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# **Business Networks and New Distribution Methods: the Spread of Franchises in Spain**

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## **Introduction**

Of the new forms of business which have shown a great degree of dynamism over the last few years, and in a growing number of countries, there can be little doubt that franchising is a prime example. An exclusively descriptive study of this type of commercial distribution would not reveal the underlying reasons behind the franchise phenomenon which explain its appearance in a particular temporal and spatial context. It is therefore necessary to consider franchises as another sign of the economic globalization process into which Spain was plunged almost a decade ago.

Our intention here is not to delve too deeply into the definition and internal organization of the concept, which has been widely commented on in most of the literature dealing with the phenomenon from the business standpoint (Bolea de Anta, 1990; Rigol, 1992; Alonso Prieto, 1997; Raab and Matusky, 1997; Díez de Castro and Galán, 1998). Rather, our aim is to enhance these contributions from a geographic perspective that tries to go more deeply into the logic of its territorial distribution and expansion, and to analyse the construction of hierarchized organizational structures which contribute to the formation of a space of networks which, in the Spanish case, are showing an outstanding growth rate.

However, the objective of this article is not exclusively limited to the presentation and description of a phenomenon identified with new commercial forms and modes of distribution. The article also aims to show its relations with the economic globalization process and with the business strategies of innovation and decentralization, which are strategic responses to the search for competitive advantages, with uneven effects on the territory.

## **The franchise chains in the reorganization of the distribution system**

Among the many descriptions of franchises available, that of Flechoso would seem to be the most definitive. According to him the franchise 'is a system of contractual partnership founded on continued close co-operation between two financially distinct and independent companies (the franchiser and the franchisee). Through such a contract, the franchiser allows each franchisee to reproduce in exact detail the franchiser's system for exploiting the business and places the franchiser's brand, know-how and business and financial methods at the franchisee's disposal in exchange for an economic consideration' (Flechoso, 1997).

Franchising is, therefore, a method by which independent companies formalize their cooperation agreements, for which reason it is often seen as one of the most typical forms of modern partnership in business (Miquel *et al.*, 1996). This method can involve a variety of distinct situations depending on the characteristics of the business concerned, the type of activity to which it belongs, or the specific kinds of relationships between the participants. Whatever the nuances of the definition, however, there can be no doubt that the franchise is a newcomer in most countries, yet is today growing at an almost exponential pace and spreading to an unprecedented extent. To use a life-cycle metaphor, this formula could be described as being in its youth, with a still limited number of competitors in most sectors, but the average rates of return are already sufficiently attractive to bring in a growing number of imitators.

Various factors are involved in the justification of this undoubted dynamism which, despite the presence of a certain turn in business terms, has made it possible for the market to show a sequence of highly positive annual results in all of the cases studied in the technical literature world-wide. These factors have been extensively analysed by experts and proponents of this formula; their strong points may be summed up in the convergence towards two kinds of advantages:

- For the franchiser, this is a system providing for rapid growth and access to new markets through the sale of licences, with much lower costs and risks than would be associated with direct implantation, particularly through the reduction in the initial investment in fixed capital and a directly employed workforce.
- On the other hand, the franchisee receives the benefits of the corporate image and brand being offered, in theory, by a consolidated and experienced company in the sector, as well as being able to gain access to the management techniques and expert sales skills forming part of the know-how that the franchiser is going to communicate to the franchisee. It is also possible to take advantage of the opportunity for economies of scale with provisioning and to enjoy exclusive exploitation rights within a certain territory. All of this means the franchisee can successfully overcome some of the obstacles facing the independent retailer, thus explaining the differences in results in both cases.

Such an accumulation of advantages also justifies the positive assessment of franchising which thoroughly permeates the current literature on this issue, to the point where franchising is seen as 'a revolutionary concept, capable of solving the problems of old-fashioned distribution for both the manufacturer/wholesaler as well as for the retailer' (Flechoso, 1997). Yet this same vision, which is excessively one-dimensional and linear, also has certain flaws both when it ignores the costs and limitations inherent in this distribution system and also when it tries to maintain a micro perspective which is hardly applicable to the potential significance of the growth in franchise chains within the context of the structural change brought about in the current transition towards a new stage of incipient global capitalism (Méndez, 1997).

The current structural changes affecting production and distribution systems, together with certain alterations in the characteristics and behaviour of consumers, have given rise to a modernization of commercial strategies and structures, affecting both their internal size and mutual relations, as well as the types of establishment or their location patterns (Salgueiro, 1996). From this point of view, franchises can be seen as an effective response to the new dominant conditions, bringing the operations of retail businesses and certain more or less traditional consumer services closer to the productive sector, thus contributing, to some extent, to a certain industrialization of services, occurring at the same time as an increasing tertiarization of industry, as a result of the widening of the business value chains, to the point where the strict limits drawn up between the two sectors half a century ago have become blurred (Bailly and Maillat, 1988; Ferrão, 1992; Méndez and Caravaca, 1996).

In an attempt to clarify this significance and so establish various interpretative hypotheses for verification through case studies, a series of processes can be highlighted as essential for the new dominant logic of economic space, of which franchises are a consummate example, scarcely mentioned in the previous literature on this issue.

*The franchise as a vector for the globalization of trade and services*

The growth in franchises has become one of the most powerful vehicles to forge ahead with an increasing internationalization of activities such as retail trade and certain services rendered to the public by the private sector, with the permanent hallmark of having a close link to local markets, in direct contact with clients. As is widely acknowledged in the much more thoroughly studied case of industry, the constant increase in the number of companies applying global strategies is justified by the demand for new consumer, labour or capital markets, and also by the benefits deriving from achieving economies of scale, or the creation of internal demand within the company itself, arising out of its own outlets or those it controls directly, thus reducing the impact of cyclical variations (Dicken, 1992; Chesnais, 1994; Benko, 1996). Here, too, the possibilities opened up by the improvements in technical infrastructures which reduce the costs of internal coordination as well as external transaction costs, together with the generalization of deregulation policies favouring the opening-up and liberalization of domestic markets, have been of key importance in allowing a constant increase in the number of transnational companies which, in this case, are applying multiple domestic strategies, in that they reproduce the same type of activities in different geographic locations.

Franchises thus offer a supreme example of these new investment forms (Oman, 1984), replacing the direct contribution of capital with strategic alliances and closer links between independent companies, instead of the classical business policies of internal growth through the creation of new subsidiaries or external growth through the acquisition of companies in other countries.

*The franchise as a source of innovation in traditional sectors*

One of the competitive advantages enjoyed by many franchise chains over traditional trade and services, where the weight of inertia and lack of resources limit any improvement in productivity and the possibility of more professional management, is that the franchise formula can often be assimilated to a drive towards innovation.

On the one hand, there is true innovation in those processes inherent to distribution with the aim of reducing costs and increasing internal flexibility in view of a potentially unstable growth in demand. The most important mechanism for achieving this goal is the externalization/decentralization of tasks which is facilitated by the granting of licences to independent operators so that they can carry on the business and act directly with clients while the franchiser realigns his or her activities to give greater importance to coordination issues. Moreover, the greater combined capacity as a result of such cooperation — in terms of investment in R&D activities, design, marketing, advertising campaigns etc. — means that there is room for renovation in the contents and/or image of specific products at the same time as it encourages increased computerization, both in logistics and in sales, so as to maximize the presence of franchises within the new areas for home delivery of purchases and services (Gámir, 1997).

On the other hand, franchises also act as a vehicle for management innovation in participating companies through the ongoing training provided by the franchiser, in tandem with the dense flow of data between different links in the chain for the achievement of coordinated projects. This seems to contribute decisively to the success of a formula which includes a large number of new entrepreneurs without prior experience in the sector, with a profile dominated by a relatively low mean age, university level qualifications, generally speaking, and an outstanding presence of women — at least to

judge by the results observed in Portugal or Spain (Salgueiro, 1996; Barbadillo Asociados, 1998b).

### *The franchise as a networked business organization*

One of the most common debates in recent years, directly linked to interpretations of post-Fordism or the new models of flexible specialization, is the question of opposing large, integrated and relatively independent companies to small businesses. While on the industrial plane these decentralizing tendencies have given ever-greater opportunities to small and medium-sized enterprises (SMEs) (Amin, 1994; Benko and Lipietz, 1992), the field of commercial activities has seen frequent references to the increasing power wielded by large distribution companies and hypermarkets versus the smaller scale and fragmentary nature of retail outlets (Dawson, 1980; Dawson and Burt, 1988; Carreras, 1990).

Without going so far as to dismiss this dichotomous view of current trends in the evolution of business strategies as a false debate, we can say that such a view gives quite a limited picture of the reality, as highlighted by the analysis of franchise chains. From this perspective, instead of the replacement of one structural system by another, the most significant point here is the integration of both systems within a network structure that facilitates coexistence and complementariness in terms of:

- Franchiser network companies with multiple outlets, sometimes in various countries; and
- Networks of franchised companies with variable geometries that are functionally dependent on the franchisers but are interlinked with each other through various degrees of intensity and different contents, with a clear dominance of vertical relationships (Belussi, 1992; Veltz, 1993).

As Castells (1996: 196) puts it, 'networks are and will be the backbone of new organisations. Networks are capable of forming and spreading throughout all the highways and byways of the global economy because they are based on the power of information'.

Thus, the processes of concentration and deconcentration become compatible with those of integration and disintegration, because at the same time there is a strong increase in the number of small franchised firms generating a large part of new employment in these activities, as well as an increase in size, financial capacity and decision-making by franchisers. The frequent result is a dual, yet not contradictory assessment of the franchise system, seen by some as a reinforcement of small-scale businesses while others highlight its centralizing effect.

### *The reinforcement of hierarchical relationships*

Franchising, then, implies the consolidation of business networks comprising only two or, at the most, three levels and characterized by a strongly hierarchical structure in the flow of decisions within the organization. Offsetting the siren song of entrepreneurship and the development of personal initiative which often accompanies the image of franchises and brings them closer to the concept of a popular capitalism made up of small independent businesses competing in a quasi-perfect competitive market, franchise chains are subject to strong internal control and certain restrictions on the competition between companies and between territories, occasionally even generating legal problems in the courts protecting consumer rights and competition.

On the one hand, the conditions imposed by the franchiser in the contracts are a good example of the unequal exchange and dependence relationship between the signatories (Purvin, 1994). Thus, it is often obligatory for franchisees to reach a certain annual sales volume, using specific suppliers, with control of cashpoints and commercial management, to pay a canon to finance the firm's advertising campaigns and to comply with severe restrictions regarding the location and characteristics of the premises. On the other hand,

it is also frequently possible for the franchiser to terminate these contracts unilaterally, without mutual agreement being required.

In short, from the point of view of its internal structure, the franchise allows for a strong degree of centralization in decision-making and therefore of power, combined with a no less intense decentralization/externalization of the company's risks and activities, thus providing a high degree of flexibility.

#### *The franchise as a factor contributing to standardization of behaviour patterns*

As against the eulogy of diversity as typical of postmodernity (Harvey, 1990) propounding an advance from past mass consumption towards an individualized mass consumption which adapts better to the needs and requirements of individuals, franchises seem to encourage a movement in the opposite direction, inherent in the industrialization of services mentioned above.

In this case, the main objective is usually to seek a maximum possible level of homogeneity in order to transmit a perfectly recognizable brand image for clients and thus make the clients' consumption behaviour totally predictable. This desire for homogeneity includes the characteristics of the products and/or services offered, their price, the fixtures and decoration of the premises, the employees' uniforms (if any), client service, the type of advertising, and the relationship with banks, suppliers etc. The existence of specific franchise manuals for each brand becomes a useful tool for giving such corporate ID a tangible reality, as do the courses and seminars given on a regular basis.

The end result is a gradual standardization in a type of activity where previously the dominant factor was diversity and, with the search for an individual identity by each company in order to attract the attention of a certain type of client, that same reduction in variety is also transmitted to consumer areas. The growing presence of stores belonging to these chains in our cities, each one a clone reproducing the same external image in locations which are themselves very similar, with a tendency to bunch together in specific areas, is the direct consequence of this, most clearly demonstrated in the integrated shopping centres.

#### *The franchise as a factor for establishing spatial hierarchy and new territorial contrasts*

One of the most common characteristics of the retail trade and private and public consumer services is their dispersed location, which is highly dependent on the location of the population they serve (Moreno and Escolano, 1992; Mérenne-Schoumaker, 1996). An analysis of the spatial structure of the franchise chains, on the other hand, gives a clear indication of a much more selective and highly concentrated territorial distribution which contributes to the reinforcement of certain prior contrasts, both quantitatively and qualitatively.

As far as franchisers are concerned, most of the chains have grown up in areas that can be defined as functionally central (the United States, France, the United Kingdom or Japan), as these are the locations of those firms with the best consolidation and capability of creating a network, as well as being those with the greatest information and know-how about the potential of the formula and preparedness to take the risks inherent in any innovation.

Starting from these original foci, a process of expansion has taken place in terms of hierarchy and contiguity towards dynamic spaces and enlarging markets, identifiable at the international level as a great many of the countries making up the European Union, Canada, Brazil, Mexico etc., which have become the headquarters of numerous master franchises, as well as national franchisers. This same process of expansion occurs within state frontiers with respect to medium-sized cities, tourist areas etc., with a gradual enlargement of the areas directly affected by the appearance of franchises.

As for franchisees, a couple of frequently detected tendencies can be highlighted in terms of space. On the one hand, certain Christaller-like behaviour patterns persist in the

interpretation of shopping spaces by many franchisers: on an interurban scale, particular emphasis is placed on the minimum size of the population in a given urban nucleus when it comes to granting a franchise, a question directly associated with the perceived threshold of potential demand. Apart from the number of consumers, attention is also paid to certain complementary features such as income levels, age pyramid, consumer habits, ratio of cars per capita etc. — all factors tending to exclude rural areas, thus converting franchises into an essentially urban phenomenon. The choice of location is based on accessibility, visibility and cost, with exclusive rights being granted for the exploitation of the brand within a given market area, depending on the size attributed to the scope or radius of influence of the goods/services on offer and the distribution of the population itself.

On an intra-urban scale, spatial selectivity is also normal. Especially attractive locations are pedestrian-only areas and large shopping streets in business centres, residential areas with the greatest social status, or large suburban shopping centres. Thus, while small retailers tend to be influenced in their choice of location by inertia, direct familiarity with the surroundings, or a highly biased view of the space due to subjective or intuitive values, the criteria governing franchise businesses seem, in general, to be guided more by economic rationality based on preliminary market studies, which accounts for the fact that GIS are used as a tool to determine good locations, as is mentioned more and more frequently by the franchisers themselves.

The result is the establishment of a network of spaces comprising an increasing number of nodes in a hierarchy, each specializing in diverse activities and interconnected through a dense mesh of both tangible and intangible flows which highlight the strategic value of certain locations while leaving others submerged or in the shade (Veltz, 1996; Offner and Pumain, 1996), excluded from the potential advantages of the new model of territorial arrangement.

Within this theoretical framework, which forms the interpretative context in which to produce relevant hypotheses with respect to the insertion of franchises and their significance in this phase of capitalist progress, the results of the first survey of franchises in Spain indicate some interesting provisional conclusions which will have to be complemented and clarified by means of case studies, and also by comparative analysis of the situation and dominant trends in various regions or countries.

## **Franchises in Spain**

For the time being, franchises represent a relatively incipient form of business organization in Spain, affecting above all the distribution of certain products and services and spreading quickly to acquire the characteristics of an emerging phenomenon, with results that are becoming ever more visible in the urban landscape.

In order to carry out the survey, various Franchise Guides published in Spain during 1998 were consulted. These guides have a very similar structure in terms of the available information, but the number of companies registered is different in each case, leading to the creation of a proprietary database. By combining the data from the guides published by Tormo Asociados and Barbadillo Asociados, together with the data from the Spanish Franchisers Association (Asociación Española de Franquiciadores), we were able to identify a larger number of companies than in any individual guide, despite the downside of a certain lack of precision due to missing data in some records. As a complement to this, we also had recourse to the guides published by the Official Madrid Chamber of Commerce and Industry, the Mediterránea de Franquicias consultancy firm and the *El País* 1998 Yearbook, as well as both of the reports entitled 'Informes de Situación de la Franquicia en España' (The Franchise Situation in Spain), carried out by the Barbadillo Asociados firm in 1996 and 1998, on the basis of a questionnaire sent out to a sample of

firms. Although the lack of an official directory or census introduces a certain margin of error in the data being handled, which will need to be improved upon and enlarged through questionnaires and interviews with the participants themselves, it can safely be stated that the results obtained seem to offer sufficient reliability and significance to provide a preliminary diagnosis on the territorial perspective.

#### *Recent trends and current importance of franchises*

Spain joined the bandwagon of franchises rather late in comparison with other European countries, so it can fairly be said that, although its origins are more remote, franchising in Spain is essentially a phenomenon of the 1990s. 1980 saw the existence of only 40 franchises, mostly foreign imports, which grew to 150 by the end of the decade before climbing to the 684 counted in our survey in January 1997, after comparing all the data contained in the Franchise Guides mentioned above. Among these franchises, 80% of the chains currently operating were incorporated after 1990 and more than half (54% of the total) were set up in the last four years (see Figure 1). The great youth of the age pyramids, a combined result of the recent origin of most franchises and a certain churn of the components, is indicative of a lack of maturity in this process, clearly visible in some of the characteristics commented on below.

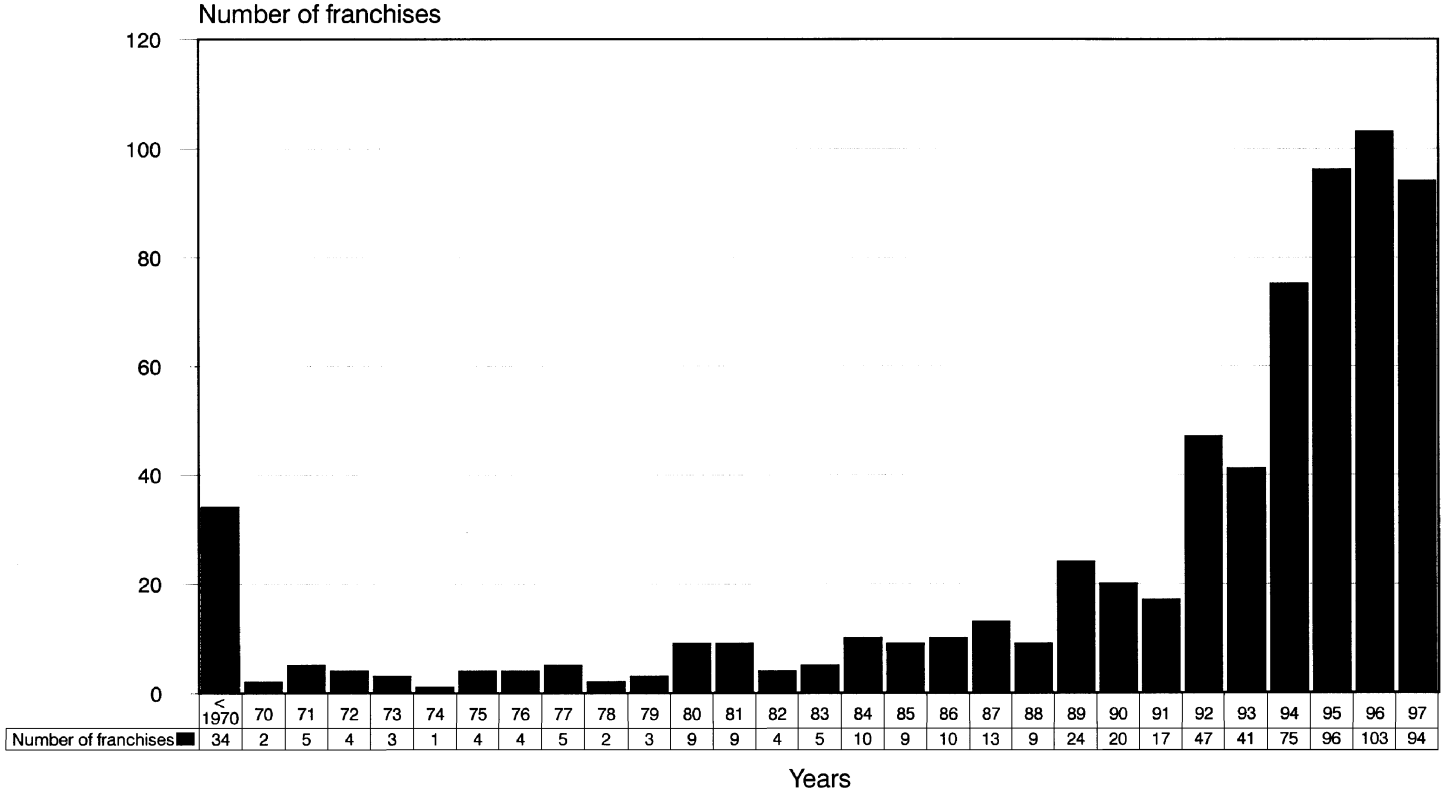
The aforementioned 684 firms control a total of 22,846 establishments in Spain, double the number only two years previously, apart from another 233,000 abroad, as they often form part of the large transnational groups in the distribution sector, such as McDonald's, Benetton, Western Union, Kentucky Fried Chicken etc. Although it is quite difficult to obtain reliable data on their economic activity, the annual reports produced by Barbadillo Asociados allow us to estimate the total volume of jobs generated at around 53,000 in Spain (less than 20,000 franchisers). On the other hand, although the turnover considerably exceeds half a billion pesetas (562,000 million pesetas in 1997), its relative importance is still quite modest as it only represents 5% of the GDP produced by the distribution sector, far below the 25% achieved in other European countries where the process is more long-standing and has reached a certain maturity by now (Husson-Dumoutier and Olivier, 1993).

#### *Increasing diversity in sectors and businesses*

The franchise phenomenon, initially associated in the United States with specific sectors such as fast-food restaurants, car maintenance services, dry-cleaners/laundries and some stores specializing in fashion, cosmetic products etc., has long since ceased to be exclusively limited to the terrain of certain activities and has spread into an increasingly heterogeneous set of activities (see Table 1).

If manufacturing franchises are excluded (i.e. companies selling their own manufactures, which are quite unusual in Spain), then both product distribution franchises and service franchises are quite similar in importance, but there is still a degree of dominance with respect to some of the traditional franchise lines. Thus, as shown in Table 1, the greatest volume of brands still corresponds to fashion outlets and catering/restaurants, with a considerable presence of fast-food outlets, representing altogether one-third of the franchises and 20% of the establishments. In this sphere, large international chains, especially from the US (McDonald's, Burger King, Pizza Hut, Kentucky Fried Chicken, Dunkin Donuts, Subway, Domino's Pizza, Häagen Dasz, Levi's, e.g.), coexist alongside some European names (Benetton, Alain Manoukian, Rodier, Lacoste etc.) and Spanish-owned companies which have enjoyed fast growth to the point where they have opened up abroad (Telepizza, Pans & Company, El Paellador, Mango, Cedosce, Adolfo Domínguez, Don Algodón, Springfield, Tintoretto, Roberto Verino, e.g.), as well as numerous other smaller firms with an equally small territorial dimension.

If these activities are added together with the specialist stores and services ranging from photographic material to shoe repairs, recycling, leisure or home-delivery services,



**Figure 1** *Franchises in 1997, by date of incorporation of the chain*



**Table 1** *Structure of franchises by type of activity in 1997*

Types of Activity	Number of Brands	% of Total	Number of Establishments	% of Total
Clothing	108	16.3	1,840	8.1
Catering and Restaurants	98	14.8	2,704	11.9
Specialized Stores	90	13.6	2,021	8.9
Specialized Services	82	12.3	3,681	16.2
Real Estate/Consultancies	40	6.0	1,016	4.5
Food	27	4.1	2,711	11.9
Teaching	25	3.8	825	3.6
Dry-Cleaning/Laundry	24	3.6	930	4.1
Vehicle Servicing	23	3.5	935	4.1
Beauty	23	3.5	528	2.3
Computing	22	3.3	859	3.8
Printing/Stationery	22	3.3	1,373	6.1
Cosmetics/OTC Pharmacy	19	2.9	551	2.4
Travel Agents/Hotels	19	2.9	778	3.4
Furniture	17	2.6	348	1.5
Transport/Courier Services	12	1.8	1,117	4.9
Jewellery	7	1.1	163	0.7
Sports	6	0.9	309	1.4
Total	664	100.0	22,689	100.00
No data	20	—	157	—
Total data	684	—	22,846	—

Source: Guías de Franquicias (1998) and authors' survey.

they account for 57% of brand names and 45% of all establishments. There then follows a range of activities so varied in terms of characteristics and value of the products or services on offer that it is difficult to discern any overall pattern except to point out the high number of stores in the food distribution chains, because of Día supermarkets (1749 premises) and in transport and courier services, because of Seur and MRW (790 premises).

This same mishmash characterizes the business organization too: existing firms can be analysed from the point of view of their size, the source of their share capital, or the relationships between the franchiser and franchisee, although certain dominant traits can be identified.

In terms of the size of the chains, the most important thing to point out is the small-scale of the holdings, despite the presence of some world leaders in their respective sectors, a situation that can be detected by numerous indicators.

- The chains settling in Spain have, on average, 33.4 establishments each between fully-owned and franchised outlets, but this figure is a mere statistical figment resulting from the presence of a few companies with a very high number of outlets that introduce a bias in the average. In this way, the 57 franchises with more than 100 premises (8.4% of the total) account for a total of 12,168 establishments (53.3% of the total), whereas the other 627 only amount to 10,678 (46.7%) with an average of 17 establishments each (see Table 2). In addition, more than half the brands (297) do not have over ten premises and 24% of them do not exceed five, figures which can easily be associated with the weakness and/or recent origin of many of these franchises which are still far from reaching the maturity stage.
- Half of the franchisers only opened one pilot unit before creating the franchise chain and in a similar proportion the prior experience was less than two years. This

**Table 2** *Size of franchises by number of establishments in 1997*

Number of Establishments	Total Franchises	% of Total
From 0 to 4	163	24.0
From 5 to 9	134	19.7
From 19 to 24	153	22.4
From 25 to 49	87	12.8
From 50 to 99	59	8.7
More than 99	57	8.4
No data	31	4.0
Total	684	100.0

Source: Guías de Franquicias (1998) and authors' survey.

contradicts some of the theoretical presuppositions and is indicative of a degree of fragility in the future development of these initiatives.

- The mean turnover per chain is between 100 and 200 million pesetas, although there are large differences between the extreme values, representing an estimated total turnover of 562,107 million pesetas in 1997.
- As for premises, another dominant feature is their small size, although in this case the requirements of each activity also lead to a large degree of dispersion vis-à-vis the mean values. While 49.7% of franchisees require an average area of between 25 and 125 square metres and an initial investment of less than 20 million pesetas, there is a small group with a much higher initial barrier, namely 21 cases where the requirements are in excess of 50 million pesetas in investment and 200 square metres of premises. At the opposite extreme, a total of 29 franchises do not require any premises as the activities can be carried out from home.

As far as the source of the share capital of the franchisers is concerned, mention must be made of the rapid permeability of Spanish entrepreneurs in this phenomenon, where they are in the majority both in terms of the number of brands and in the number of establishments they control:

- According to the Franchise Guides consulted, the brand names with Spanish capital now represent three-quarters of the total (74.7%) and even a slightly higher proportion of the establishments (see Table 3). Although this figure may be inflated as a result of the presence of master franchises which are identified as being Spanish when they are merely agents of companies originating abroad, the result is practically identical to the latest report by Barbadillo Asociados (73.3%), which gives the figure a degree of reliability.
- Of the foreign franchises, amounting to 140 in total, those of US, French or Italian origin are in the majority (104 franchises with 3472 establishments), followed by the other EU countries (28 franchises and 586 establishments). Although without defining a clear specialization in favour of certain activities, their presence is particularly typical in the spheres of restaurants, consultancies and real estate, vehicle servicing, dry-cleaning, specialist stores and services, and fashion, whereas they are almost non-existent in other areas such as printing or stationery, furniture, jewellery etc.
- Despite their generally still limited penetration of the Spanish market (a penetration that will almost certainly grow in the near future), many of the brands installed in Spain already have a consolidated network in the rest of the world (for instance, 48 of the companies have more than 500 establishments outside Spain). The enormous size of the US companies is worth stressing, as 28 of the 45 companies with a presence in Spain have more than 500 establishments world-wide, with extreme cases such as

**Table 3** *Franchises in Spain in 1997, by country of origin*

Country of Origin	Number of Franchisers	% of Total	Number of Establishments	% of Total
Spain	511	74.71	17,965	78.63
United States	44	6.43	1,694	7.41
France	37	5.41	1,059	4.64
Italy	22	3.22	551	2.41
United Kingdom	13	1.90	383	1.68
Belgium	5	0.73	59	0.26
Denmark	4	0.58	64	0.28
Sweden	3	0.44	2	0.01
Andorra	2	0.29	9	0.04
Switzerland	2	0.29	66	0.29
Spain/USA	1	0.15	168	0.73
Portugal	1	0.15	2	0.01
Australia	1	0.15	21	0.09
Germany	1	0.15	70	0.31
Mexico	1	0.15	2	0.01
Canada	1	0.15	17	0.07
Ireland	1	0.15	6	0.03
Japan	1	0.15	20	0.09
No data	33	4.82	688	3.01
Total	684	100.0	22,846	100.0

Source: Guías de Franquicias (1998).

Western Union (35,000 premises), McDonald's (21,022), Subway (14,983) or Pizza Hut (12,583).

- As for Spanish-owned franchisers, the 1996 survey showed that 19% of them carried out some activity abroad, whereas the 1998 survey pushed that figure up to 31% with a clear tendency towards the neighbouring countries of Portugal (60% of cases) and France (52.5%), and to South America (47.5%) and the other EU Member States (40.0%), where it is most common now to have a Master Franchise (42.5% of companies).

Finally, with respect to franchise contracts, the data available indicate that the usual length is for five years, with the possibility of renewal in 80% of cases. The services which the franchisers undertake to provide affect, mainly, the training of the franchisees (87.8% of interviewees), marketing and advertising (83.3%), management advice (78.9%) and the supply of products (75.0%) in return for receiving an initial canon ranging from 500,000 to 2,000,000 pesetas in addition to an annual payment calculated (in 70% of cases) as a percentage of turnover (around 5% of total sales). Furthermore, the franchiser reserves the exclusive right to supply products (69.4% of franchises) and services (56.1%), as well as establishing regular inspections, in exchange for the exclusive exploitation of the brand in a specific territory for each franchisee in 87.2% of cases (Barbadillo Asociados, 1998b).

## Spatial organization of franchise chains in Spain

The search for a spatial logic underlying the sundry and diverse business strategies is one of the essential goals of economic geography and it is also one of the lines of research with the greatest future potential, in view of the lack of development so far occurring in

the analysis of franchises. The data so far available only allow for an initial approximation at the interregional and interurban scales and must be complemented by means of intra-urban surveys using other additional sources. From that standpoint, the basic distinction drawn is that between the location of franchisers, dominated by a strong polarization, and that of franchisees, apparently more dispersed but not without quite a strict selectivity in terms of the criteria used for taking decisions, thus allowing clear differences to be established with regard to traditional retail trade.

#### *Location of franchisers*

The emergence of franchisers from endogenous initiatives or through the installation of franchisers from abroad is, above all, an urban and metropolitan phenomenon, directly linked to the size and dynamism of the cities generating positive externalities. This relationship is reflected in the concentration of parent companies in the most densely populated urban areas with a high level of income/consumption, as well as with a high level of services provided for companies.

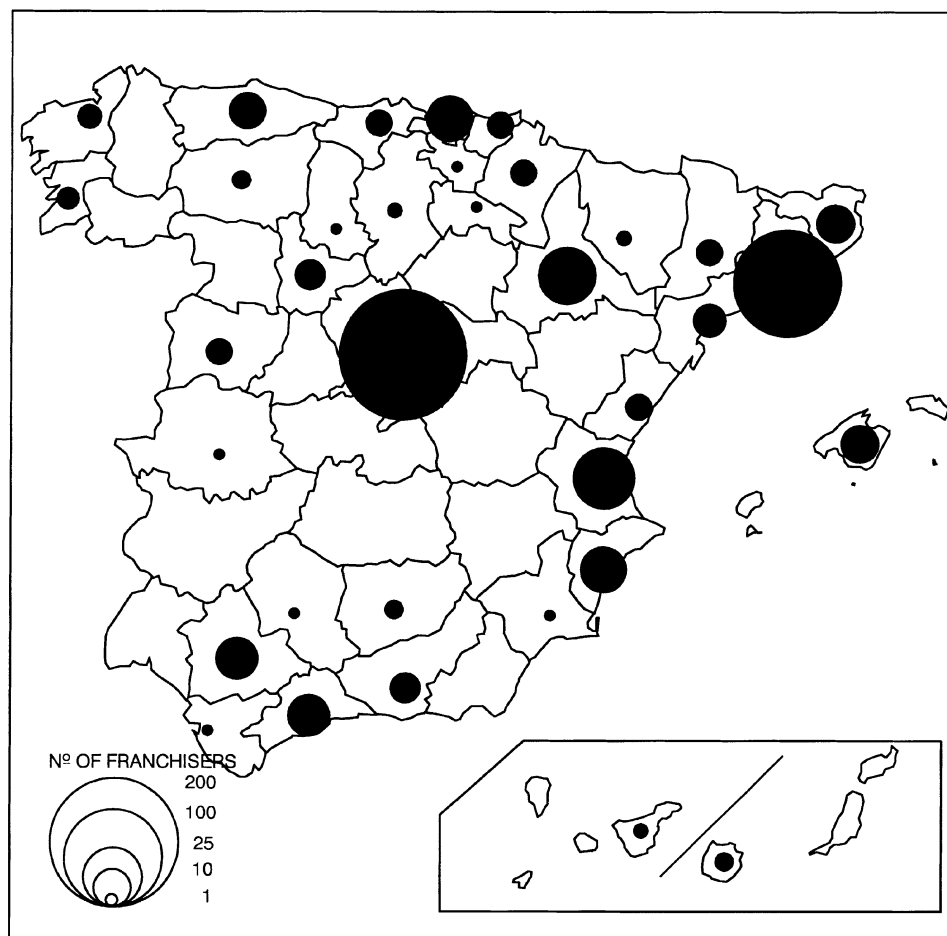
On the regional scale (see Table 4), more than two-thirds of franchisers (468 firms, 69.23%) are located in Madrid and Catalonia, from where they control a total of 17,956 establishments (78.6% of the total), as most of the widest and most consolidated franchise networks have their management headquarters in these areas. A long way behind come the Valencian Community and Andalusia (13.16% of franchisers, controlling 8.12% of premises), which seems to corroborate the displacement of the centre of gravity of Spain's economy towards the Mediterranean, at the expense of the Atlantic and hinterland regions.

This imbalance is all the more evident when the spatial units used are smaller than provinces (see Figure 2). This highlights the hegemony of Madrid (240 brands, controlling 9346 establishments) and Barcelona (203 and 7901 respectively), i.e. two-thirds and three-quarters of the respective totals, well ahead of the other 48 provinces

**Table 4** *Regional distribution of franchise chains in Spain*

Autonomous Communities	A % of Franchisers	B % of Franchised Establishments	C Market Share 1996	D Economic Activity Index 1996	(B/C)100 Location Quotient
Andalucía	5.47	10.24	16.71	12.56	0.61
Aragón	4.00	2.86	3.16	3.56	0.90
Asturias	1.48	1.99	2.61	2.60	0.76
Baleares	1.62	3.13	2.27	2.16	1.38
Canarias	0.74	4.42	4.10	3.35	1.08
Cantabria	0.89	1.90	1.30	1.17	1.46
Castilla-La Mancha	0.00	2.14	4.36	3.41	0.49
Castilla-León	2.81	3.87	6.34	5.90	0.61
Cataluña	33.73	31.69	16.64	20.43	1.90
Comun.Valenciana	7.69	8.92	10.41	10.17	0.86
Extremadura	0.15	1.33	2.60	1.92	0.51
Galicia	1.33	3.46	6.59	5.73	0.52
Madrid	35.50	14.92	12.63	14.15	1.18
Murcia	0.15	2.03	2.67	2.37	0.76
Navarra	0.89	1.14	1.46	2.13	0.78
País Vasco	3.40	5.23	5.12	7.39	1.02
Rioja	0.15	0.73	0.73	0.78	1.00
Total	100.00	100.00	100.00	100.00	100.00

Source: Guías de Franquicias, Barbadillo Asociados, La Caixa and authors' survey.



**Figure 2** Location of franchisers in 1997, by province (source: *Guías de Franquicias* and authors' survey)

which barely account for 30% of brands. The greatest relative dynamism among these latter regions appears in the provinces located along an imaginary Y sweeping from the Basque country along the Ebro river to the Mediterranean axis, whereas there are 14 provinces (mostly around Madrid) without any brands at all.

The true measure of polarization, however, can only be achieved by disaggregating the data down to the municipal level (see Table 5) where it can be seen that the seven towns with the largest number of franchisers, equivalent to 59.44% of the total, correspond to the seven core cities of Spain's metropolitan agglomerations with over one million inhabitants each. These are followed by some medium-sized towns which are also the chief towns of their respective provinces, mainly located in Mediterranean areas (Palma de Mallorca, Castellón, Granada, Lleida, Alicante etc.), and several metropolitan boroughs around Madrid (Pozuelo de Alarcón, Alcobendas, Coslada, Las Rozas etc.) or Barcelona (Terrassa, Castelldefels, Cornellá de Llobregat etc.).

This dominance of both metropolises is most clearly seen in the case of the foreign-owned franchises, since 63 of their headquarters are located in the Barcelona agglomeration and another 48 in that of Madrid, thus accounting for 80% of the 140 in the survey. In this it is also possible to see a clearly differentiated behaviour between the

**Table 5** *Distribution of brands by township in 1997*

Townships	No. of Brands	No. of Establishments	Townships	No. of Brands	No. of Establishments
Madrid	194	8,084	Cornellá Llobregat	5	239
Barcelona	136	4,189	Alicante	4	39
Zaragoza	24	528	Calviá	4	51
Valencia	21	532	Coslada	4	108
Bilbao	14	424	Figueros	4	42
Sevilla	10	208	Hospitalet	4	659
Málaga	7	137	Las Rozas	4	99
Palma de Mallorca	7	310	Santander	4	27
Valladolid	7	43	Badalona	3	95
Pozuelo de Alarcón	7	216	Barberá Vallés	3	21
Terrassa	7	404	El Vendrell	3	41
Oviedo	6	72	Gijón	3	34
Castelldefels	6	41	Igualada	3	858
Castellón Plana	5	42	La Coruña	3	76
Granada	5	47	Majadahonda	3	287
Lleida	5	66	S. Pere de Ribes	3	264
Pamplona	5	48	Torrente	3	14
Salamanca	5	105	Other Towns	148	4,177
Alcobendas	5	219	Total	684	22,846

Source: Guías de Franquicias (1998) and authors' survey.

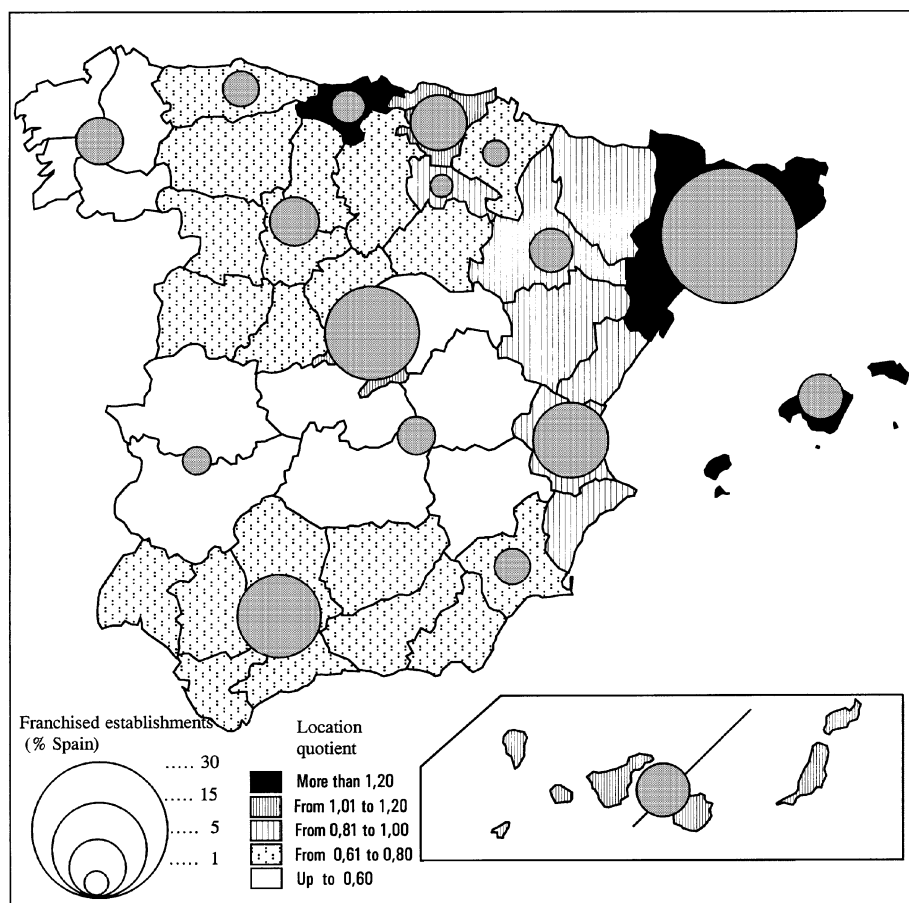
companies from the US and those of European origin. Whereas US companies choose the country's capital for their head office, in view of their unfamiliarity with the territory and the greater facilities they find there to structure their network of establishments both in and out of Spain, the majority of their European counterparts opt for Barcelona or its surroundings, perhaps as a result of good accessibility and a greater tradition of settlement in Catalonia, already home to many industrial and services companies from those same countries.

#### *Location of franchise establishments*

The great number of existing small business units, and the fact that the available data come from the franchisers, makes it much more difficult to estimate this aspect than the previous one, despite its greater importance from the standpoint of consumers or urban planning. Nonetheless, some significant trends can be discerned and should be the subject of further, more specific research.

The regional location of the establishments (see Table 4) illustrates a slightly less unbalanced distribution than that of brands, with a clear dominance of Catalonia (31.69%), more than doubling the proportion of Madrid (14.92%) and tripling that of Andalusia (10.24%), which on this parameter beats the Valencian Community (8.92%). The single-province regions, for their part, together with Extremadura, are at the lower levels as they do not account in any case for more than 2% of the franchised premises in Spain.

If these figures are compared with the market share corresponding to each region in 1996, according to the *Anuario comercial de España* (Spanish commercial yearbook) published by the La Caixa savings bank, a clear correlation can be seen — as is normal in activities which involve, for the most part, direct contact with clients and handle requests for end products generated by that same population within generally limited market areas. Examined more closely, however, the relationship of both parameters by means of a



**Figure 3** Regional distribution of franchised establishments in 1997

location quotient highlights a somewhat more complex spatial behaviour in the case of franchises, which show a greater presence than would be expected solely on the grounds of the purchasing power of the most urbanized territories with a high level of income, a significant presence of tourists and a greater adoption of foreign purchasing habits, as is the case in Catalonia, Madrid, Basque Country, the Balearic and Canary Islands or Cantabria (see Table 4 and Figure 3).

Although no data are available for smaller spatial units, the population analysis required by the brands for the establishment of their franchised premises ensures that this is a typically urban phenomenon to the exclusion of rural areas. The latter do not yet attract the interest of such firms because of their frequent failure to achieve the minimum demand levels required and because they exhibit consumption patterns that are markedly different from those of urban residents. Whereas only 31 of the 555 franchises (5.5%) are prepared to install a new establishment in townships of less than 10,000 inhabitants, 182 are prepared to consider this figure as an adequate threshold as against 178 who raise the minimum to 50,000 inhabitants, another 130 who raise it to 100,000 residents and only 34 demand a minimum of 200,000 local residents.

In the inner cities, the dominant criteria of location are highly selective, with a tendency to concentrate business in two different types of area. On the one hand, catering/restaurant franchises, as well as commercial franchises that sell final consumption

products (clothing, perfumery), are particularly attracted to shopping areas in the urban centre — above all pedestrianized streets and the more visible sites — because these places are very accessible for residents as well as tourists. In a lot of these areas, the franchise boosts a process of replacement of traditional stores, which find it increasingly difficult to compete for land use with very expensive prices. The second type of space which is especially attractive to investment comprises the integrated commercial urban centres that nowadays are proliferating on the suburban peripheries of the big cities as new spaces for consumption-leisure. These operate like a true beehive of franchises (Flechoso, 1997: 11), also dominated by the supply and commercial landscape standardization.

*The diverse spatial structure and evolution of the networks*

Any analysis of the franchise chains must include a particularly important spatial dimension, a micro-scale, from the perspective of the business geography. Although the spatial strategies of the franchiser companies differ according to their internal structure (size, origins of the capital and so on) and the type of product/service that they provide (price, frequency of consumption etc.), the monographic studies that have been carried out reveal some regularities that could be related to consecutive phases in their lifecycle and linked with several typologies of business networks proposed at that time (Castells, 1996; Offner and Pumain, 1996; Veltz, 1996; Sáez and Cabanelas, 1997; Dicken, 1998).

In the initial period of setting up in a territory — which could mark the birth of a franchise or the arrival of a transnational firm already consolidated in its country of origin — the location of the few existing establishments is concentrated in the main metropolis of the urban system, or in the town or locality where the franchiser resides. A second phase of expansion or development involves the incorporation of a large number of new franchisees and the opening of new premises, with high growth rates that prompt the extension of the network. The geographical spread evolves through a process of highly selective location choice that is hierarchical in nature (towns) and is governed by proximity to metropolitan areas and development axis, whilst at the same time intensifying the dominance of the most important metropolis, where there is still a potential demand to satisfy. Only in a third phase of consolidation, which very few franchises have achieved so far in Spain, does the appearance of decreasing performance in market areas close to saturation prompt a significant dispersion to towns of minor size in order to conquer new sectors of the market. This expansion is often accompanied by an increase in advertising campaigns in the national mass media, the installation of logistic centres to supply all the franchisees and so on. Even in this phase, some franchisers avoid the risks of managing outlets in spaces with limited potential demand, setting them aside exclusively for franchised establishments, while they keep their own outlets in the most secure and profitable locations. Because of the youth of the phenomenon, representative examples of brands located in the mature or declining phase have not yet been found. Therefore, in the decision-making process, they combine objective criteria of size and accessibility, with subjective considerations that seem to prioritize the best known locations with the best social assessment, where the intuition of risk is minimized.

The maps in Figure 4 try to illustrate these phases using the spatial distribution of the three big franchises of the catering/restaurant sector — the American Subway and MacDonald's chains, in addition to the Spanish Tele Pizza. Whereas the first, installed in Spain since 1995, concentrates 14 of its 28 establishments in Madrid and Barcelona (with 14,983 in the remainder of the world), McDonald's, which began to deal in Spain in 1981, already has 134 establishments (with more than 21,000 world-wide) that have spread beyond the big metropolitan areas and the Mediterranean coast to the majority of the provincial capitals situated in the inner regions. For its part, Tele Pizza, with 353 establishments in 1998, is one of the main franchises with Spanish capital. In its ten years



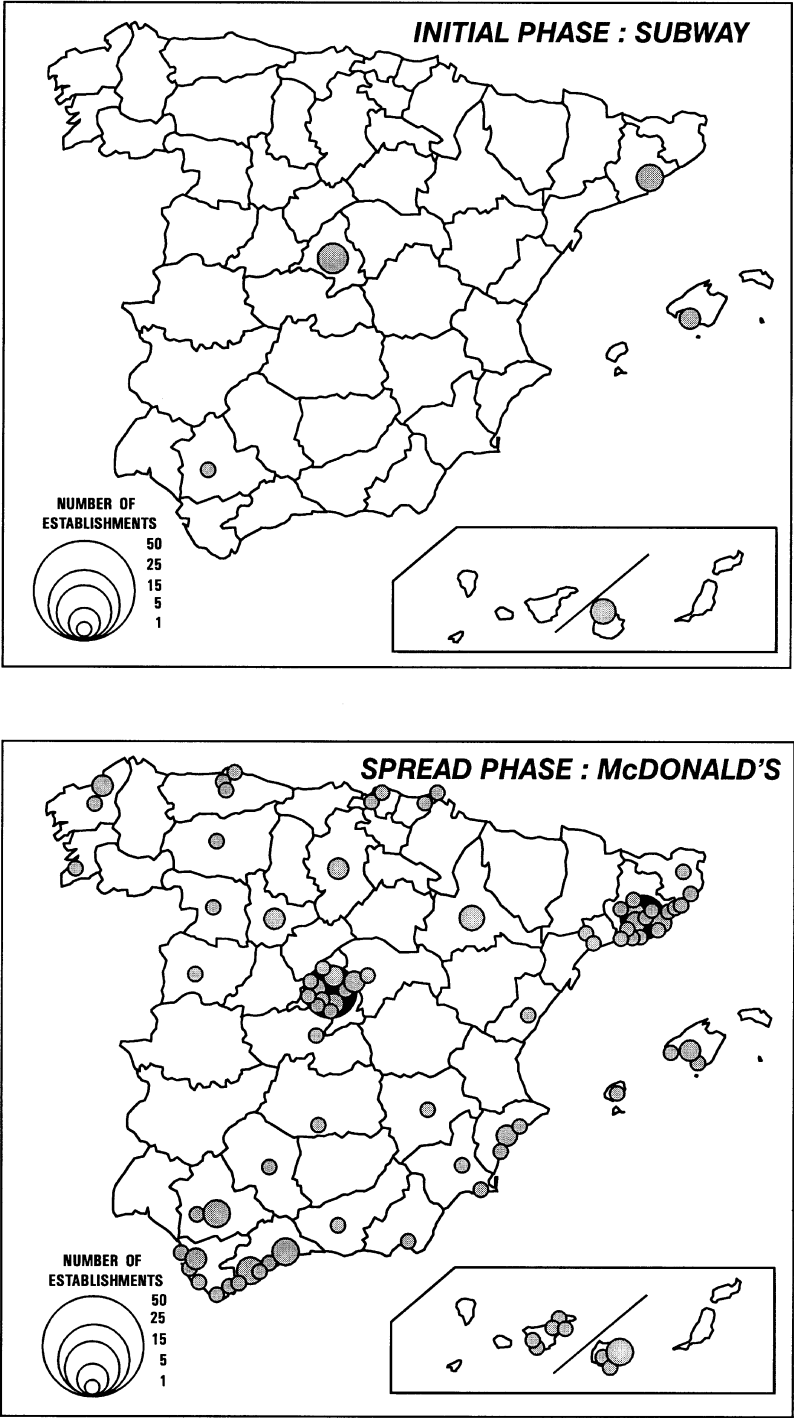


Figure 4 Phases of evolution of the networks

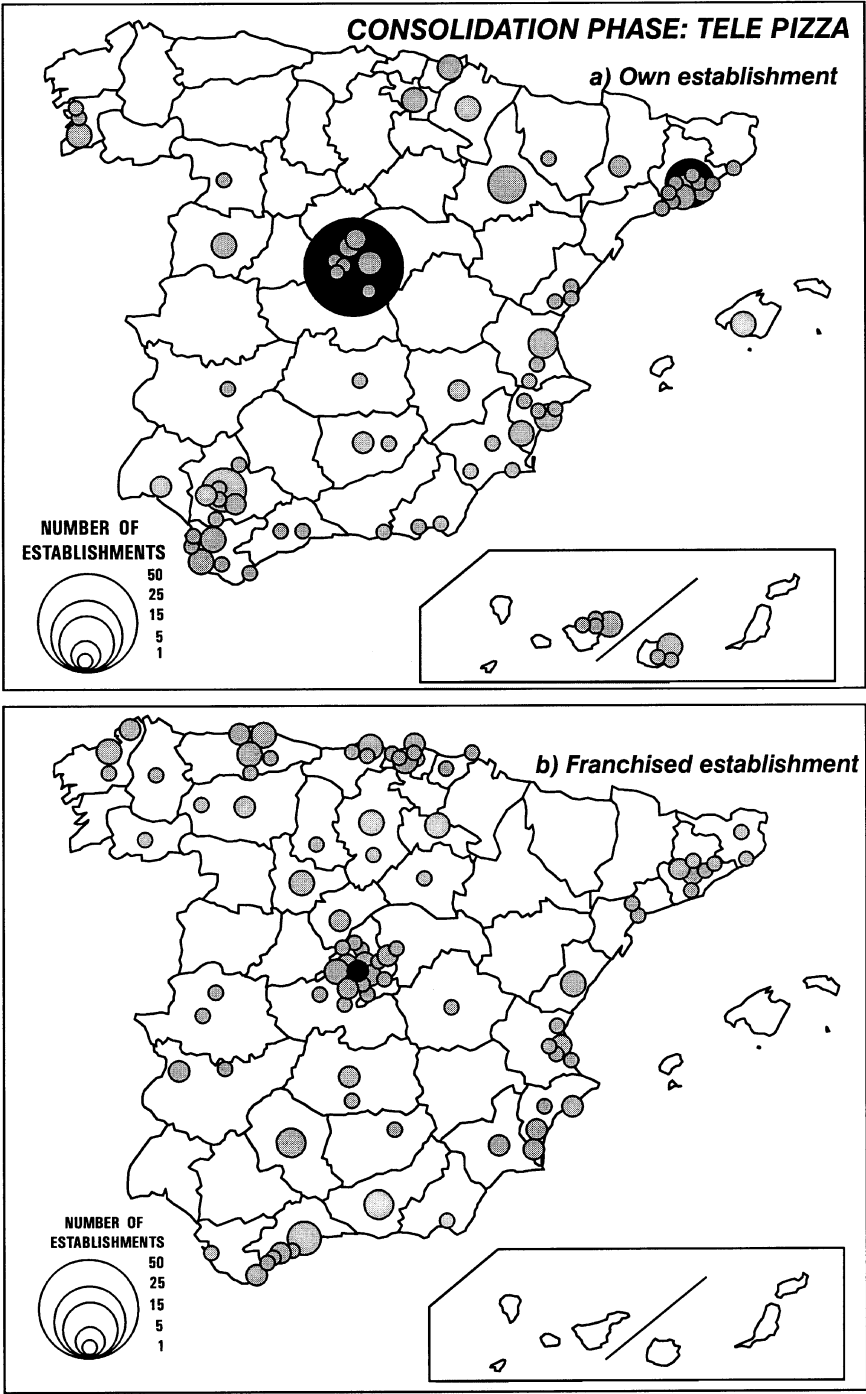


Figure 4 continued

of life, this company has managed to establish a more extensive network than the others, reserving the big urban and tourist markets for its own establishments, whereas the remainder of the territory is covered by franchisees. Therefore, the diffusion doesn't mean a decrease of the strict organization into an internal hierarchy that exists in the inner core of the network.

## Conclusions

In his analysis of recent trends in the distribution sector, Salgueiro posits the existence of a 'revolution in the points of sale, in business structures and in consumer habits' through processes of business concentration, innovation and internationalization, reflected in 'new techniques for the sale and display of items, other types of establishments with location patterns different from traditional patterns, accompanying the functional re-organisation of urban areas in polycentric metropolises' (Salgueiro, 1996). In the growth of franchise chains, parallel to the growing dominance of distribution companies in economic circuits, this internal reorganization offers one of the most outstanding manifestations, as contradictory and dynamic as the system itself.

Franchises have established themselves as a business organization model within the distribution sector, which is currently undergoing a rapid period of growth in all our societies, with a tendency to increase their economic significance and presence in the urban landscape over the coming years. Their highly flexible internal structure turns them into one of the better exponents of those new organizations that are 'less hierarchised and pyramidal, more horizontal and more reagent' described by Veltz (1993: 71), which decentralize responsibilities and risks without foregoing a vertical integration that dominates, above all, strategic decisions. The construction of a network of flows between establishments, spreading according to explicit geographic criteria and tending to modify itself and become more dense in its evolution from the headquarters of the firm, is an important contribution to the development of the economy and the space of networks so widely discussed in the recent literature. At the same time, the franchises are well adapted to that reorientation of economic analysis proposed by Storper (1997), which pays special attention to the relations between technologies, organizations and territories. For this reason the phenomenon of franchises is an eminently interesting subject to study, both from the point of view of a new economic and territorial organizational model and from the standpoint of changes in consumer practices and the use of space.

Apart from proposing a theoretical interpretation of the meaning and the reasons behind the spectacular recent growth of franchises in order to act as a spur to debate and further analyses of the situation, the analysis of the Spanish case also provides verification of a contradictory phenomenon that is far removed from the excessively one-dimensional and optimistic view propounded in much of the literature on this subject. This phenomenon leads to a variety of interpretations depending on the diverse effects it has on participating members, on outsider companies, on citizens and on territory. Without attempting to answer these concerns here, some of the more problematic considerations are raised below from a general viewpoint:

- Faced with the increase in efficiency and productivity represented by the innovations in generally traditional activities, franchises may represent increasing competition for small retailers, thus precipitating a crisis and ending up by destroying jobs, eventually contributing to a less favourable outcome.
- In contrast to the opportunities opened up for SMEs — both from the standpoint of the franchiser and the franchisee — by facilitating incorporation into first-level markets and making it easier to communicate knowledge and innovation or to become more international, there is evidence of a growing dependence of retail

companies on large groups which control increasingly important segments of the distribution channel by organizing networks with a strong hierarchic structure and contributing to the standardization of consumption among very diverse populations. The lack, for the time being, of suitable legislation to regulate this new commercial form, poses the problem of a growing number of conflicts between franchisers and franchisees, in addition to concerns arising from restrictions to competition. The resolution of these problems will have an undoubted influence on its future.

- Against the accepted wisdom that franchises offer access to products and services in territories normally left to one side by mainstream distribution channels, the verification that this is a highly selective process is evidence of a spatial logic that excludes a large part of the territory not meeting the requirements of the brands, thus contributing to a situation in which demand becomes even more segmented. Similar to the traditional criteria for determining the centrality of a space by considering the volume and rank of its commercial establishments and services, the presence or not of franchises could be a complementary indicator to identify new and emerging forms of interterritorial inequality.

Research on the spatial strategies of franchise chains, the types of existing networks and their impact on the internal structure of the distribution sector, as well as on employment opportunities or the renewal of areas for consumption and leisure activities, are still in an initial phase, particularly in countries like Spain where this phenomenon is very recent and is only now experiencing full expansion. Only in-depth research on the theoretical framework, in addition to the use of complementary statistical sources together with survey and interview methods, will enable a significant advance in our knowledge. With this in mind, the following suggestions for further research on a number of different scales are proposed:

- On the business front, the competitive strategies of the companies should be investigated in terms of the use they make of the territory through an analysis of the development of some large chains over a period of time, paying special attention to the spatial spread of both their wholly-owned and their franchised establishments.
- In terms of sectors, it may be interesting to analyse some activities of particular relevance, such as fast-food restaurants or fashion stores, so as to define their inter- and intra-urban location patterns, as well as to identify potential hierarchies by internal chains attending to a clientele segmented by purchasing power, age etc. No less important would be the identification of the kind of jobs created in each case, particularly the expansion of various forms of precarious employment which appear to accompany the spread of franchised restaurants and clothing stores where the presence of women and young people seems particularly significant.
- Territorially, the focus should be on knowledge of the strategies applied by the franchiser companies when they decide on their location, the possible effects of the expulsion of other forms of retail trade, the motivations of the consumers when they choose these types of chains, or the new spaces for consumption and leisure activities where they are situated (Carreras, 1990; Cachinho, 1994).

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