOB

We've dedicated our daily lives to promoting a real understanding of high-quality food and drink. How lucky are we that we get to do what we love?



3. THE SECRET TO QUALITY OF LIFE? QUALITY PRODUCTS

By offering the best products we can find, we improve our own lives, and bring added value to yours. Enter a world dedicated to quality: that means quality food, quality drink and ultimately quality time.



4. OUR TARGET AUDIENCE IS EVERYONE

Whether you're here to buy a loaf of bread, prepare for a lavish dinner or sit down to enjoy a meal, we want this to be your place. We want you to be comfortable, happy, and enriched by every visit.



5. EAT. SHOP. LEARN.

This is a store with stories. Here, you won't just discover what you love, you'll also learn *about* what you love.



6. WE'RE IN THIS TOGETHER.

What you choose every day determines what we'll stock on our shelves over time. When you demand quality products, you support the local farmers, fishermen, butchers, bakers, and cheese makers who produce them. You create a better environment—for eating and beyond.



7. OUR THREE PROMISES TO YOU

Choice: We offer a diverse selection of quality food and drink.

Accessibility: We are dedicated to offering the best products at the lowest possible prices.

Knowledge: We feel that it's not just important that we know everything about what we sell and serve, but that you also learn about the products we are so passionate about. We share with you the stories of the people and places behind all that we offer. The more you know the more you enjoy.



8. YOUR TRUST IS EARNED EVERY DAY

In all ways, we promise to be scrupulously honest. We'll never encourage you to buy more than you need.



9. THE END GOAL

Our goal is to have you as our customer for a lifetime. The easiest means to that end is offering the best food and drink as well as the best environment in which to discover and expand your tastes.

On that note, we look forward to seeing you again very soon!

Figure 3.2 - Eataly Manifesto.

3.2. Made in Italy

Before focusing on the company and its worldwide expansion, it is interesting to highlight the characteristics of the Italian F&B sector. Particular attention is paid to its strengths and weaknesses in the internationalization context.

According to Il Sole 24 Ore, if Made in Italy was a brand it would be the third most famous in the world, after Coca Cola and VISA. Its value lies in the internationally recognized quality, design and creativity of Italian manufacturing sector. What differentiates made in Italy offer is the extremely high technical level of production and its unique know-how that, from the 90s, gained the recognition of national and international public opinion. This development allowed a number of Italian SMEs to grow in many manufacturing sectors: fashion, mechanic automation, furniture, jewelry, food and beverage. In January 2015 Italian F&B industry, including collateral activities like packaging and logistics, accounted for the 13,9% of Italian GDP. It clearly represents a sector of socio-economical relevance, up to the point that it is considered a strategic asset for the economy of the country.

3.2.1. Exports data and Russian Embargo

According to the data from Federalimentare, Italian F&B industry is growing steadily and is showing increasing interest for foreign markets. In fact, companies find more and more difficult to produce sufficient returns in the domestic market, due to its saturation, the current crisis of internal demand, and the high pressure of GDO. The last report of 2016 forecasted a turnover of €134 billion in 2017, with a growth of 1,5% from 2016. Exports were expected to grow for the 5% to reach €31,6 billion, and Italian consumption for the 0,3%, reaching €231 billion. In the period between 2000 and 2016 Italian F&B export increased for the 144%. Focusing on the period 2007-2016 the growth was of the 66,1%.

According to data from ISTAT, Europe is confirmed to be the main destination of Italian F&B exports. In fact, half of the total exports of 2016 is absorbed by four countries, three of which are European: Germany (€4,9 billion), USA (€3,7 billion), France (€3,5 billion) and UK (€2,9 billion).

It is, however, interesting to notice the role of Russia as export destination. Italian F&B exports in Russia increased for the 774,8% in the period between 2000 and 2013, compared to the growth of 326,3% of total Italian exports in the country. In 2013 Russia gained the 11th position in the rank for Italian F&B exports with €561,6 million and a 24,1% growth compared to the previous year.

On the 8th of August 2014, Russian government imposed an Embargo against EU, USA, Canada, Australia and Norway. It resulted in the impossibility to import in the country any animal-derived food products for one year period, which has been successively extended. Since 2014 it has started a steady downturn of Italian F&B exports in Russia that still persists today. Between 2013 and 2014 the decrease was of the 6,2%, and of the 33,2% between 2014 and 2015. The phenomenon caused a series of consequences both for Italian SMEs and Russian consumers. The ban of the main categories of products that identify Italian food offer blocked the process of discovering and familiarization that was taking place in the Russian market. The effect has been twice more negative because it fostered phenomenon like Italian sounding (discussed below).

3.2.2. Dimension and internationalization

Today F&B production in Italy is fragmented and mainly composed by thousands of small companies with modest turnover. The following graphs are elaborations made by Ubi Banca of the data published from ISTAT in 2013. Figure 3.3 shows that the 80% of companies of food sector are very small (3-9 employees), while just the 2% has more than 50 employees. The restrained dimension of Italian companies is confirmed also by figure 3.4 that compares the average dimension of Italian food industries with the main European countries.

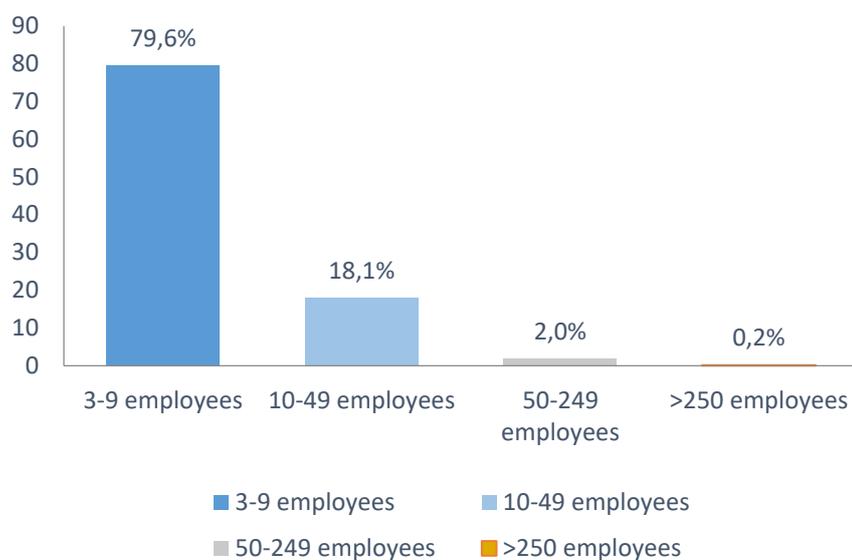


Figure 3.3 - Distribution of 33.676 food companies based on dimension (in number of employees), year 2011. Source: Ubi Banca elaboration of ISTAT data 2013.

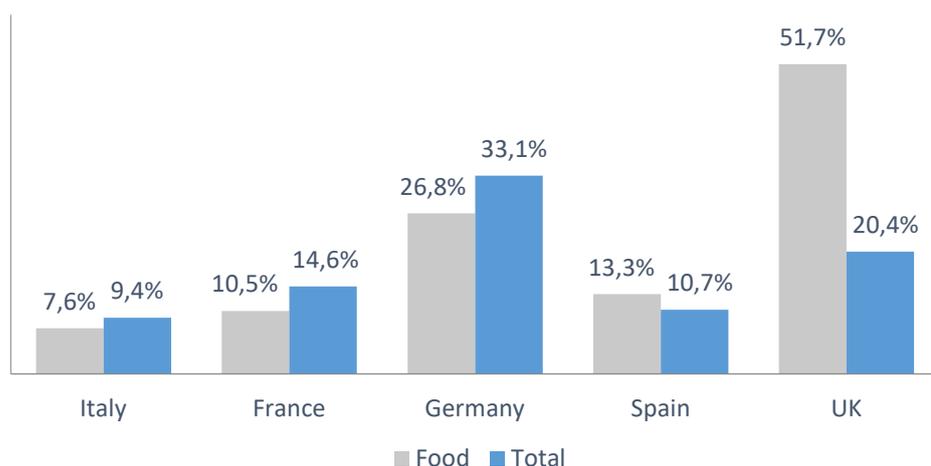


Figure 3.4 - Average dimension (in number of employees) of food industries in Italy and in the main European countries, year 2010. Source: Ubi Banca elaboration of ISTAT data 2013.

The small dimension of producers allows them to appropriate just a low share of the domestic value added produced by the entire food and beverage industry. According to the last available data (2011), the value added of producers over the total value added of the whole F&B chain was 10,3%. As shown in figure 3.5 below, the major share is absorbed by transportation and commercialization activities, due to the massive development of large scale retail trade.

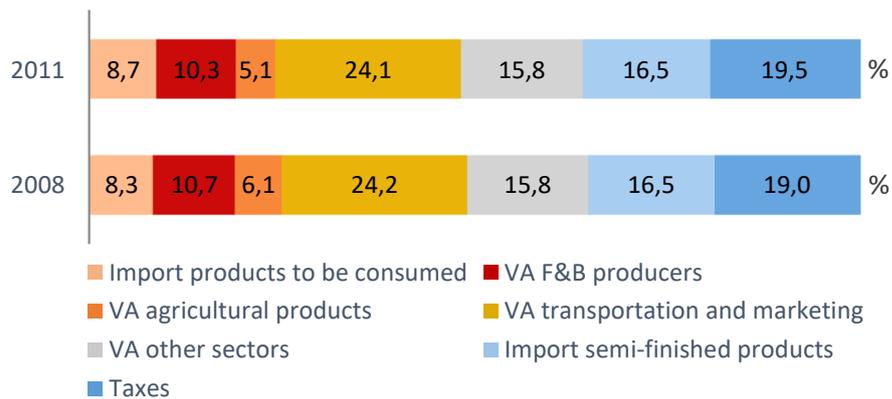


Figure 3.5 - Distribution of the Gross Value Added among the actors of the value chain, year 2011. Source: Ubi Banca elaboration of ISTAT data 2013.

In the context of internationalization the small size of companies represents the main factor that hampers their competitiveness. It is observed that the share of turnover realized in foreign markets is directly proportional to the company's dimension. In fact, small producers tend to favor defensive strategies of their market share. On the other hand, expansion and development strategies are increasingly more relevant with the growth of company dimension. The result is that the companies that expanded in international markets have the greater dimension in common.

The data below confirm that while just the 17% of small dimension companies focus on international markets, the index rises to 89% for companies with more than 250 employees.

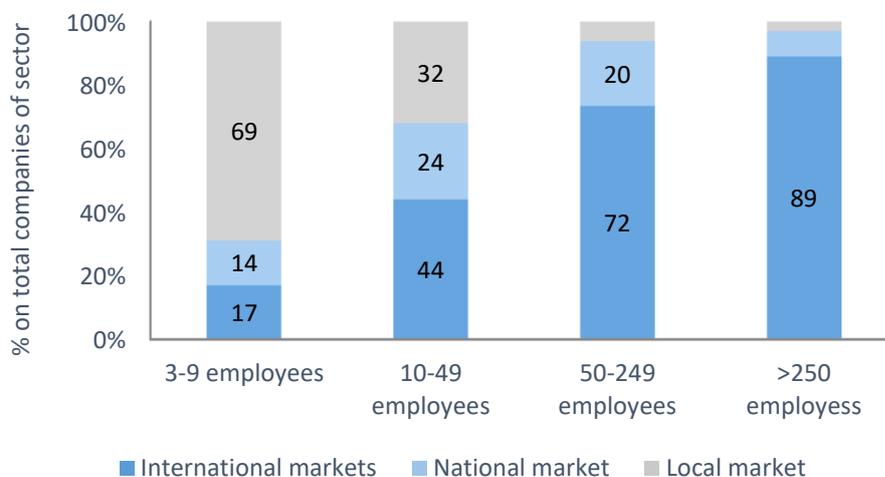


Figure 3.6 - Distribution of food companies for target market (% on total companies of the sector), year 2011. Source: UBI Banca elaboration of ISTAT data 2013.

This discrepancy lies in the capability of Italian enterprises to overcome the entry barriers of foreign markets. Neither the strength of Made in Italy reputation nor the quality of products are enough to guarantee successful positioning in international markets. Entering a new market requires discrete financial investments in marketing, logistics, and distribution. In fact, consumers require more and more sophisticated complementary services. This does not reduce the relevance of quality, but shifts the attention of customers who focus on the combined solution of a high qualitative product and a satisfying collateral service. Processes like customer care and post-purchase practices are, thus, fundamental to gain competitive advantage and create brand awareness.

By accessing to credit a company can enlarge its dimension and increase the production, in order to exploit scale economies and reduce costs. However, small companies rarely can employ significant financial means and find more difficult to access to credit, due to the higher level of risk that they represent as debtors.

In conclusion, the small size represents a structural limit because increases the difficulties related to financial means.

3.2.3. Competitive levers

Italian companies have always exploited the impact of Made in Italy to enter in international markets. This phenomenon is known as Country of Origin effect, which represents the influence over customers purchasing choices of the country of origin. When the country of origin is clearly recognizable, consumers make inferences over products' attributes that depends on their idea of that country. The country image is usually the result of past experiences and stereotypes that may even not be related with the product itself, in particular when customers are not familiar with it. In fact, the more acknowledged the consumers are with the characteristics of the product or brand, the less relevant country of origin will be. When the country image is correlated with the importance of product's attributes, then a positive correspondence is established and the exploitation of country of origin effect represents an effective penetration strategy.

Made in Italy is internationally perceived as ambassador of esthetic values and excellent artisanal quality. Therefore, small and not experienced F&B companies

use Italian origin to rapidly build a positive image in the mind of foreign consumers. In fact, According to Ambrosetti's research in collaboration with Federalimentare, the main distinctive elements of Italian food products for international retailers are: quality of raw materials, quality of final product/service, strength of Made in Italy brand, and artisan quality of products.

The following elaboration made by UBI Banca shows that Italian F&B companies leverage quality to build competitive advantage in foreign markets.

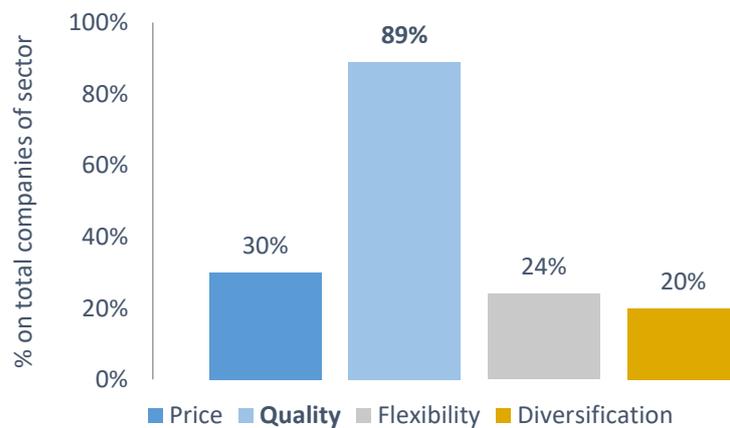


Figure 3.7 - Main competitive levers of food companies in % on total companies of the sector. Source: UBI Banca elaboration of ISTAT data 2013.

The quality of Italian F&B production is not limited to nutritional facts, but extends to the characteristics of the society, the habits resulting from years of history and tradition. To eat is a verb which meaning changes in relation to the place in which it is inflected. In Italy, it evolved from the old small artisanal enterprises, characterized by high specialization and learning economies. Their evolution over time produced a great expertise and knowhow that today represents a pillar of the country's cultural heritage.

The presence of many similar and small producers fostered competition and the diffusion of those unique competences which resulted in best practices. Their continuous refinement increased the quality and yielded incremental innovation of product and process. However, the basic transformations from raw materials to finished products were maintained unaltered. Production of cheese, fermentation of milk, distillation of wine and beer, leavening of bread etc. are still activities undertaken according to the same traditional processes handed down and

developed through long experience. Italian industrial specialization is, thus, not dominated by technologically developed or capital intensive industrial sectors. The main sources of differentiation that determine the high quality of products are knowhow, design, and creativity.

Nowadays Italy is the first European country for number of products of certified quality (814 products with DOP and IGP certifications), the first producer of wine in the world (48,9 billion of hectoliters), and the second country in the world for number of starred restaurants (334). However, international customers are generally not provided with the expertise to recognize the quality of Italian F&B products.

Phenomenon like Italian sounding, confirm that in order to appreciate an original Italian production, it is necessary to possess a sufficient level of knowledge to recognize it. Italian sounding is one of the most damaging challenges that Made in Italy faces in foreign markets. It entails the imitation of Italian F&B products, usually protected by certifications like IGP, DOC and DOCG. The most imitated product categories are dairy, cheese, pasta, sauces, cold cuts, olive oil, vinegar, and preserved. Italian sounding entails the introduction in the market of cheap imitations of the original product which is not able to compete on a price base. These companies, thus, exploit the image of Italy as a brand while purchasing lower quality products.

The reputational damage costs to the country over 54 billion of Euros. For example, the abatement of prices in the main cities of USA reach the 50% for dairy products, 73% for olive oil, 25% for pasta sauces and 60% for bakery products. Giandomenico Auricchio, president of Assocamere Estero, states that the elimination of this problem would increase Italian export for the 20%. The proposals are many and concern mainly the strengthening of legal protection mechanisms. However according to Auricchio, Italian sounding cannot be fought only in tribunals but with culture and education instead, carrying out effective storytelling processes. In this way consumers will be attentive when choosing what to purchase and will be more informed on the difference between an original Italian products and the fake one.

The creation of an educated local demand is, thus, paramount to build competitive advantage, in particular for culturally distant target markets where the extremely high differentiation of food tastes and habits, makes efficient communication a tough challenge. In conclusion, the competitive levers for Italian F&B in foreign markets are the country of origin effect of Made in Italy, the quality, and the education of local customers.

3.3. History of the brand and Eataly store development

3.3.1. The first project and Slow Food support

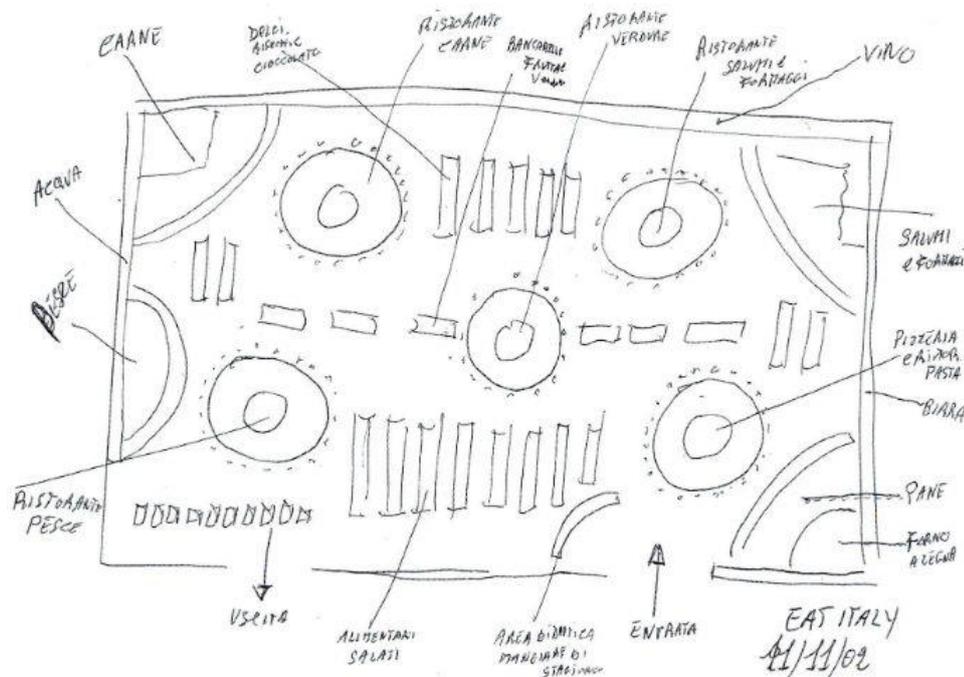


Figure 3.8 - Eataly's very first draft made by Oscar Farinetti.

The first draft of Eataly store was made by Oscar Farinetti on the 2nd of November 2002, while he was finalizing the sale of Unieuro group. From that day to the opening of Eataly Torino, on the 26th January 2007, a lot has changed except the concept expressed in eataly.net: “Eataly is about eating Italian food, living the Italian way. Our goal is to demonstrate that high-quality Italian food and drink are at hand”.

Turin was selected as the place where to locate the first store, since it is the closer big city to Slow Food and the location of Salone del Gusto². Carpano, the ex-factory of Vermouth with its 11.400 square meters and close to the 8 Gallery, represented the perfect combination between a central location, close to the main flows of people, and the areas external to the city, with more space and parking. The building was owned by Turin district and destined to be a thematic area dedicated to gastronomy. Eataly srl won the permission to restore and manage the ex-factory and, since the building history was coherent with the spirit of the project, the restoration respected its original structure, accenting its history of Italian excellence tradition.

The considerable time needed to finalize the first Eataly store was characterized by many coordination and organizational difficulties. Farinetti was aware of the importance of that moment for the future success or failure of his company, therefore he asked for the help of a more experienced organization which at first contributed to the conceptualization of Eataly: Slow Food.

Slow Food Italia is an international recognized no-profit association dedicated to food biodiversity safeguard and tasting education. The word “quality” for Slow Food is based on three pillars: the good organoleptic characteristics of food, the sustainability from the ecological point of view, and social responsibility. The promotion and democratization of food quality, at which Eataly (with the strategic advisory of Slow Food) aims, imposes several limits. There are, in fact, specific requirements in terms of raw materials and techniques in both production and commercialization processes. Raw materials are often available only in specific territories and cannot be transported easily. Techniques that are integrated with environments and local communities represent a limit to the productivity.

Artisans and small producers, therefore, were not strong enough to sustain the production pace requested by large scale retail trade. For this reason, Eataly started to acquire or control production companies of major importance in order to

² Salone del gusto is an international gastronomic fair organized every two years by Slow Food, Piedmont region and Turin district. It reunites F&B producers and artisans from all over the world to promote their products and participate to other activities like conferences, forums, labs, tastings and cooking classes.

guarantee a sufficient and continuous provision. Eataly would have managed the distribution while suppliers could concentrate on guaranteeing the quality standards of their output.

Eataly, therefore, acts as a mediator between large scale distribution and local productions, while Slow Food has the role of guaranteeing that products and processes remain “good, clean and fair” by closely monitoring producers over time. Eataly is, as a matter of fact, Slow Food philosophy applied to a business model.

Slow Food offered Farinetti its knowledge in F&B sector but Eataly needed other partners in order to obtain financial support and experience in large scale retail trade. Farinetti focused the attention on Coop, but, despite the shared values, the holding company Coop Italia refused to associate. Eventually Farinetti searched for the consensus of regional cooperatives of smaller dimension and Coop Adriatica, Coop Liguria, and Novacoop Piemonte acquired the 40% of the new society Eataly Distribuzione srl, owned for the 60% by Eataly srl and responsible for the distribution. The directors of the cooperatives were also part of Eataly’s board, providing the company with the needed logistics and organizational knowhow, other than financial support.

3.3.2. International expansion and latest developments

Eataly Torino Lingotto launched an original brand format that Farinetti family is developing in Italy and in the rest of the world. The positive results surprised even the entrepreneur since the revenues of the first year exceeded 30 million of euros, when only 19 million were expected. Despite the good beginning and in order to obtain a reasonable share in the large scale distribution, the company needed to expand its potential market through the opening of new stores. In the following years, new Eataly stores have been inaugurated in Rome (2012), Bari (2013), Milan (2014), and in other cities for a total amount of 13 stores in Italy.

The first challenge in the foreign market was Eataly Tokyo, opened in 2008 in joint venture with a minor partner: Lawson. Unluckily the venture did not achieve the desired results, up to the point that 7 out of 9 stores were closed. Recently Eataly

made a deal with a company leader in trading, Mitsui Bussan³, and the restaurant and service chain Kichiri⁴, in order to re-launch its brand in Japan and Asia. The company learned from Eataly Tokyo lesson and opened successful international stores for a total of 17 (30 including also the Italians).

Eataly is a dynamic company, continuously changing and developing. In 2015 a 61 years old Farinetti announced that Andrea Guerra would have taken his place as executive president of the company. The ex CEO of Luxottica started managing the company together with the other CEOs of Eataly: Nicola and Francesco Farinetti (sons of Oscar Farinetti), and Luca Baffigo. This choice, together with the acquisition of 20% of Eataly's shares by Tamburi Investment Partners in 2014, aims at leading the company to enter the stock market, by developing even more the organizational structure and increasing the turnover in the next years. From Tamburi Investment Partners Eataly obtained investments and financial support. On the other hand, from the great experience of Guerra in the international expansions the company will obtain an important engine for next developments.

3.3.3. International competitors

Due to its singular format, it is not easy to identify Eataly's direct competitors. For what concern Italy, as a matter of fact, retailers and restaurants offer a broad assortment of Italian food products if compared to foreign supermarkets. Moreover, the recent development in the education of consumers increased the attention they pay towards quality and organoleptic characteristics of food. This induced many supermarket chains to dedicate more and more space to premium quality and biologic products, moving closer to Eataly's offer.

An example is represented by Esselunga⁵, the first food retailer chain in Italy in terms of turnover in 2015. Esselunga's and Eataly's demand is not the same but they have many customers in common and focus on the same pool, whence they compete for the leading position for quality. An article published by the magazine

³ <https://www.mbcl.com/>

⁴ <http://www.kichiri.co.jp/>

⁵ <https://www.esselunga.it/cms/homepage.html>

*Panorama*⁶ in 2015 confirms their rivalry through a confrontation of the prices of 30 products sold both by Eataly and Esselunga. Inasmuch Esselunga resulted €68 cheaper, Farinetti replied with a couple of pages published in the newspaper *Corriere della Sera*⁷, which remarked the higher quality of Eataly's offer compared to Esselunga.

During the opening process of a new store in an international market local competitors are to be identified, observed and benchmarked. Local big retailer chains dedicated to high quality products, not only of Italian origin, represent Eataly's standard competitors. In Moscow for example, the attention was focused on the premium quality retailers: Globus Gourmet and Azbuka Vkusa.

Recent events highlighted a new international competition arena of wider-ranging: the e-commerce. Eataly's retail online won the award for the best e-commerce in 2016. In fact, dedicated websites are tailored for different strategies focused on target markets and translated in local language. For example, Eataly Today allows Italian customers to order and be delivered at home the same fresh and dry products present in the store. This opens the company to a number of other potential competitors which are dedicated to the retail of high quality food online.

Due to the purchase of the company Whole Foods for \$13,7 billion this year, Amazon represents a potential competitor for Eataly's e-commerce. Whole Foods is one of the most important supermarket chains in the US which distributes high quality biologic and natural food products. The partnership is unusual since Amazon is the opposite of Whole Foods: the leader of digital market the first, a supermarket chain based on large scale retail trade standards the second.

According to *Il Sole 24 Ore*, latest Amazon moves are showing its tendency towards the expansion to physical spaces rather than digital, and its interests for food business. The opening of Amazon Fresh in Seattle is just an example. Moreover, *Wall Street Journal* revealed that Amazon was considering the opening of more than 2000 F&B shops with its brand in US, thus the purchase of Whole Foods may find its logic in this plan. While traditional retailers are struggling to meet new

⁶ <http://www.panorama.it/economia/soldi/prezzi-a-confronto-esselunga-batte-eataly-215-euro-a-283/>

⁷ <http://www.scattidigusto.it/2015/06/01/eataly-esselunga-spesa-qualita/>

requirements of customer experiences, introducing new technologies like automatic cashiers, Amazon is evidencing the limitations of exclusively digital shopping by focusing on physical space. Providing its customer with a place where to experience more services, Amazon is becoming more and more a threat to Eataly, in particular in the US.



Figure 3.9 - Whole Foods Market store in the US.

3.4. The brand format

3.4.1. A synergistic system

Eat, shop and learn are the three most important words used to explain Eataly's offer, in fact the format is composed by three main areas: Market, Restaurant and Education. The working principle of the company lies in the equilibrium and synergy between them, both from the point of view of the consumer and the internal management of products. Customers can buy the goods in the market that works as a regular supermarket, can take a break in one of the thematic restaurants and taste the same products that may decide to bring home. The visitor can eventually attend to cooking classes in order to get more and more involved and aware of Italian traditional and artisanal gastronomic tradition. The rule is simple: clients pay immediately what they consume inside the store and pay at the cashiers before the exit what they take home.



Figure 3.10 - Eataly Torino Lingotto.

The ingredients and raw materials used for preparations in the restaurants are the same sold in the market, everything that the clients can eat in the store can be made using the retailed products. This allows the organization to spread managing costs in more activities that can absorb the eventual inefficiencies of each department. For example, for many reasons that goes from a mistake made in the purchase order to a product that is not selling as expected, the market could risk to waste unsold goods too close to the expiry date. When this situation occurs, those products can be transferred to the restaurants and served to the customers before the expiration date, avoiding a waste of food and money.

Every Eataly store is managed by the store manager, who is responsible for the functioning of the entire structure, managing budgets and margins, ensuring to follow directives and strategic goals communicated by central management. The executive chef and the restaurant manager supervise restaurants, the retail manager the market, and education and events are managed by the didactic director. Eataly Lingotto represents the administrative and logistic center of Eataly, where purchase orders are made and managed.

Eataly is organized in departments that are managed by category managers like autonomous units. Their task is to find the most efficient and effective way to reach central management goals. They manage human resources, purchase orders and sales, deciding what to buy, how much and from which supplier, and supervise prices choices, assortment selection and disposition of products.

Every decision creates consequences in other departments, whence clear communication and a good coordination between activities and managers are fundamental for each store success. For instance, according to the example below, in case the Executive Chef wants to change the fish restaurant menu he/she needs to discuss with Fish Category about which products are better to be included, with Wine Category about which wines should be proposed, with the warehouse and purchase office about orders and available stock, finally with the graphics to print the menu. If one step is missing it can result in a dysfunction of the whole system.



Figure 3.11 - Example of synergy at Eataly.

3.4.2. Market

Eataly’s layout is such that the market is perceived as a constant presence inside the store and delineates the division of the commodity areas, defining different departments. The product range is wide and covers every product type that is coherent with Eataly’s philosophy. The offer is almost exclusively composed by F&B goods other than a small percentage of merchandising and household products, cosmetics and cooking books. This choice aims at differentiating from big department stores and regular supermarkets, in order to provide a complete assortment of F&B products and just a lean selection of other categories.

It is interesting to highlight that no Eataly store is alike because the offer varies also according to its location. Since products are selected depending on the principles of quality, fairness and sustainability of small and local producers, in every territory there are different opportunities to be considered. In particular, when the local artisans reveal to be too small to be able to provide products for all the stores, Eataly may decide to sell them just in the closer Eataly shops. The result is that a consumer can find a product in a store that is not sold in any other. Even if it may represent a downside, eventually it is what differentiates Eataly from a regular retail chain, due to the respect of biodiversity and local realities also in the sourcing choices.

Two macro-categories can be identified in F&B products: dry products with a long shelf-life and fresh products with a shorter shelf-life. Items are then divided in products categories that represents different departments, to which a category manager is dedicated. Fresh products departments include a BOH (back of the house) space that hosts the preparation, and the FOH (front of the house) space that is composed by the counter or the take away. The BOH of fresh product categories works both for the retail and for the restaurants, for example the bakery makes bread that will be served in every restaurant and the butchery supplies the meat restaurant.

There are also some concessions to third parties. In this case a third party is allowed to manage a department and take care of HR, raw materials and other costs. In Italy these departments are: fruit and vegetables, cheese factory where mozzarella is produced, fresh pasta and chocolate. The reason to include third parties is that if the primary concern is to offer a certain standard product range, it is better to open to collaboration with more experienced and acknowledged partners.

3.4.3. Restaurants

Eataly restaurants, or “Eateries”, are located along the store coherently with the retail departments. The meat restaurant is close to the butchery, the seafood restaurant is next to the fish market and so on. The result is that customers can do their shopping and decide to take a break and eat something depending on personal necessities of time, taste and economic needs. The atmosphere is informal

and the *mise en place* is essential, in order to stress that the focus is on quality. Every day, in each Eatery, a show is played out: the kitchens are exposed to the view of the customers, which can see how the dishes are made.

Eataly's restaurants can be divided in two categories depending on the style of the service: Full service restaurants allow clients to seat at tables or counters and be served. Quick service restaurants give more autonomy to customers who can seat in a communal area and are not served, but pay and retire their order at the counter. Full service restaurants include Brew-pub, Fish, Meat, Vegetables, and Pasta and Pizza restaurants. Rotisserie, Bakery and Piadina restaurant are part of quick service restaurants, which include also bars and coffee shops dedicated to Lavazza, Vergnano, ice cream, and pastries. As it goes for retail product selection, the presence of a particular restaurant is not guaranteed in every store, this depends on the territory and availability of products.

3.4.4. Departments

Bakery

All fresh bread products that are sold or offered in the store are prepared in the Bakery with the only use of organic, stone-ground flour and sourdough starter. The preparation follows a natural fermentation process and bread is baked in a wood-fired oven. Bakery products can go from different kinds of bread, focaccia Genovese and pizza Romana to biscuits, cakes and brioches. Due to natural preparation processes, the bakery BOH works 24/7 while the FOH follows the same timings of the store. The flours used in the bakery are exclusively supplied by Mulino Marino⁸, which products are sold also in the market.

Butchery

The butchery BOH has the role of managing the preparation of meat to be sold in the market or used in the meat restaurant. The key product is the Fassona breed beef meat from Piedmont, which is a Slow Food presidium. The key supplier and

⁸ www.mulinomarino.it

Eataly Partner for meat is La Granda⁹, which products are used in the restaurant and sold in the market. The FOH is composed by take away fridges and a served counter.

Fish counter

As the butchery, the fish counter carries out the preparations destined to be sold in the market or used in fish restaurant. Raw materials come from the local fish and seafood market and are always fresh. Also fish department is composed by a served counter and take away fridges.

Fresh Pasta

Fresh Pasta is a third party concession to Michielis group¹⁰, which products are served in the counter and available in the take-away. Michielis products are used daily in Pasta restaurant for special preparation. Other than fresh pasta Michielis offers sauces, dry pasta, jams, preserved, breadsticks and melighe biscuits.

Sa.Fo

Cold cuts and cheese department, called SA.FO, is the most complex of Eataly because, differently from the others, offers hundreds of products from many producers with a short shelf-life. The wide assortment covers the whole Italian peninsula and includes also some excellence from other countries like French cheese and Spanish Jamòn. The department is composed by a served counter and take-away fridges. Among SA.FO suppliers there are two Eataly's family brands, part of Eataly Group: Antica Ardenga¹¹ for cured meat and Agrilanga¹² for cheese. Where it is possible there is also a small cheese factory managed by a third party that, other than producing mozzarella di bufala from milk or rennet, supplies its branded products at an advantageous price for retail. Cheese factory represents a double side advantage because it supplies everyday fresh dairy products and customers can directly enjoy the so called "mozzarella show": the expertise of a dairy artisan who prepares his/her products.

⁹ www.lagranda.it

¹⁰ www.michielis.it

¹¹ www.anticardenga.it

¹² www.agrilanga.it

Grocery

Grocery department includes all packaged products that are supplied by an external producer and sold directly to the customers to be consumed at home. Grocery products can be chilled, frozen or out of the fridge and are divided into sub categories: non alcoholics (i.e. soft drinks, water, juices etc.), coffee/tea, cereals/legumes/rice (i.e. pasta, dry legumes, bread substitutes etc.), condiments (i.e. oil, vinegar, spices etc.), sweet and savory preserves (tomato sauce, olives in oil, jams etc.), sweets (i.e. chocolate, biscuits, candies etc.), dairy products (i.e. yogurts, milk etc.) and smoked items (i.e. salmon, etc.). The distribution of product sub-categories in the store layout is coherent with the revenues they produce. A variation of products allocation can be due to seasonality, store location and the incidence of family and partners brands that always have priority over the other products and benefit from the most strategic corners. Some of these partners are Afeltra¹³ for Pasta di Gragnano, ROI¹⁴ for extra virgin olive oil and savory preserves, Venchi¹⁵ for chocolates and the third parties that manage their own department. Another important influence of sub categories distribution is the product rotation, in fact more space is usually dedicated to a product with lower price but that sells in higher volume, generating the same revenues of a higher price product sold in less quantity.

Wine and beer

Wine and beer department can be more or less developed depending on the space. Wines are organized by region of origin and type: red, white, sparkling, rosè, sweet and cult. Beers are displayed on the basis of brands. Some producers are entirely or partly owned by Eataly Group, or at least have strong commercial relationship with the company, and are always represented in the cellars. As an example Fontanafredda¹⁶, Niasca e Portofino¹⁷, Borgogno¹⁸ and Monterossa¹⁹ for wines,

¹³ www.pastificioafeltra.it

¹⁴ www.oliroi.com

¹⁵ www.venchi.com

¹⁶ www.fondanafredda.it

¹⁷ www.niascaportofino.it

¹⁸ www.borgogno.com

¹⁹ www.monterossa.com

Birra del Borgo²⁰ and Baladin²¹ for beers. Another important Eataly's supplier is Vino Libero²², a consortium of 12 producers from the most prestigious Italian regions for wine, with the shared objective of producing high-quality wines free of chemicals fertilizers and herbicides, using minimal amounts of added sulphates. Vino Libero is committed towards a sustainable production for people and environment. Eataly's cellar includes also spirits among which there is Montanaro²³ brand, owned by Eataly group and producer of grappa from Piedmont. Wines and beers are supplied by the cellar to every "Eateries" as needed, while the department director is consulted from Executive Chef and Restaurant Manager about menu and wine and beer selection. Besides the quality and variety of products, the nature of this department, which lies in the symbolic character it represents for Italian gastronomic tradition, raises the necessity for the employees who are in direct contact with customers to possess a wide knowhow over the assortment.

Fruit and vegetable

As long as it deals with a considerably delicate category of products, fruit and vegetables department is managed by a third party concession. Its layout is inspired by the fruit stands that can be easily found in every corner of Italian towns. From Fruit and Vegetable market are provided the products used in the other departments, quick-services and restaurants.

3.4.5. Education

Eataly's offer is not limited to the provision of excellent products to be consumed. The goal of customers' involvement is reached also by increasing their curiosity and sharing with them valuable secrets through courses, tastings, meetings with chefs and producers. Discovering more about products, consumers are given the tools to improve their quality of life. The courses are designed for all age groups and levels with a particular attention to children, who are thought the importance of eating well, and elderly, to whom are dedicated also free classes.

²⁰ www.birradelborgo.it

²¹ www.baladin.it

²² www.vinolibero.it

²³ www.distilliamontanaro.com

As a matter of fact, at Eataly prices are higher than in the other supermarkets, where competition is based on lowering prices as much as possible. For this reason instead of inducing customer to think less and focus their attention exclusively to convenient prices, clients are invited to meditate more over their shopping.

Slow Food gives its support for didactic activities, organizing a series of classes that rotate depending on the season. Eataly offers also private lessons and dining events. Moreover, it gives the opportunity to use the conference room for meetings, press conferences, team building, corporate events, and private and cultural exhibitions.

3.5. Eataly’s foreign strategy

3.5.1. The governance type

From the first international expansion experience in Japan, Eataly has learnt a lot about how to deal with foreign markets and has developed an expansion strategy. The following table shows the worldwide opened stores, differentiated in joint ventures and franchises.

| Eataly foreign 2017 | |
|--------------------------------|-----------------------------------|
| Joint ventures | Franchises |
| New York City (WTC, Flat Iron) | Istanbul |
| Boston | Dubai (Dubai mall, Festival city) |
| Chicago | Seoul |
| San Paolo | Yokohama – Tokyo – Osaka |
| Munich | Doha |
| Copenhagen | Riyadh |
| | Moscow (2017) |

Table 3.1- Eataly worldwide stores, 2017.

As highlighted in the previous chapters, the internationalization process imposes many threats and it is necessary to adapt some peripheral features of the format to the local environment. For this purpose, the headquarter needs to develop dynamic capabilities and a sufficient knowledge of local environment to deal with complex situations that may arise. Eataly, therefore, chooses the partnership agreement as a

source of capital and support, to obtain local knowledge and facilitate market penetration.

Eataly's partnerships take the form of joint ventures in geographically and culturally close countries, while for heterogeneous environments the company favors the franchising. When a market is familiar enough the parent company and the partner share the point of view over problems and opportunities, reducing the risk of disagreements and conflicts. The homogeneity of the market reduces the level of uncertainty of the investment and the company feels safer in extending its control over the project, despite the increasing exposition to risk.

Joint ventures allow Eataly to exploit the partner's expertise and the knowledge, while undertaking great degree of control over the new units' shares. It is for these reasons that Eataly's joint ventures are similar to directly owned units in the context of comparison with franchise units. In fact, in its joint ventures Eataly is always the major investor, carrying out directly the main activities related to the new opening and receiving from the partner support for what concern the local market.

An example of a successful Eataly's joint venture is Eataly New York, a 5000sqm store opened in August 2010, with the support of B&B Hospitality Group²⁴, owned by Lidia and Joe Bastianich and Mario Batali. Eataly choose a partner that thanks to its notoriety and great experience in Restaurants and Hospitality industry guarantees media and financial support.

On the other hand, when the market is far too different and less understandable from the Headquarter, the risks of a direct investment increase. The significant differences complicate the approach to the local culture and can harm the future outcomes of the project. For Eataly alone, in fact, it is impossible to foresee all the local opportunities and threats. For this reason, the company uses the franchising in which the local partner is the owner of the unit and its responsibility extends over investments and risks.

The partner, or franchisee, manages the store exploiting the notoriety and experience provided by Eataly, the franchisor. Eataly, on its side, guarantees the necessary support in order to establish and defend a clear and coherent image of

²⁴ bandbhg.com

the brand. The franchisee assumes the control of the unit and manages it according to brand requirements, paying fees and royalties to Eataly in exchange.

Differently from the partner of a joint venture, the franchisee supplies more than knowledge and market penetration support because the investment is almost completely on its side, reducing the risk run by the franchisor. The lower control that Eataly exerts over the franchised unit is compensated by the higher incentive for the franchisee to act according to the system's best interest.

Eataly Dubai, a 2000sqm store opened in November 2013, is an example of a franchising contract agreed between Eataly and Azadea group. Azadea²⁵ is a retail company that owns and operates more than 50 leading international franchise concepts in several sectors across the Middle East and Africa. Due to its great experience in franchising unit management, and its efficient organization of human resources and operations, it represents Eataly's partner for all the shops in Middle East.

3.5.2. Italian stores, franchised stores and joint venture stores

Eataly expansion in Italy and beyond national borders resulted in more than 30 stores worldwide. It is interesting to investigate the differences between Italian Eataly shops and foreign ones, highlighting the characteristics of both joint ventures and franchises. The following table shows six Eataly stores: Turin and Rome, New York City and Munich which are joint ventures, and Dubai and Istanbul opened in franchising. The data of Table 3.2 allow to compare the main characteristics of these three categories of Eataly stores. The incidence of restaurant turnover over retail turnover suggests several implications related to the local culture, in particular eating and shopping habits, other than knowledge of Italian food products.

²⁵ www.azadea.com

| 2016 | Torino Lingotto | Roma Ostiense | San Paolo | Copenaghen | Dubai Mall | Istanbul |
|-----------------------|-----------------|---------------|--------------|-------------|--------------|-------------|
| Opening date | 2007 | 2012 | 2015 | 2016 | 2013 | 2013 |
| Sqm | 11 500 | 16 000 | 4 500 | 1 800 | 2 000 | 6 000 |
| Total Turnover | € 33 564 884 | € 42 617 312 | € 28 200 000 | € 1 026 368 | € 12 500 270 | € 9 815 245 |
| Restaurant Turnover | € 8 945 309 | € 12 485 339 | € 18 330 000 | € 551 326 | € 9 625 208 | € 6 154 187 |
| % | 27 | 29 | 65 | 54 | 77 | 63 |
| Average R expenditure | € 16 | € 23 | € 22 | € 16 | € 20 | € 10 |
| Market Turnover | € 23 947 488 | € 29 015 624 | € 9 870 000 | € 475 042 | € 2 875 062 | € 3 661 058 |
| % | 71 | 68 | 35 | 46 | 23 | 37 |
| # of Tickets | 843 574 | 979 332 | 378 035 | 28 944 | 81 975 | 231 503 |
| Average M Ticket | € 28 | € 30 | € 26 | € 16 | € 35 | € 16 |

Table 3.2 - Comparison of Eataly stores: Italian, joint venture, franchising.

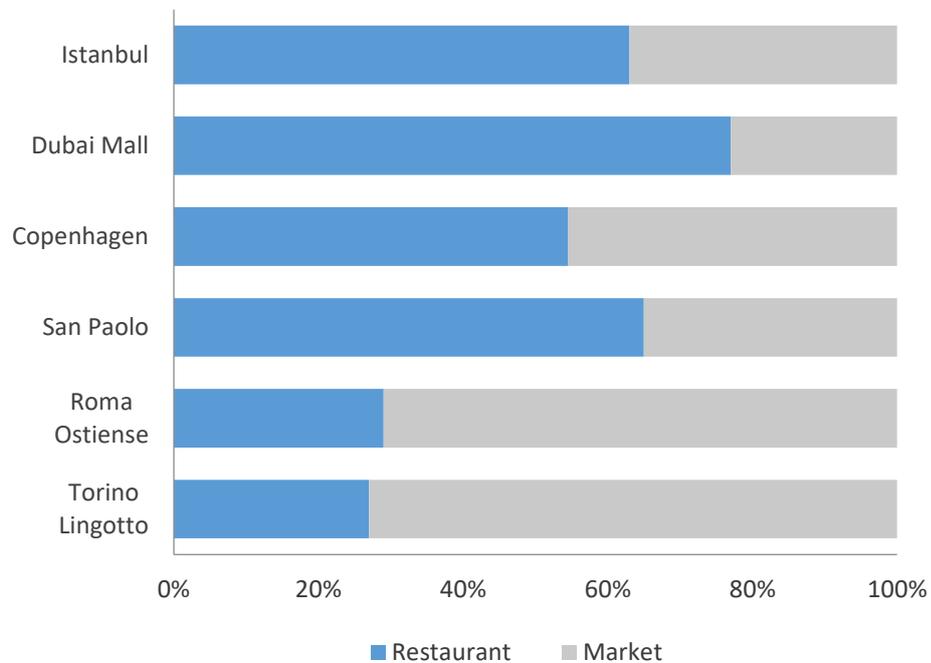


Figure 3.12- Incidence of restaurant and market over total turnover.

From the Figure 3.12 it is clear that franchises and joint ventures do not differ significantly in terms of incidence of restaurant and market over total turnover. The difference is more dramatic when the Italian stores are compared to the foreign ones. In Rome and Turin, restaurant represents only the 30/35% of total turnover with a sharp predominance of market turnover. In foreign markets the situation is the opposite. The market share on total turnover is lower than the restaurant share (35% against 65% in San Paolo) and this difference increases in franchises (25% for market and 75% for restaurant in Dubai).

The reason of this inversion is mainly due to local culture. In fact, as highlighted above, franchising contracts are favored facing distant cultures while joint ventures are established with more homogeneous environments. Eataly Dubai shows the greater difference in the incidence of restaurant and market turnover compared to Italy. This is due to the fact that the alimentary habits in Dubai are completely different than Italian's, compared for example to Munich. Even between Dubai and Istanbul there is a discrepancy, since Istanbul is a country deeply influenced both by European and Arab cultures.

In Italy customers buy more in the market and consume less in the restaurants. This happens because Italians are used to cook at home with traditional Italian products. Therefore, they are more tempted by high quality, even at a higher price, since they are familiar with the ingredients. On the other hand, foreign customers are used not only to different eating and shopping habits, but also to different products. They do not eat often Italian traditional food and are not familiar with Italian ingredients. For this reason their tendency to buy in the market is lower, because they are not willing to spend money on items they do not know how to deal with.

Foreign consumers prefer to consume ready meals in the restaurants. This is confirmed by the increasing restaurant's incidence in total turnover from culturally similar countries (to Italy) to culturally distant ones. Restaurant in Eataly Munich contribute for the 58%, much less than Dubai store restaurants, which incidence is 75%. In fact, being Munich in Europe is more exposed to Italian food and culinary habits, while Dubai is influenced by Arab and Muslim culture.

Therefore, due to cultural differences, Eataly is required to adapt to the local environment in order to meet customers' habits. This is an example of flexible replication explained Chapter 1, since the original format is not perfectly replicated. The strategy meets local requirements, adapting some features in order to send the right message. The values and the identity of Eataly are not sacrificed in international stores because they are considered hierarchically higher features to be preserved.

One of the adaptations that Eataly realizes in international stores is the introduction of brand like Barilla and Nutella. Another example is the choice to dedicate more space to Gastronomia that, offering ready dishes to be consumed at home, is part of the market.

The difference in the distribution of value between Restaurant and Market in Italian and Foreign stores influences also the dimension of the stores. As highlighted in Table 2.2, the dimension of Italian stores doubles or even triples international stores. This happens because market requires more space than restaurants and, therefore, in Italy the stores are bigger since the market is more profitable.

3.5.3. A new international franchise project

Before to proceed with the analysis of the franchise case Eataly Moscow, it is interesting to define the steps for the opening of an Eataly store in franchising.

The process can be conceived as follows:



1. Partner selection

The first step toward the opening of a new Eataly store is the establishment of a partnership contract with the franchisee. It is the candidate franchisee which approaches Eataly with a proposal that generally involves a potential location. It is mandatory for the franchisee to share Eataly's principles and values, in order to provide real support without harming the company image.

Once selected a suitable partner, the negotiation phase takes place. It is a delicate step, as long as an incomplete contract can create several problems between the partners. Legal clauses are included in the agreement in order to safeguard both sides and build immediately a transparent relationship based on trust and mutual interest.

While the deal is being closed, a first draft of the layout and an idea of the future organization of the store are delineated. These ideas are destined to be changed and adapted along the process but they are useful to build a shared vision in the partners' minds, in order to join their efforts towards a common goal.

2. Market analysis

The primary goal of the market analysis is the definition of the budget for the project. Moreover, local legal conditions and requirements are investigated, together with HR practices, customers' behaviors, local preferences and familiarity with Italian F&B products. The information allows to understand the feasibility of the first draft for what concerns timings and costs.

The positioning of the store in terms of price and offer is clarified also thanks to a first analysis of the competitors. Eataly's attitude towards competitors is dual. It focuses on who is higher in terms of positioning in the market as long as they represent the quality target Eataly wants to reach. Moreover, the attention is constantly paid to whose offer is comparable, as they are the direct competitors.

The market research allows to understand the different contribution of the departments and their degree of involvement. The restaurants type which are

more likely to be profitable and what is useless to invest on becomes more and more clear. However, the decisions taken at this stage may be subsequently revised. In Eataly Moscow for example, the strategy related to Sa.Fo department had to change drastically due to the Embargo of 2014, more on this will be explained below.

During this process, the mutual acknowledgement of the partners allows Eataly to understand the degree of involvement and control to be carried out from its side. This depends on the fact that Eataly's offer is not composed only by retail of products but mainly by provision of services, and its success depends on the ability to infuse emotions.

3. Human resource management

Since the target markets are different in habits and culture, the first concern in order to attract local consumers is to make them feel comfortable with the products. In order to reach this goal it is not enough to locate the products nicely along the store, even with the proper communication tools. What is necessary is that the employees support the customers and communicate them Eataly philosophy, other than supervise their shopping. Building an effective team of employees, able to collaborate and to transmit Eataly concept, is HR department's task. The process starts with a research over local labor market requirements, in terms of practices and regulations, with the aim of attracting the right people for the right job. It is the franchisee that has the responsibility over the collection of information and the recruitment of the employees.

Once clarified local requirements the five main HR profiles are identified: store manager, retail manager, restaurant manager, executive chef, marketing and, communication manager. These positions are at the top of the hierarchy from the operational point of view. An attentive selection for these profiles is fundamental because they will guide the activity of the entire store. The training is planned in advance and requires several months to be spent in a working Eataly store, in order to acquire all the needed information and experiences directly on the field. The candidates not only need to be well trained, but they

are also required to possess knowledge over Italian culture. Generally, the attempt is to build a team composed by figures from the local labor market but also from Italy, or even better from Eataly itself.

Once the main positions are filled, they can support the recruitment and selection of the components of their team. The executive chef, thus, will help in the selection of chefs and retail manager in the selection of salespersons. The recruitment process can involve also local recruiting company and in most cases Eataly's support. When the teams are ready the training process can start. Training is a fundamental step, since local candidates have to understand and put in place Eataly's standards.

4. Product assortment

The assortment selection depends on what it is locally available at a reasonable price and on importation restrictions. Generally, in the international stores the 80% of products are directly imported while the 20% are bought locally from distributors and local producers. This proportion depends not only on the brand policy but also on local market. For this reason, a market research over importation requirements is carried out before a final decision is made. The purchasing price of locally available products need to be compared to the cost of importation, including all needed certification and the time necessary to carry out the procedures. Another thing to consider is the products' familiarity in local market and the perception of Italy as their country of origin.

Once all these aspects are evaluated the importation process begins. The labeling of items and the supply of documents regarding health and sanitary certification are responsibility of suppliers. However, Eataly's supply chain is composed by artisanal and small producers and the satisfaction of importation requirements represents a big investment for them. Labels in language, for example, must be prepared and printed involving a cost that would not impact so much on a big producer as it does on Eataly's small suppliers. For these reason, importation process can take a lot of time, considering that Eataly exports products from more than 500 suppliers.

The above procedure may appear not fair from producers' point of view. However, their investment is compensated by the advantage of penetrating in markets that they could not reach on their own. Eataly, thus, represents a means that support their growth. The company is a distributor for their products and manages marketing, customer service, and other functions necessary to overcome the barriers to entry foreign markets. In the end, the producers can chose whether to invest in meeting importation requirements and reach foreign markets, or do not invest focusing solely on domestic market.

The finalization of assortment selection is followed by layout definition and the choice of the ingredients necessary for restaurants and productions. Menu and recipes are written following a standardized policy and realized with the support of the executive chef and corporate chef.

5. Price strategy

Every decision over prices depends on competitors benchmarking. The prices of competitors are compared with the final ideal price, resulting from the sum of the target margin (generally 50%) and the landed cost. The comparison allows to adjust the prices according to local competitive environment, while maintaining an acceptable margin. Below there is an extract of the file used for competitors benchmarking and to compare prices.

| ID EATALY | BRAND | PRODUCT | PRICE WITH 50% MARGIN | COMPETITOR 1 | | |
|-----------|---------|---------------|-----------------------|---|--|-------------------------------|
| | | | | PRICE (if product available in the market) | PRICE (substitute if product not available) | info about substitute product |
| 000001 | AFELTRA | SPAGHETTI 1KG | = LANDED COST*2 | | | |
| | | | | | | |

Figure 3.13 - Extract of price benchmarking table.
Source: Internal documents.

6. Marketing and Communication

The opening of a new store requires the proper communication and marketing plan, especially for the opening period. Communication function can be divided in two main categories: in-store communication and out-store communication.

When a consumer enters in an Eataly store the first impression can be of confusion, as long as the format is quite unusual. For this reason, the in-store communication aims at supporting the clients in their visit. An effective and simple communication is paramount. Moreover, the choice between English, Italian and the local language complicates the tasks in foreign markets. Slogans like “Eataly is Italy” or “Life is too short not to eat well” are considered institutional and are always in English. The “titles” like names of counters and restaurants, and names of dishes in the menu are in Italian. Generic texts and the description of dishes and department are both in English and in the local language instead.

In-store communication has to comply with local regulations, for example special characteristics of the products to be indicated in the menu or in price tags. In fact, in some countries it is compulsory to indicate the grams of each different dish in the menu and if a product is organic or contains allergens.

An important component of in-store communication is the design of the store itself. Even if the construction is responsibility of the franchisee, the design is standardized and depends on the directives of Eataly. The formalization makes all Eataly stores recognizable at the first sight.

The out-store communication’s goal is to increase brand awareness and attract consumers. Some activities are externalized to PRs and advertisement agencies while others are kept internal. For example relationships with profitable partners are managed by PRs and the direct communication with consumers through radio, billboards and bus branding is responsibility of advertisement agencies. On the other hand, social media and important partnerships are managed directly by Eataly.

Social networks are a strategic platform in which brand is promoted and customer loyalty is gained. They require attentive control due to the broad

coverage of users and the real time exposure. It is for this reasons that Eataly's marketing department manages social networks directly, to send a clear, uniform and always updated communication.

Eataly's great partner in foreign countries is Fiat. The iconic car Fiat Cinquecento represents an image of Italy coherent with Eataly brand. While the nature of this partnership is related to mutual advertisement, Eataly establishes also commercial partnerships aiming at financial support. For example, in Eataly Milan a check out cashier is reserved to payments with Mastercard or Maestro cards and some spaces in the store are used by promoters from Enel.

7. The opening

Once a precise opening date is set and the previous steps are concluded, the process is in its last phase. The weeks before the opening are always chaotic. Products arrive, staff is trained and the construction is finalized with the last details. In this phase Eataly's support is extremely important. Before the grand opening three events are planned with the goal of testing the functioning of the store.

The first is "Friends and Family", where families and friends of the staff and of the company are invited for a dinner in the new store. During the event they are required to give a feedback of their experience. The second event is the "Press day", when different media are invited to participate to tastings and courses, and to try the restaurants. The third is reserved to important and institutional guests, both from Eataly and local environment, for example Eataly's CEO and the mayor of the city. Finally, the grand opening is addressed to the public and represents the official inauguration of the store.

Eataly is undertaking a process of standardization of the opening process as it learns more and more from its mistakes. A set of policies is defined and shared in case of need. The policies' goal is to foster collaboration between partners towards the compliance of Eataly standards.

Figure 3.14 is an extract of Product policy destined to franchising projects. It shows how these documents stress the importance of brand values in every task. Policies

contain procedures to clarify the standards to comply with and to which extent Eataly's support is provided.

Products Approval

Every product on Eataly shelves reflects on the brand as a whole, and every person in charge of selection and placement is responsible for Eataly's image. All of Eataly's products should be a consistent representation of our philosophy. If Eataly is to maintain a consistent image of quality, healthiness, taste and fairness it is imperative that the Eataly community adhere to established guidelines in respect to products selection and placement

Find all these products take a very long time and expertise and Eataly worked on this for 5 years before opening the first store in Turin. Eataly research of the best products with a reasonable price is an ongoing process that allows us to be always a step ahead our competitors. All our partners and Franchisees can benefit of this huge amount of work as a part of our contracts. For help with any of contents, contact [REDACTED]

Compliance Monitoring

This guide outlines Eataly's policy to insert one product in the store. Approval must be obtained from the Purchasing and Product Office as well as retail manager

Please write an email to [REDACTED] with a PDF containing technical sheet showing all ingredients and product details (see sample in appendix A) to be reviewed and a brief description that includes product picture. Your request will receive a response within 30 days.

All products must comply with Eataly quality standards and policies as well as Eataly philosophy

Figure 3.14 - Extract of Product Policy.
Source: Internal documents.

EATALY MOSCOW

4.1. Methods

During the internship I had the opportunity to be involved in the pre-opening processes of Eataly Moscow, observing directly the project development and its strategic plan. The information and documentations I collected allowed me to investigate the main issues that Italian F&B organizations face in undertaking an international venture through franchising as a replication strategy.

The setting

The idea to open a store in Moscow emerged between 2012 and 2013, when Russian Alfa²⁶ approached Eataly with a franchising proposal and a potential location. Russian Alfa is a Georgian corporation and an experienced franchisee for F&B retail trade sector. The location is was in an interesting area, between the most crowded metro station of Moscow (Kievskaja-Kol'cevaja), and the 180000sqm Evropeisky Mall.

The store, with its 7500sqm, includes 934 restaurant seats between table service (Pasta and Pizza, Meat, Fish, Sa.Fo, Fine dining, and Beer) and quick service (La Piazza, Gastronomy, Piadina, Pizza “alla pala”, Salad, Pane e Vino, Vergnano and Lavazza coffee, Venchi, Juice, Tea and Pastry bar, Nutella bar, and Lait). The section dedicated to retail, includes dry and fresh departments (Grocery, Housewares, Bookshop, Cosmetics, Wines, Fish market, Butchery, Sa.fo, Fruit and Vegetables), and direct production laboratories (Fresh pasta, Mozzarella, Rotisserie, Bakery, Pastry, Brewery). Figure 4.1 shows the details of Eataly Moscow map, with the location of every department, restaurant and lab.

From the beginning the great dimension of the store represented a potential weakness since it raises management complexity and costs. However, Eataly Moscow expected 2279 daily customers, with an average market ticket of €24,6 and average restaurant ticket of €15,4. With 65,7 millions of passengers and 52 millions

²⁶ Russian Alfa is a fictitious name.

of visitors a year respectively, Kievskaja-Kol'cevaja station and the European mall represents a relevant source of potential customers flow. Besides, as shown in figure 4.2, the business center of the city (Moscow city) is immediately adjacent to the store, hosting many international companies. The building hosts also 3 hotels and more than 800 rooms.

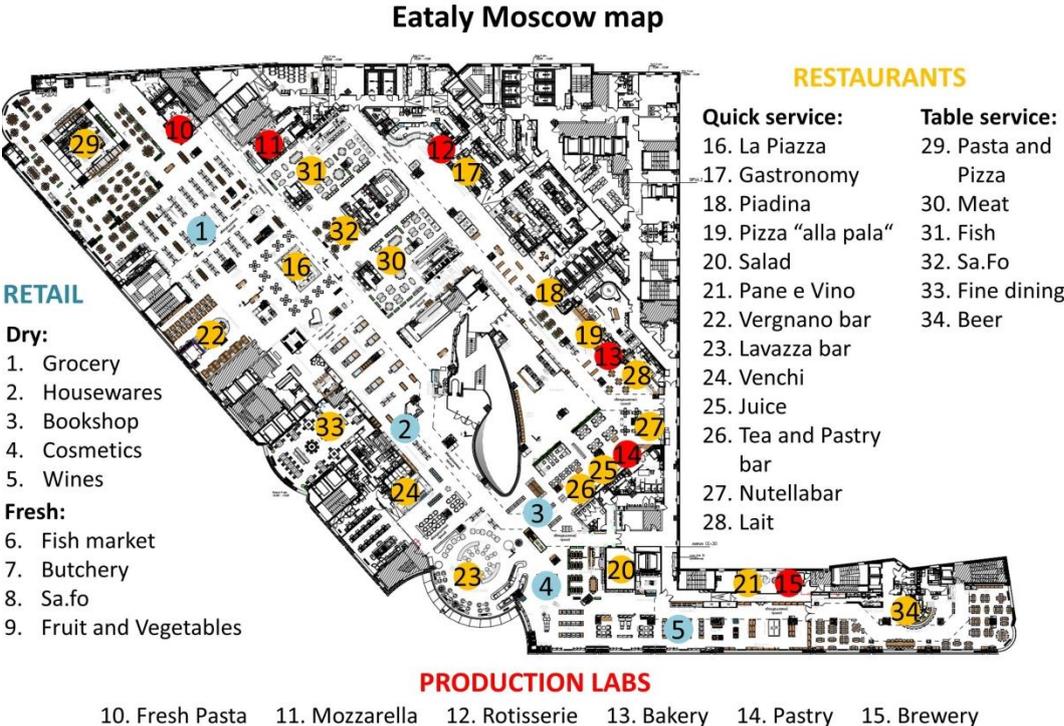


Figure 4.1 - Eataly Moscow map.

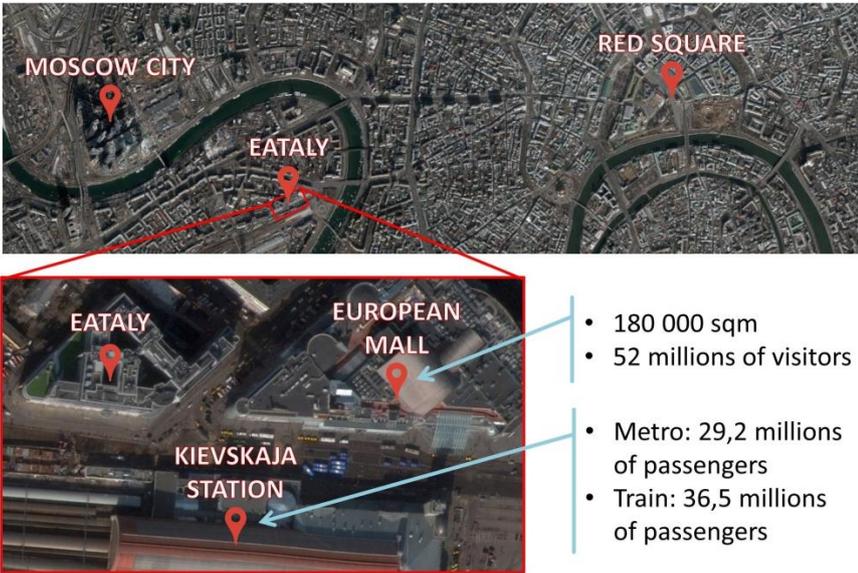


Figure 4.2 - Eataly Moscow location next to Kievskaja station and European mall.

Marketing analysis highlighted that Eataly Moscow customers are represented by: Moscow upper-middle class, Moscow high-budget Millennials, the Italian community, and tourists. The first two categories are interested in luxury and travel. Western countries are particular appealing to them, which increases their interest in Italian culture. They increasingly pay attention to health, food consciousness, bio, ecologic, and responsible consumption behaviors. Italian community in Moscow is represented mainly by expats, who are highly international oriented and pay attention to quality and products origin. They maintain some important Italian habits and enjoy top-level lifestyle. Tourism is mainly generated by CIS countries (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan) and other neighboring countries such as Finland and Ukraine. They are attracted by products they cannot find in their hometown.

The competitive advantage of Eataly in Moscow is, therefore, represented by its high quality Italian offer and the original format. Russian traditional food consumption has been progressively decreasing during last decade and the attention of consumers focused on international cuisine. The interest of Russians for Italian culture, traditions, music, and gastronomy has not equals. However, the offer of Italian products is scattered, as far as supermarkets and stores are concerned.

Eataly's main competitors are represented by Globus Gourmet²⁷ and Azbuka Vkusa²⁸. The first offers premium food items from all over the world in a relaxing atmosphere. The second is a retail chain with about 40 stores in Moscow, and offers high quality food items. Both are not entirely focused on Italy and, besides, the second is more similar to a regular local supermarket with a higher attention for quality. Eataly, thus, meets Russian enthusiasm for Italy while exploiting the lack of local competition. Moreover, the store offer is intended to address the increasing demand for bio, ecologic and responsible food.

The format represents a novelty for Russian market, since it allows to enjoy three different experiences in the same place and moment. This matches the habits of

²⁷ <https://globusgurme.ru/en/>

²⁸ <https://av.ru/>

Moscow citizens, who do not have much free time and, due to the rigid climatic conditions of the region, favor indoor activities.

Data collection

In the beginning of the internship I attended a five weeks training program in Milan, Rome, and Turin, in order to be introduced to the brand philosophy. I learnt how an Eataly store works, which are the logics behind corporate choices and the importance of team work and personal initiative. I had the chance to speak with many employees and to interview the team dedicated to Eataly foreign activities. When I started to work on the project I spent the first weeks in Milan and Turin, then, after an important meeting in October 2016, I was sent in Moscow as part of the team to support the activities in loco. I have been updated and obtained specific information about the previous years, how the project began and which were the most critical tasks to be fulfilled. I worked with the project manager, before on importation procedures, then on marketing and HR related tasks.

The first source of my data consists of conversations and interviews I had with Eataly development office and foreign office. Second, I examined a number of internal documents about brand procedures and policies. I had access to shared Dropbox folders containing all the history of the project, the ongoing activities, task-lists and reports. In particular, the most important for this thesis purpose are the task-lists relative to post Embargo period, the meeting report of October 2016, and the consulting agency report about Russian labor market. Third, I took part to the weekly conference calls, since I had to produce a report for any of them. During these meetings, the project manager of Eataly Moscow, Russian Alfa's managers and Eataly's staff in Moscow were exchanging information, updating about the project status, and planning next tasks to be fulfilled. The last source of information is represented by my notes, based on my direct experience and observations.

Data analysis

I analyzed the data gathered through Gioia Methodology (Gioia et al., 2012), an inductive research based on the collection of relevant information over the experience. The data are relevant not only for the scientific analysis purpose, but

also from the point of view of those carrying out the experiences, defined “knowledgeable agents” by Gioia. These data, which are not imposed prior constructs or theories and adhere to informants’ perspective, are defined first-order concepts. The second step consists of the identification of second-order themes, which are the theoretical definition of first-order concepts. Second-order themes are further developed in the aggregate dimension: the general theoretical explanation of the first- and second-order data.

The collected information is organized in the data structure, which is a visual representation of the progress from raw data to aggregate dimensions. From the static data structures is then constructed a dynamic explanation of the relationships between the concepts. The use of arrows makes visual all relevant connections that with the static data structure are not apparent. The last step entails the narrative explanation of each dimension and of new concepts emerged.

In this context, first-order data are presented on a chronological basis, as the people involved experienced them. The investigation showed the emergence of three main problems in the realization of the project, which progress is illustrated in the data structure and finally in an overall project view.

4.2. The project timeline

Eataly Moscow project had officially started in May 2013, with the signing of the franchising agreement between Eataly and Russian Alfa. As reported in figure 4.3, the expected opening was fixed for October/November 2014. The actual time required for the project to be concluded with the grand opening of Eataly Moscow had been 4 years: from May 2013 to May 2017.

The severity of the delay is undeniable, considering that in 10 years of activity Eataly managed to open more than 10 stores worldwide. The reasons for such an extension of the opening date are various and influence each other. Eataly faced a market and a local environment very different from the previous projects. Moreover a number of situational factors imposed sudden changes of direction.

In the end, despite being very different from the first draft, Moscow store managed to meet brand’s policies. The challenges faced in Russian market made it necessary to engage in a certain degree of adaptation to local environment. However, the

franchisor’s intervention allowed the brand values and standards to be successfully transferred.

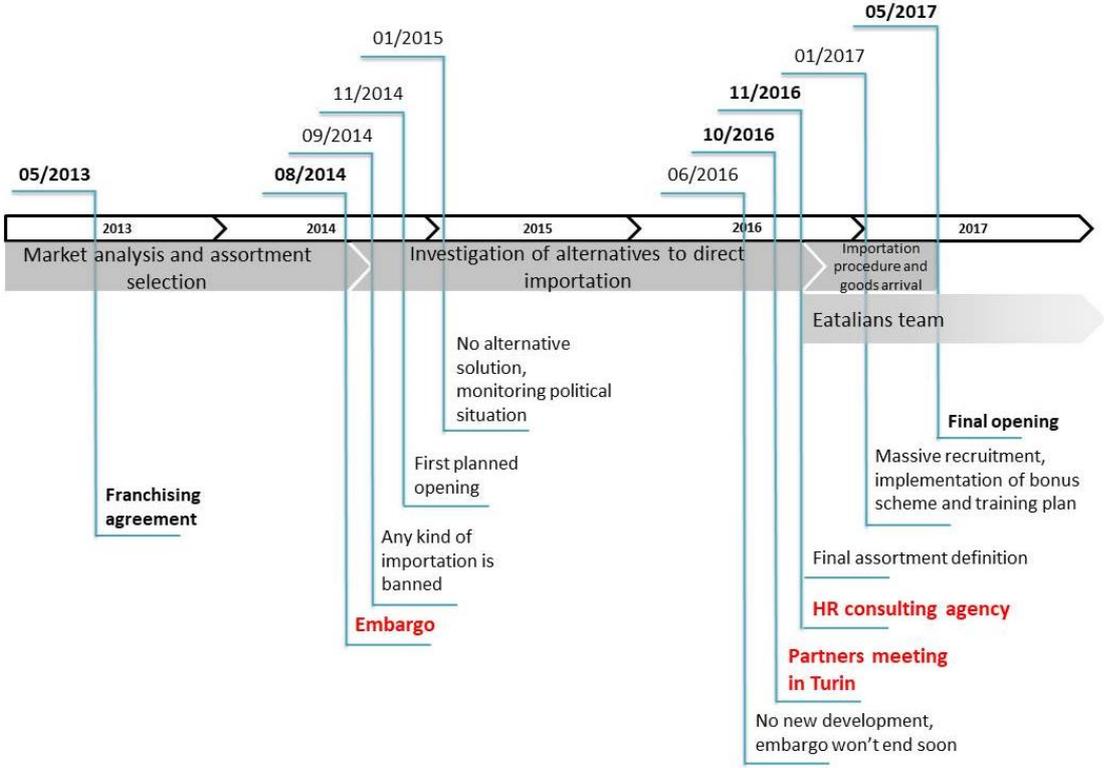


Figure 4.3 - Eataly Moscow project timeline.

The main bottlenecks encountered during the realization of the project can be divided into three broad categories: Product related issues, Relation with franchisee, and HR management. The impact of these challenging conditions was even deeper due to the cultural gap between Italian and Russian market. The cultural gap worked as an enabler condition for the emerging of the bottlenecks and raised the pressure for local adaptation.

4.3. Product related issues

Figure 4.4 illustrates the data structure concerning product related issues and highlights three aggregate dimensions: Format unfamiliarity, Embargo impact and Entry barriers.

Data structure: product-related issues

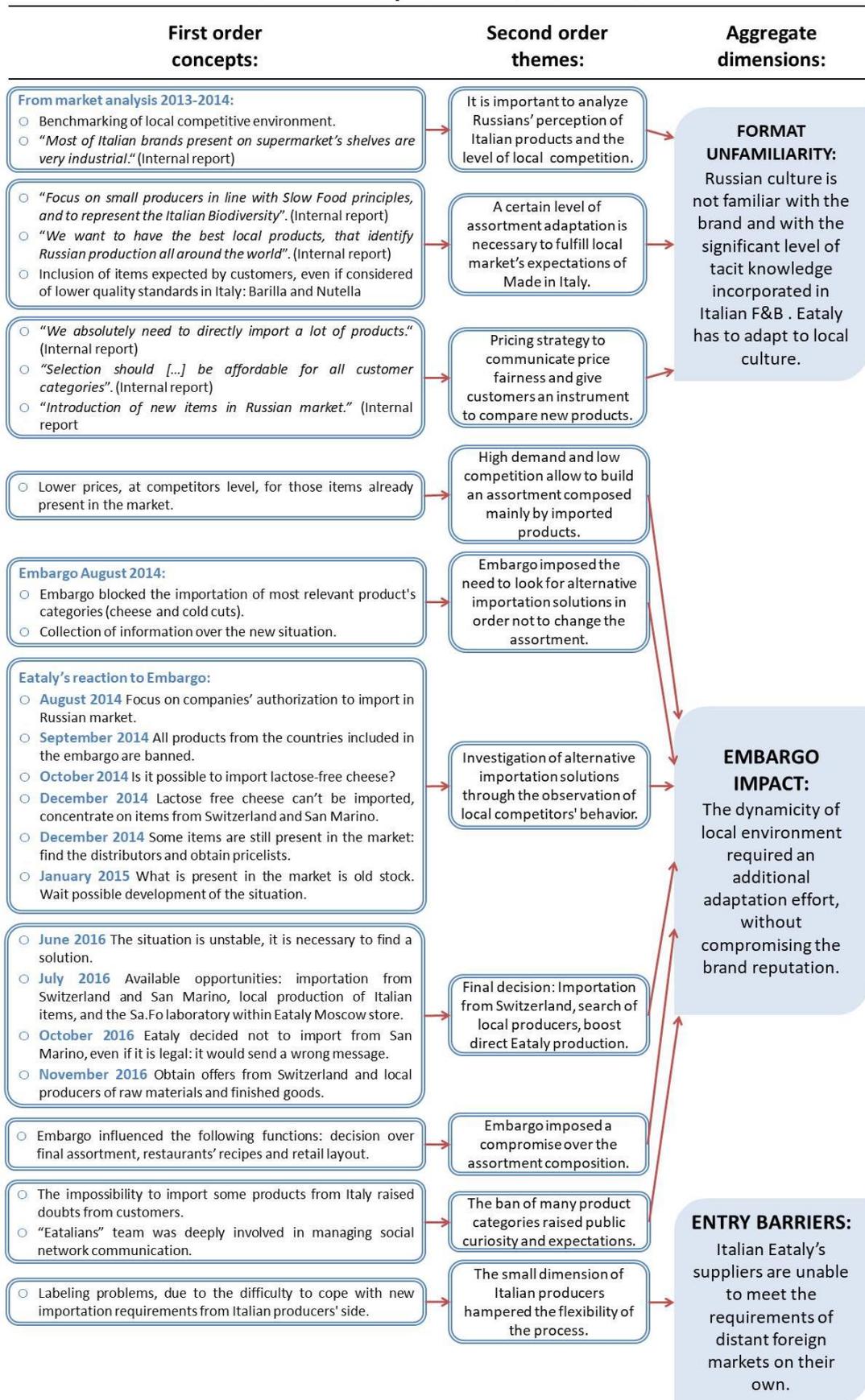


Figure 4.4

4.3.1. Format unfamiliarity

The project started in 2013 with a market analysis focused on the investigation of customer's behavior, competitors, and legal requirements. The franchisee, with the support and supervision of Eataly, was collecting information useful to structure the store's offer in terms of product assortment and importation processes. It was paramount to identify the percentage of items to be imported compared to those to purchase locally. Subsequently, importation process and negotiation with local suppliers could be carried out.

The market analysis had to highlight what Russian customers think of Italian F&B products, how they deal with them and their purchasing behaviors. Competitors' analysis showed that high quality Italian brands were not easy to find in local market.

"We understood that most of Italian brands present on Supermarket's Shelves are very industrial and they are considered low level quality products in Italy."

Source: Internal Report

However, Russian customers strongly appreciate Italian F&B and the demand for quality products is very high. This revealed the opportunity for Eataly to introduce new and unknown items in the market. Quality and novelty were push factors to focus on, in order to explain and differentiate the offer from competitors. Thanks to the information collected the guidelines for product selection were defined.

The assortment would have been mainly composed by imported items, since it had to represent the best of typical Italian production that lacked in Russian market. The focus was on small producers in line with Slow Food principles, to reveal the valuable Italian biodiversity.

"Focus on what really represents the excellence of Italian artisanal production: items from small producers that are in line with Eataly philosophy. We understood that in order to achieve our goal we absolutely need to directly import a lot of products."

"Selection wants also to include the best products that Italy can offer, through the introduction of new items in Russian market."

Source: Internal Report

The composition of the offer had to satisfy more customers' targets, through the inclusion of some premium price products together with lower level items already present in the local market. In addition to typical Italian items, Eataly wanted to insert also typical local productions, especially fresh products. Examples are Caviar, Vodka and Gingerbread. However, the relevance of local product selection process required the involvement of Slow Food, in order to ensure that the entire assortment was coherent with Eataly's quality and sustainability standards.

"We want to have the best of local production, especially regarding fresh and typical products that identify Russia all around the world (Caviar, Vodka). Very important in this step is the collaboration with Slow Food."

Source: Internal Report

The introduction of new items, despite providing a competitive advantage, represented a potential threat. The unfamiliarity of local market with Eataly's offer made a certain level of assortment adaptation paramount to meet local tastes, while communicating effectively the brand. For this reason, Barilla and Nutella were included in the selection, even if considered of lower quality standards in Italy.

The reasons behind this choice depend on Russian customers' expectations. Since Barilla and Nutella are two worldwide known iconic brands of Italian tradition they make the assortment more familiar to local consumers. Moreover, it is easier for the customers to be oriented in their purchasing choice, since they can use the familiar items as a reference point to compare the other unknown products in terms of prices and quality. The presence of items already sold in the market allows clients to compare also Eataly store to the competitors. In addition, to sell the familiar items at the competitors' price communicates price fairness.

In conclusion, the market analysis highlighted the great potential of Russian market for Eataly's offer due to the scattered and lacking local competition. However it

represented also a potential threat: the cultural gap between Russia and Italy makes Eataly's offer unfamiliar to local market. Eataly Moscow assortment, thus, had to be adapted to some extent to local requirements, in order to maintain unchanged and coherent the brand image.

4.3.2. Embargo impact

In August 2014 Russian government imposed an Embargo to European countries which food products could not be imported in Russia anymore. For Eataly and its partner this meant a serious change in direction, since the assortment selection was finalized and they were ready to proceed with the definition of the importation process. The impact of the Embargo was made worst from the inclusion of cheese and cold cuts in the banned product categories, since they are among the most representative of Italian tradition.

The first reaction was to get as much information as possible over the situation and its possible development. The partners considered many alternatives to avoid important changes in the assortment. The investigation was mainly directed towards competitors and the way they reacted to the Embargo. The market was extremely chaotic: everyone was trying to buy for exorbitant sums what was still available.

Eataly evaluated the possibility to register its main Italian suppliers in order to obtain an authorization to import their products. In the meantime also companies that already imported and sold their products in Russian market were examined, even if not already included in the supply base. The plan was to contact Russian distributors, have an idea of quality, conditions, and quantities needed, and eventually import directly from producers. By September 2014 both the opportunities were rejected: no new registration was possible and even who used to import in Russia was now blocked. New attempts were made regarding lactose-free cheese but also these items were banned.

At this point, Eataly raised the idea to import from San Marino and Switzerland, since these two countries were excluded by the Embargo. In the meanwhile, competitors' observation highlighted that some items were still available in their shelves. Eataly, thus, required the franchisee to contact distributors and obtain the

pricelists. However, by January 2015, it became clear that only old stock could be found in the market and no new opportunity emerged. The process was set aside, waiting for possible developments while continuously monitoring the situation.

It was only in June 2016, after important delays caused mainly by construction problems, that the embargo situation was taken again under scrutiny. The situation changed constantly but the partners' hope was that the Embargo stopped for the end of summer 2016. Despite the unstable environment it was necessary to prepare a plan B because of the high local demand and the important space dedicated to Sa.fo.

From the beginning of the embargo many Italian food production activities had established in Russia in order to meet local demand. Therefore, the solution was to import some cheese from Switzerland, to collect locally produced Italian items, and to boost the production of the Sa.fo laboratory planned inside the store. Items would not have been imported from San Marino, even if legal, in order not to send the wrong message that Eataly was trying to bypass the law.

In October 2016 the decision was made and the franchisee would have provided Eataly with a list of locally produced items to be evaluated and eventually tasted for the inclusion in the assortment. In the end, the proportion of imported and locally purchased items was the following:

| | Items imported from Italy | Items purchased locally |
|----------------------------|---------------------------|---|
| International Eataly store | 80% | 20% |
| Eataly Moscow | 32% | 68% (38% local + 30% from Italian distributors) |

In this way Eataly Moscow was able to open with a satisfactory assortment of Italian products, as planned, until the development of political situation would have allowed to import directly from Italy. The comparison with other international Eataly stores shows the impact of local environment on the proportion of imported items and products supplied locally.

The retail products selection was not the only process influenced by the Embargo. The preparations of recipes for restaurants and retail layout were subject to important delays and modifications. Due to the ever changing limitations and a

complex set of documents required, until the very end of the process there was no warranty that all the items included in the purchase order from Italy would have been approved by Russian custom. Since some product categories had entire dedicated spaces in the store ready to be set up, like Venchi corner, their missing would have been quite problematic.

Another department facing the consequences of the situation was marketing and communication. The impossibility to import a quantity of products categories raised doubts and curiosity. Sending the right message was fundamental to maintain the expectations high and positive. Eataly’s support was critical, in particular for social media management, since it supported the franchisee in replying to direct customers’ concerns.



Figure 4.5 - Example of public reaction to Embargo on Social Media.
Source: Eataly Moscow Facebook page.

In conclusion, the embargo represented a bump in the road that raised the complexity of the project. It provoked the need for a fast and proactive reaction and imposed a relevant degree of adaptation of the usual business format, in terms of

importation process and assortment definition. However, the main concern was not only to identify alternative items to fill the store, but to do it while maintaining Eataly's image and reputation intact. The embargo showed how the degree of adaptation and the flexibility, required to a replicator when opening a new unit abroad, can be strongly influenced by situational factors and the dynamicity of local environment.

4.3.3. Entry barriers

Due to the complexity of the situation, the importation process was not finalized until the very end. The partners had to adjust the requirements in real time as new information emerged. However, dealing with more than 300 small producers, Eataly could not count on their prompt reaction.

The small dimension and artisanal character of Italian suppliers represent the real value of their exclusive productions. However, producers found very difficult in terms of time and financial resources to manage the confusing Russian importation requirements. Some producers saw their products eliminated from Eataly Moscow assortment. Others, despite they managed to meet the standards, were not responsive enough to provide the necessary flexibility. As a consequence, the process was subject to more delays, provoked also by the communication difficulties between Russians and Italians. Eataly's role as a mediator was paramount to smooth their differences and speed up the process as much as possible.

The very characteristics which make Italian F&B products so valuable in the global markets make them also less prone to face the challenges of internationalization. The requirements to meet importation standards represent entry barriers that Italian small suppliers are not able to overcome on their own. Eataly works as a distributor for them, allowing their products to reach foreign and distant markets. It deals with entry barriers in their place, bearing marketing and communication costs, while taking advantage of their quality.

4.4. Relation with the franchisee

Figure 4.6 illustrates the data structure for the second bottleneck that Eataly encountered during the project. It highlights one aggregate dimension: Franchisor involvement.

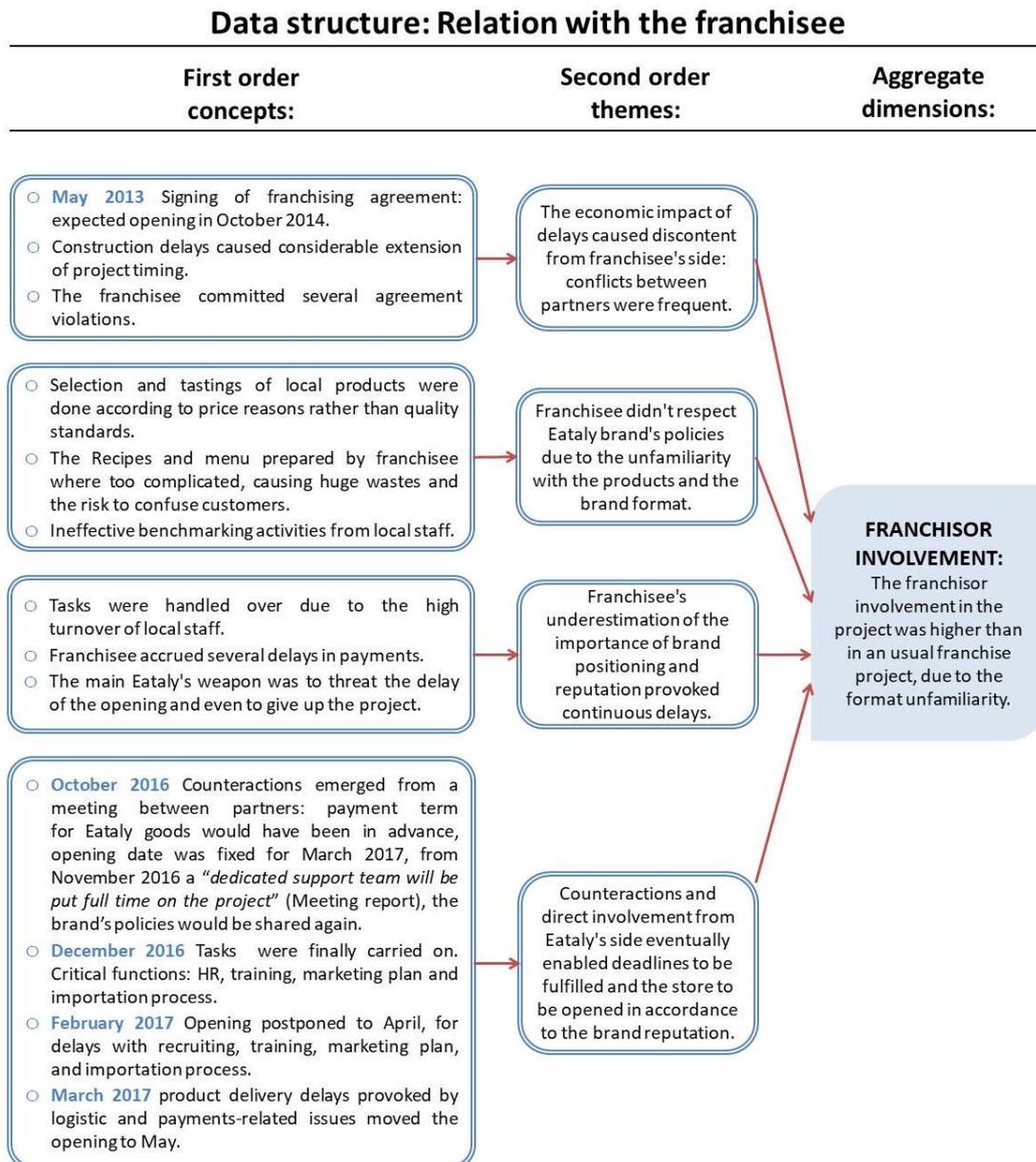


Figure 4.6

4.4.1. Franchisor involvement

While Eataly and local purchase office were dealing with the importation requirements, other issues were causing important delays to the process. Since the beginning, the construction site revealed to be problematic. The original project was heavily modified due to technical reasons, up to the point that even the store layout suffered some changes. The many columns planned in the beginning were enlarged to sustain the weight of the upper floors. The variation caused severe delays and the inside project was revised. Even graphics and marketing department made an additional effort in smoothing the effect caused by the large columns dispersed along the store.

The economic consequences of Embargo and construction delays ended up as a source of discontent from franchisee's side, since it had to bear all the costs. The franchisee was more and more accurate in taking decisions that entailed big expenses, with the intent to reduce the financial impact. This attitude took to the emergence of conflicts between partners, since the franchisee considered too onerous many expenses that were necessary to meet Eataly's standards and to safeguard the brand reputation. Payment delays, excessively long negotiations with third parties and the search for shortcuts provoked many stops in the opening process.

The franchisee had not clear the importance of the brand positioning as a retailer of high quality and authentic Italian products. It was not able to recognize Eataly's approved quality standards and was unfamiliar with the tacit knowledge tied up in the business format. The choice of local producers from franchisee's side was based more on financial reasons rather than quality standards. The menu prepared by local staff was not coherent with the brand policy and too complicated. The risk was to produce huge wastes and confuse customers. The benchmarking of competitors' prices was hampered by the fact that Russian staff was not able to compare the assortment with locally sold products.

The extremely high turnover of Russian labor market did not help in carrying out these processes. Tasks were constantly handled over, with the consequence of

missed information and time loss. The only weapon from franchisor's side was to threaten more opening date extensions and even the possibility to give up the project. The impact of delays induced Eataly to take the process under control. In October 2016 a meeting took place in Turin between the partners, to discuss the situation and to revise some agreement conditions. The meeting report shows a series of counteractions engaged by Eataly, in order to speed up the process and open a store that respected brand standards and customers' expectations:

1. Every future payment for purchase orders provided by Eataly or Eataly family's suppliers would have been in advance.
2. From November 2016 a dedicated support team from Eataly would be dedicated full time on the project in Moscow. They would have helped the local staff in the main business areas: HR, Restaurants, Retail and Marketing.
3. Eataly would have shared again documents with brand policies.
4. Finally, the opening date was postponed to March 2017, due to minimum timing required to finalize missing steps according to the brand's policies.

The consequences of the new conditions manifested quickly and tasks were finalized one by one. The support of "Eatalian" team represented a pillar in the mediation between local staff and Eataly offices in Turin. Weekly conference calls allowed the franchisor to be involved in every step of the process. Even if a special attention was dedicated to the critical steps (HR, training, marketing plan and importation process), they were finalized only in April. Eataly Moscow finally opened in May 2017.

In conclusion, the conflicting behavior of the franchisee was triggered by the complexity of the situation and fostered by the format unfamiliarity. The franchisor reacted with a series of counteractions that entailed a major involvement in the process. Eataly's usual practices with franchises entail the supply of information regarding brand standards and the presence of a support team during the opening. In Moscow case, Eataly became much more involved in day to day activities many months before the opening and even later.

4.5. HR management

The third issue concerns HR management and its data structure is shown below in Figure 4.7. Knowledge transfer is the aggregate dimension that results from the analysis of the HR related first- and second-order data.

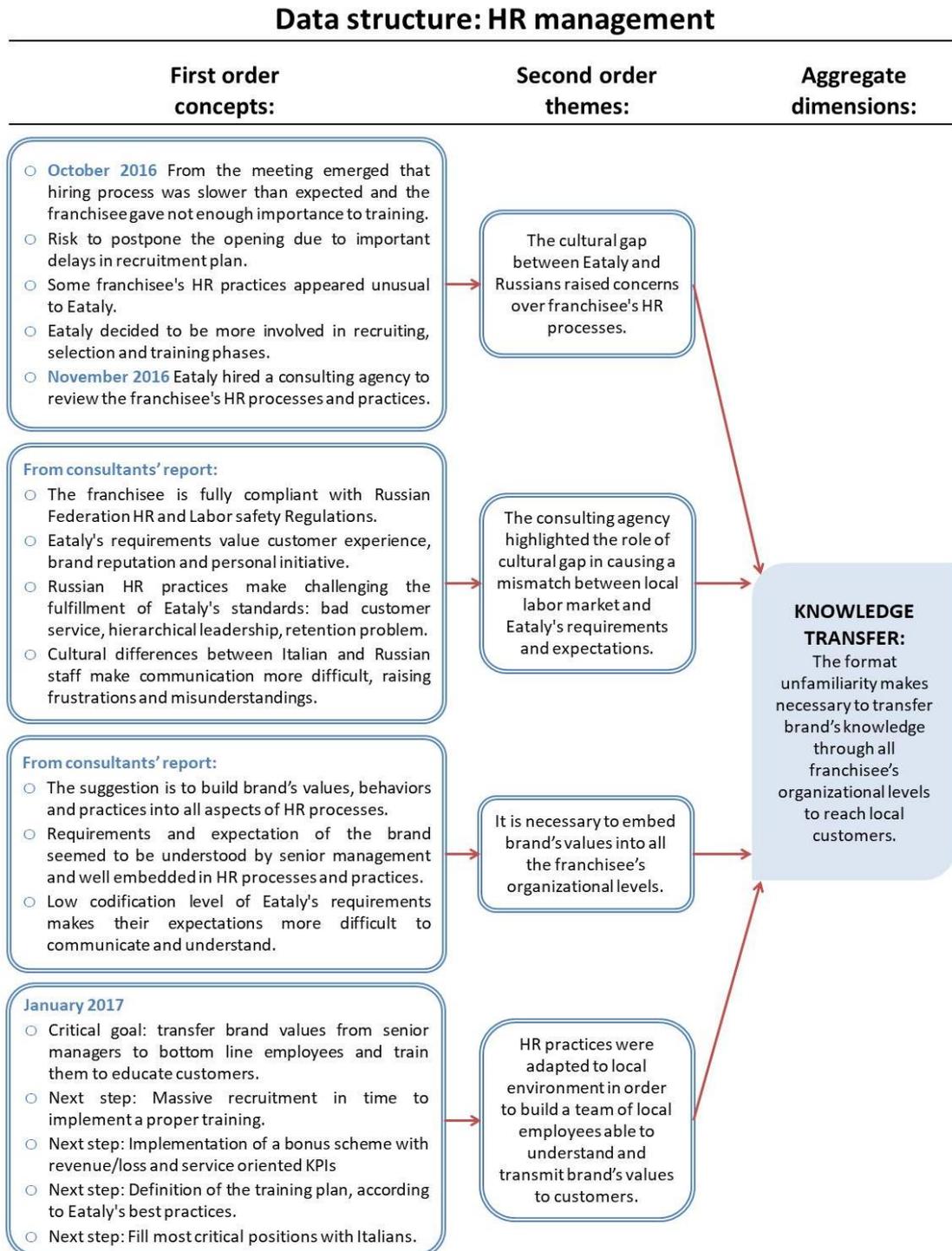


Figure 4.7

4.5.1. Knowledge transfer

The meeting in October 2016 highlighted that the recruiting and hiring process was slower than expected. The status of the recruitment plan updated at the 9th of December 2016 is the following:

| | Approved headcount | Hired | Selected | In progress |
|----------------|--------------------|-------|----------|-------------|
| # of employees | 412 | 51 | 23 | 26 |

The franchisee was not in a hurry, despite it was supposed to hire more than 400 people for the opening that, before the meeting, was fixed for December 2016. Even key positions like the executive chef were still vacant. Eataly understood that the partner did not give enough importance to training. It was instead planning to hire people and assigning tasks as mere checklists to be carried out.

Once the opening date was postponed to March 2017, the franchisor decided to focus its attention to franchisee's HR management practices that seemed more and more unusual. An extract from a conference call report states:

"It is extremely important to underline once more that Eataly is a successful brand because of its employees. People make the difference in this concept and we need to invest in people (especially key positions)."

Source: internal report

Eataly felt the need to highlight the importance of an involved and committed staff, since it appeared that the franchisee's HR management approach was not aligned. The franchisor decided to hire a consulting agency expert in Russian labor market, requiring a third opinion over local conditions. Eataly asked the consultants to review the franchisee's HR processes and practices in place, and planned for the future. Finally, they provided a judgment concerning whether the franchisee's HR practices were coherent with Eataly's standards and expectations.

The consultant report showed that, from the legal point of view, the franchisee was "fully compliant with Russian Federation HR and Labor safety Regulations". On the other hand, it highlighted the negative impact of cultural gap over the different HR

management approaches. Eataly's "Manifesto"²⁹ describes how the franchisor's requirements value the customer experience and brand reputation, highlighting the importance of personal initiative, creativity and autonomy. On the other hand, the alignment of Russian labor market with these standards is a tough challenge.

The reasons lie in the business culture embedded in Russian society. The level of customer service is generally very low. No proper attention is paid to clients' needs and expectations, they do not receive any additional service than what it is strictly necessary. Visiting local restaurants it is typical to see waiters and waitresses ignoring the tables and chatting with each other. The service is, thus, extremely slow and the dining experience is not satisfying.

The strongly hierarchical Russian management style reinforces these behaviors. Leaders are used to dictate, and subordinates to follow them. However the change is challenging, mostly because it is not enough that the leaders stop giving orders. The followers are used to be told what to do and expect their superiors to have all the answers. If all of a sudden they were asked to act with more autonomy and creativity this could erode their trust in leadership. Nonetheless, consultants suggested the use of local culture as a leverage to produce the desired effect. For example providing the right incentives that are more coherent with what local employees value most.

An additional incongruence between local labor market and Eataly's expectation was represented by the grave retention problem at all hierarchical levels. The high turnover already provoked subsequent and continuous delays since tasks were handled over. The incentives to invest in training were consequently lower, due to the high probability that employees will leave the company. Moreover commitment was usually directed only towards short term opportunistic economic results, rather than a motivating working atmosphere and satisfaction for contributing to the organizational goals.

The fact that only few Russians spoke English, made communication between local employees and Eataly's Italian offices even more difficult, raising frustrations and misunderstandings. However from many interviews between consultants and local

²⁹ Figure 3.2

staff, senior managers seemed to have well understood the brand's standards, which were well embedded in HR practices. The reason is that the franchisor required higher level managers to spend their first months of employment in another Eataly store. The more or less intensive training was successful in transferring tacit knowledge through direct observation and experience. Subsequently, the organization needed to spread the acquired knowledge at any level and provide the proper motivational system.

The suggestion from consultant agency was to build the brand's values, behaviors and practices into all aspects of HR processes: attraction, recruiting, training and development. In this way brand standards would have been present in every step and penetrate deeply in the employees' mind and routines. The agency advised to focus on motivational systems that could highlight brand's values, behaviors and culture into day-to-day processes. They suggested the use of targeted KPIs for bonuses and the provision of benefits.

Consultants observed also that, despite they were requested to review Moscow operations coherence with brand requirements, Eataly provided only a limited number of statements. There were apparently no practical documents describing HR related expectations. It would be useful, though, that Eataly provided clearer ideas of minimum requirements through a number of specific documents, in order to properly communicate expectations from individual contribution.

In January 2017, enriched by the suggestions of the consulting agency, the partners engaged in a massive recruitment, in order to implement a proper training in time for the opening. They implemented a bonus scheme with revenue/loss- and service standards-based KPIs, in order to maintain employees focus on both customers satisfaction and turnover.

The implementation of an effective training plan remained a critical task, considering the above consideration over the cultural and business gap between Italy and Russia. The importance of training was even stronger due to the character of Eataly format. Since the products and the offer were unfamiliar to local customers, an efficient and clear communication was paramount to make them understand the brand. The goal was to direct client focus to quality, rather than

price. They should learn to compare the items proposed with those already in the market and understand why Eataly's assortment worth their attention. For this reason, both marketing department and the employees in direct contact with the public needed to be trained to educate the customers.

The primary goal in the design of training plan was, thus, to strengthen Eataly's tacit knowledge in higher level managers' mind and successively transfer it to bottom line employees. To support this process, Eataly decided to reinforce the presence of Italians among local staff. Italians, sharing the same Eataly's cultural background, understand more easily brand standards and are familiar with the tacit knowledge embedded in products. By filling positions like executive chef and the chefs of thematic restaurants with Italian candidates, day to day activities were carried out in accordance with the brand, while the services provided met its standards. Italians represented the meeting point between Eataly's requirements, franchisee's instructions and local staff capabilities.

Analyzing HR issues, Eataly understood the impact of cultural gap in designing knowledge flow patterns. Thanks to the information obtained from the consultants, the franchisor was able to build a brand communication strategy that flowed to local customers, passing through every level of franchisee organization.

4.6. A process view

Figure 4.8 is a dynamic representation of the process which explains the relationship between aggregate dimensions. The structure consists of two core blocks. Cultural gap represents the cultural differences between the replicator and the target entity. Tacit knowledge stems from the amount of information, embedded in the business plan to be replicated, that is not possible to transfer writing or verbalizing it.

The first block from the left shows how the combination of a relevant cultural gap and a high proportion of tacit knowledge increase the format unfamiliarity. The cultural differences between Italy and Russia imposed Eataly to manage local expectations, habits, perception of Made in Italy, and HR practices. In order to introduce its own new knowledge in the target market, the franchisor had to

improve local knowledge base. In the end, the opening of a successful store required to balance the tradeoff between local expectation and knowledge base on one side, and the brand integrity on the other.

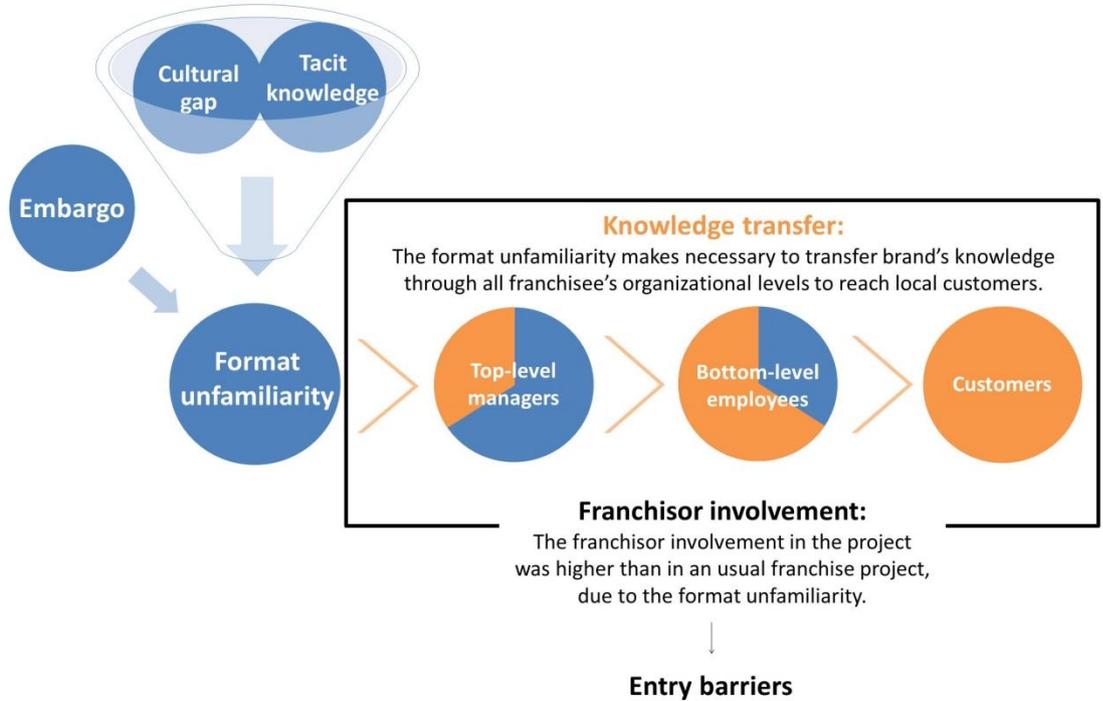


Figure 4.8 - A process view.

The occurrence of the embargo, showed in the circle on the left, is a contingency, external factor. It is not predictable and represents an effect of the uncertainty and dynamicity of local environment. Nonetheless, it had a relevant impact on the project since it increased the level of necessary adaptation. Eataly's reaction to embargo, in fact, produced a number of variations to the original business plan. However, the changes did not damage the brand integrity. According to flexible replication theory (paragraph 1.5), Eataly adapted those elements that are considered of hierarchical lower level, while keeping unchanged those which had a positive impact on brand reputation.

The block on the right highlights the relevance of franchisor involvement in managing knowledge transfer. The format became more and more familiar to local market as Eataly developed an effective communication plan. The information flows from the replicator towards target customers through all the level of the franchisee's organization, from top level managers to bottom level employees.

To meet local market expectations and respect brand standards, the franchisor had to closely supervise the processes until the franchisee was trusted with more autonomy. Eataly, therefore, had to build brand's values and requirements into all franchisee's organizational levels. Subsequently, the knowledge flow reached final customers by means of communication, marketing plans, and the contribution of a well-trained local team.

The project analysis showed that when a franchisor wants to replicate a business plan which entails a high level of tacit knowledge in a culturally distant market, it is not possible to standardize the processes nor avoid local adaptation. However, the variations of the original format must not impact negatively on brand reputation. For this reason, the franchisor has to educate the franchisee over values, standards, and requirements first. If the franchisee does not master the franchisor practices, it will not be able to send the right message to customers, nor to manage the store autonomously. As a consequence, the franchisor would have to exert constant supervision to safeguard brand reputation, undermining the advantages of the franchise agreement.

This process requires an initial relevant commitment of franchisor's time and resources. It represents, thus, an entry barrier for those companies that are not strong enough, like Eataly's supply base. As observed during the labeling process, Italian producers found challenging to fulfill importation requirements, up to the point that some were even excluded. Small producers, therefore, find in organizations like Eataly an opportunity to enter culturally distant markets.

In conclusion, with the increase of cultural gap between two entities and the level of tacit knowledge embedded in the format, an effective plan to manage knowledge flows becomes the pillar of the whole replication strategy. The franchisor has to be increasingly involved in the knowledge transfer processes from its side to the franchisee, and then to final customers.

CONCLUSIONS

The goal of this dissertation is to answer the question: which are the main issues of international expansion for Italian F&B organizations? In particular, how does franchising as a replication strategy influence the establishment of a new business unit in a culturally distant market?

For this reason I conducted an analysis of the data collected during my internship for the opening of Eataly Moscow. My first hand observations were integrated with interviews and internal documents to constitute my pool of sources. I analyzed, then, the raw data through an inductive process that allowed me to recognize the relationships existing between Eataly's strategic behaviors and local environment.

The analysis highlighted the presence of some bottlenecks, their source and how they were solved along the opening process. First of all, the unfamiliarity of Eataly format to local environment increased the pressures for local responsiveness. Some elements had to be adapted in order to meet target market's knowledge base and expectations. Among the adaptations, HR practices were tailored to a local labor market that was incoherent with brand's requirements. The goal was to transfer brand's tacit knowledge through all the levels of franchisee's organization and then to final customers. Despite HR practices are usually managed mainly by the franchisee, the evidences showed that Eataly had to be much more involved in the process.

These findings showed that Eataly's solution to pressures for local responsiveness and for global integration was to adapt some elements of the format in order to protect brand integrity. The process required also the contribution of the franchisee with its higher expertise over local market. For this reason, the franchisor involved its resources to provide the franchisee with the knowledge to act in accordance with brand's reputation. In conclusion, the analysis showed that an effective management of knowledge transfer is a pillar of replication strategy when cultural gap and tacit knowledge are involved.

This study integrates the existing literature confirming what Jonsson & J Foss (2001) stated about flexible replication. It is coherent with recent researches on franchising

as a form of governance suitable for expansion in culturally distant markets and represents an example of replication through principle-based knowledge transfer.

This thesis is meant to be useful for the increasing number of Italian F&B organizations that aim to expand in foreign markets. It provides useful information about the issues and the resources needed in facing international markets by relying on franchising as a replication strategy. In this way, these companies may avoid waste of time and money by being more accurate in choosing the target market and the right partner. Moreover, this dissertation can be interesting also for those organizations which offer is comparable to Italian F&B for the amount of tacit knowledge that characterizes them.

However, it is important to consider that this thesis focused on a specific field of replication strategy. In fact, the franchising is not the only governance type available, but it is the most suitable for culturally distant target market. It represents, thus, the only focus of this work. Besides, the case study I analyzed is characterized by some contingency factors that may have influenced the conclusions: the Embargo and the delays caused by construction.

REFERENCES

- Altinay L., Okumus F. (2010). Franchise partner selection decision making. *The service Industries Journal*, 30(6), 929-946.
- Ambrosini V., Bowman C. (2009). What are dynamic capabilities and are they a useful construct in strategic management?. *International Journal of Management Reviews*, 11(1), 29-49.
- Aspara J., Hietanen J., Tikkanen H. (2010). Business model innovation vs. replication: Financial performance implications of strategic emphases. *Journal of Strategic Marketing*, 18(1), 39–56.
- Baden-Fuller C., Winter S.G. (2005). Replicating organizational knowledge: principles or templates?. *Papers on Economics and Evolution*.
- Biscarini Lamberto (2015). Export: l'ultima chiamata per l'alimentare italiano. *MarkUp*.
- Burt S., Johansson U., Dawson J. (2016). International retailing as embedded business models. *Journal of Economic Geography*, 16, 715-747.
- Cantarelli Fausto (2008). *DOP e IGP: I numeri della qualità. Tradizione alimentare italiana e terzo millennio. ISTAT*.
- Cavestri Luca (2017). Così i negozi rispondono alla campagna d'Italia di Amazon. *Il Sole 24 Ore*.
- Doherty A.M. (2009). Market and partner selection processes in international retail franchising. *Journal of Business Research*, 62, 528-534.
- El Akremi A., Perrigot R., Piot-Lepetit I. (2015). Examining the Drivers for Franchised Chains Performance through the Lens of the Dynamic Capabilities Approach. *Journal of Small Business Management*, 53(1), 145-165.
- Eisenhardt K.M., Martin J.A. (2000). Dynamic capabilities: what are they? *Strategic Management Journal*, 21(10-11), 1105-1121.
- Federalimentare, Internazionalizzazione del settore alimentare, March 2016.

Federalimentare, La posizione dell'Industria Alimentare Italiana rispetto alla contraffazione ed al fenomeno dell'Italian Sounding.

Federalimentare, The Italian food and drink industry report. Data and trends, November 2016.

Franchise direct, 2016 Top 100 Global Franchises: Overview & Headlines, 2016.

Frasquet M., Dawson J., Mollá A. (2013). Post-entry internationalization activity of retailers: An assessment of dynamic capabilities. *Management Decision*, 51(7), 1510-1527.

Friesl M., Larty J. (2013). Replication of Routines in Organizations: Existing Literature and New Perspectives. *International Journal of Management Reviews*, 15, 106-122.

Gillis W.E., Combs J.G. (2009). Franchisor strategy and firm performance: Making the most of strategic resource investments. *Business Horizons*, 52, 553-561.

Gioia D.A., Corley K.G., Hamilton A.L. (2012). Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology. *Organizational research methods*, 00(0), 1-17.

Jonsson A., J Foss N. (2011). International expansion through flexible replication: Learning from the internationalization experience of IKEA. *Journal of International Business Studies*, 42, 1079-1102.

López-Bayón S, López-Fernández B. (2016). Partner Empowerment and Relationship Failure in Franchising. *Journal of Small Business Management*, 54(4), 1059-1079.

Meiners Rogers (2017). *Perchè Amazon compra WholeFoods: un'analisi a bocce ferme*. Business Insider.

Merrilees B. (2014). Evolution of Theory and Practice. *Journal of Marketing Channels*, 21, 133-142.

Nelson R.R., Winter S.G. (1982). An evolutionary theory of economic change, Cambridge, Mass: *The Belknap Press of Harvard University Press*.

Nijmeijer K.J., Fabbrocetti I.N., Huijsman R. (2014). Making Franchising Work: a Framework Based on a Systematic Review. *International Journal of Management Reviews*, 16, 62-83.

Noci Giuliano (2014). Se il Made in Italy fosse un brand sarebbe il terzo al mondo. *Il Sole 24 Ore*.

Orlando Luca (2016). Ecco come l'Italian sounding frena il made in Italy. *Il Sole 24 Ore*.

Petro Greg (2017). Amazon's Acquisition Of Whole Foods Is About Two Things: Data And Product. *Forbes*.

PWC, The Economic Impact of Franchised Businesses: Volume IV, 2016.

Simonetta Biagio (2017). Amazon acquisisce i supermercati Whole Foods: l'accordo vale 13,7 miliardi. *Il Sole 24 Ore*.

Sorenson O., Sorensen J. B. (2001), Finding the right mix: Franchising, organizational learning, and chain performance. *Strategic Management Journal*, 22, 713-724.

Srinivasan R. (2006). Dual Distribution and Intangible Firm Value: Franchising in Restaurant Chains. *Journal of Marketing*, 70(3), 120-135.

Stevens Laura (2017). Amazon and Whole Foods: what's next? The e-commerce giant is generally hands-off with its acquisitions. But that might not work this time. *The Wall Street Journal*.

Swoboda B., Elsner S. (2013). Transferring the Retail Format Successfully into Foreign Countries. *Journal of International Marketing*, 21(1), 81-109.

Swoboda B., Elsner S., Morchetti D. (2014). Preferences and Performance of International Strategies in retail Sectors: An Empirical Study. *Long Range Planning*, 47, 319-336.

Teece D.J. (2014). The foundation of enterprise performance: dynamic and ordinary capabilities in an (economic) theory of firms. *The Academy of Management Perspectives*, 28(4), 328-352.

Teece D.J., Pisano G., Shuen A. (1997). Dynamic Capabilities and Strategic Management. *Strategic Management Journal*, 18(7), 509-533.

Ubi Banca, Settore delle industrie alimentari e bevande: tendenze e prospettive strategiche, January 2015.

Vahlne J.E., Jonsson A. (2017). Ambidexterity as a dynamic capability in the globalization of the multinational business enterprise (MBE): Case studies of AB Volvo and IKEA. *International Business Review*, 26, 57-70.

Weiping Liu (2006). Knowledge Exploration, and Competency trap. *Wiley InterScience*, 13(3), 144-161.

Williams D.L. (1998). Why do entrepreneurs become franchisees? An empirical analysis of organizational choice. *Journal of Business Venturing*, 14, 103-124.

Winter S.G., Szulanski G. (2001). Replication as Strategy. *Organization Science*, 12(6), 730-743.

Wood S., Coe M. N., Wrigley N. (2016). Multi-Scalar Localization and Capability Transference: Exploring Embeddedness in the Asian Retail Expansion of Tesco. *Regional Studies*, 50(3), 475-495.

Yoder S., Visich J.K., Rustambekov E. (2016). Lessons learned from international expansion failures and successes. *Business Horizons*, 59, 233-243.

Zander U., Kogut B. (1995). Knowledge and Speed of the Transfer and Imitation of Organizational Capabilities: An Empirical Test. *Organization Science*, 6(1).

SITOGRAPHY

Types of franchise, 2013, The franchise builders
<http://www.thefranchisebuilders.com/types-franchise-2/>

Argomenti: Oscar Farinetti, 2017, Il Sole 24 Ore
<http://argomenti.ilsole24ore.com/oscar-farinetti.html>

Eataly's official website
https://www.eataly.net/it_it/

Mitsui Bussan Commodities's official website
<https://www.mbcl.com/>

Kichiri & Co.'s official website
<http://www.kichiri.co.jp/>

Esselunga's official website
<https://www.esselunga.it/cms/homepage.html>

Argomenti: Andrea Guerra, 2017, Il Sole 24 Ore
<http://argomenti.ilsole24ore.com/andrea-guerra.html>

Prezzi a confronto: Esselunga batte Eataly 215 euro a 283, 2015, Panorama
<http://www.panorama.it/economia/soldi/prezzi-a-confronto-esselunga-batte-eataly-215-euro-a-283/>

Imperato Rosalia, Eataly vs Esselunga. Oscar Farinetti vi spiega perché non sapete fare la spesa, 2015, Scatti di Gusto
<http://www.scattidigusto.it/2015/06/01/eataly-esselunga-spesa-qualita/>

Mulino Marino's official website
www.mulinomarino.it

La Granda's official website
www.lagranda.it

Michelis' official website
www.michelis.it

Antica Ardenga's official website
www.anticardenga.it

Agrilanga's official website
www.agrilanga.it

Pastificio Afeltra's official website
www.pastificioafeltra.it

Olio Roi's official website
www.oloroi.com

Venchi's official website
www.venchi.com

Fontanafredda's official website
www.fondanafredda.it

Niasca Portofino's official website
www.niascaportofino.it

Borgogno's official website
www.borgogno.com

Monterossa's official website
www.monterossa.com

Birra del Borgo's official website
www.birradelborgo.it

Baladin's official website
www.baladin.it

Vino Libero's official website
www.vinolibero.it

Distilleria Montanaro's official website
www.distilleriamontanaro.com

Batali & Bastianich Hospitality Group's official website
bandbhg.com

Azadea's official website
www.azadea.com

Globus Gourmet's official website
<https://globusgurme.ru/en/>

Azbuka Vkusa's official website
<https://av.ru/>