Title: Alternative modes of entry in franchising

First Author: Alexander Rosado-Serrano

Email: alrosado@arecibo.inter.edu

Second Author: Antonio Navarro-García

Email: anavarro@us.es

Abstract:

Franchising has been widely studied from the perspective of the franchisor–franchisee relationship and firms' performance. Meanwhile, entry mode studies have distinguished various avenues for internationalization by the pace and method of expansion and the governance mode adopted. Companies have used mixed modes of expansion depending on the features of their domestic and international markets. One form of expansion is the store-in-store strategy, which some firms view as providing real estate revenue and others consider as part of their business model. The increased adoption of this entry mode provides a window for theory development that considers store-in-store franchising and internationalization. Accordingly, this paper draws upon relational contracting theory to develop a conceptual framework for store-in-store franchising using host department stores for the purpose of domestic and international expansion. We also report on a survey to provide managerial insights to company executives on the adoption of the store-in-store strategy.

Keywords:

Store-in-store, international franchising partnerships, omnichannel, pop-up stores, department stores.

Alternative modes of entry in franchising

1. Introduction

The retail real estate strategy of store-in-store is not new. Macy's, a big box retailer, has been a flagbearer for applying the strategy (Howland, 2021) in the United States. In Spain, El Corte Inglés has leased internal space in the store-in-store format to recognized brands in famous, high traffic street locations (Villardón, 2018) and has also applied this strategy for internationalization (El Corte Inglés, 2021b). The approach is particularly popular in the cosmetics industry (Jerath & Zhang, 2010), in which it has been adopted by major brands such as Estee Lauder and Carolina Herrera, and in fashion retail, with the Spanish brand Bimba y Lola a prominent example (Villardón, 2018). Considering this, the store-in-store strategy is an under-researched topic with only a few exceptions in terms of consumer patronage, branding (Badrinarayanan & Becerra, 2019), entry mode, and expansion strategy (Rosado-Serrano, 2016, 2017, Rosado-Serrano & Navarro-García, 2022).

The retailing of consumer goods has witnessed paradigm shifts from the traditional small stores in city capitals to grand department stores, such as Macy's and El Corte Inglés (El Corte Inglés, 2021a), to specialty retailers such as Walmart (Rosado-Serrano, 2016), and to online marketplaces, such as Amazon, Alibaba, Mercado Libre, etc. The retailing experience for consumers has shifted from visiting the local "mom and pop" street-level store to spending time at shopping centers and big box retailers to online shopping. In some instances, stores operate within other stores (Jerath & Zhang, 2010); these can be company-owned or franchised (Rosado-Serrano, 2016), temporary or pop-up (Overdiek, 2018; Rosado-Serrano & Navarro-García, 2022), or specialty stores such as Backstage from Macy's (Howland, 2021). Recently, a novel method has emerged of brands that are born online and then gain a physical footprint, such as the WOW marketplace in Madrid, Spain (Galeano, 2021).

Companies take many routes to expansion, such as exporting (Paul & Rosado-Serrano, 2019), franchising (Rosado-Serrano & Paul, 2018; Rosado-Serrano, et al., 2018; Bretas et al., 2021), joint ventures (Paul & Rosado-Serrano, 2019), and e-commerce (Qi et al., 2020). Historically, exporting has been preferred as the lowest risk mode of expansion for domestic companies that are in their early years or nascent stage (Paul & Rosado-Serrano, 2019) and have highly standardized products. However, exporting involves losing key insights into what becomes of the product in other markets and may lead to brand erosion and the loss of profits and knowledge about product usage. Another expansion mode is franchising, which has been used for domestic and international expansion by companies varying in size and industry (Rosado-Serrano, et al., 2018; Rosado-Serrano & Paul, 2018). In contrast to exporting, franchising provides an owner with the potential for retaining more control of the firm's operation while making use of the franchisees' resources.

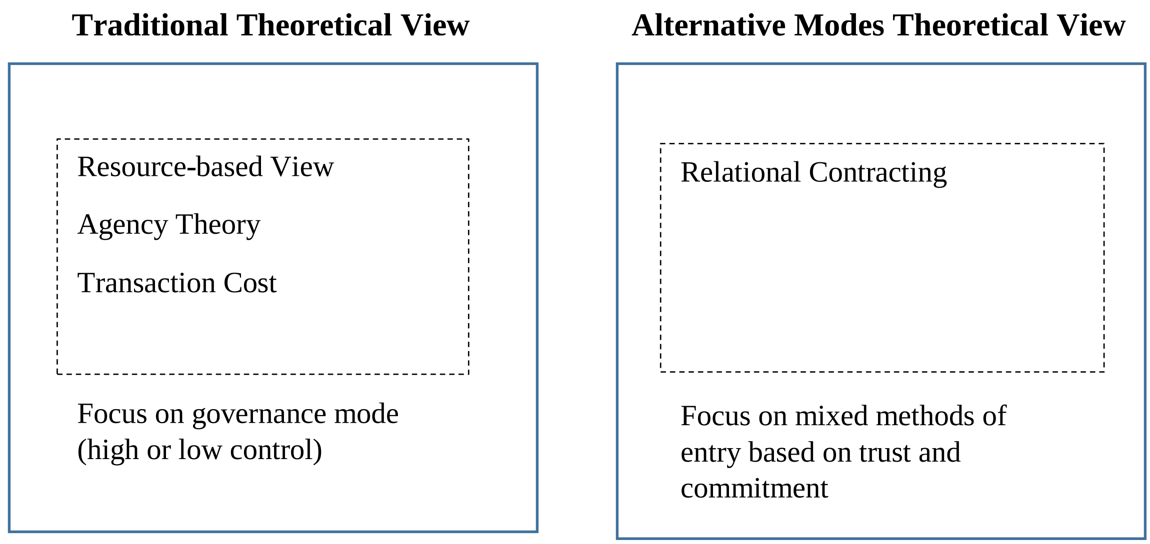
Another approach to expansion that has been used by companies is the store-in-store strategy, in big box retailers, department stores, gas stations, and other layouts and locations. Iconic brands such as Estee Lauder and Mac have been successful in operating a store-in-store strategy in big box retailers. The store-in-store strategy has been applied in a franchising format in a range of industries, such as textiles, food, dry cleaning, etc. The strategy has been traditionally associated with brands and companies that were born with a physical presence, but there is now a new trend for its adoption by brands born online. Although these brands that are born and sell products online have the possibility of impacting both domestic and international markets, their online outlets mean that the vital consumer experience of physically trying or returning products is missing.

Recently, there have been new proposals for online brands to achieve a physical presence by occupying store-in-store locations in big box retail marketplaces (El Economista, 2020), particularly in developed markets such as Madrid (Rosado-Serrano & Navarro-García, 2022). Although this strategy is now being applied, Badrinarayanan and Becerra (2019) indicate that there is still a need to understand if the success of a store-in-a-store is affected by cultural or economic differences in different markets, and more knowledge should be garnered for expansion in domestic and international markets (Rosado-Serrano, 2016).

Traditionally, retail firms have opted for shopping malls when they want to expand. However, there are some iconic retailers that have through their outlets made themselves a part of the culture of a city and have even become coveted city tourist attractions. In the United States, Macy's in New York has become an integral part of the holiday tradition through the Thanksgiving parade and later as the go-to place on Black Friday. Nipping at its heels are retailers such as Walmart, which have played a part in changing the country's landscape. Outside of the United States, similar big box retailers, such as Falabella in Chile, Carrefour in France and Dominican Republic, and El Corte Inglés in Spain, have grown as part of their societies and evolved the overall retail experience.

This paper draws upon relational contracting theory to develop a conceptual framework for store-in-store franchising using host department stores for the purpose of domestic and international expansion. Figure 1 presents the evolution of the theoretical underpinnings of research into franchising entry modes. These underpinnings have changed as firms evolve in the use of alternative entry modes and mixed methods for domestic and international expansion. This paper addresses this theoretical gap in prior studies. The remainder of the paper is structured as follows. In the next section we describe our research method. We then move on to a literature review, factual information and observations about our case firm, and a theoretical discussion. Before concluding the paper, we provide managerial insights based on a survey of company executives on the adoption of the store-in-store strategy.

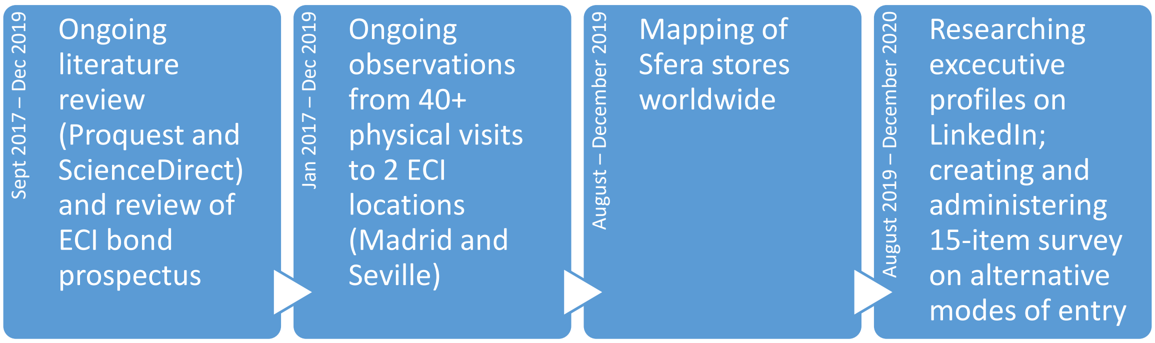
Fig. 1. Model of theoretical underpinnings of research into franchising entry modes



2. Research Methodology

We present a single case study with a mixed methods approach to gathering evidence. Data were collected through the company’s public records, financial statements, bond market prospectus, press releases, and website, through professional magazines and media, and through observations from physical store visits and a survey. First, we conducted a literature review using the key words “store-in-store,” “omnichannel,” “relational contracting,” and “international franchise partnerships” on the ProQuest and ScienceDirect databases. Second, we searched the El Corte Inglés corporate investor website for their financial reports, press releases, and bond prospectus documents for the years 2015 to 2019 (with the latest report dated February 2020). Third, we conducted over 40 visits distributed across the year in the months of January and July of 2017, 2018, and 2019 to two El Corte Inglés stores: the principal store on Gran Vía in Madrid and another store on Plaza del Duque in Sevilla. On these visits we followed an observational method and documented changes in the configuration of the different store-in-store brands in the retail area and in the firm's El Gourmet Experience concept, which is located on the top floor and provides specialty retail food products including various store-in-store applications (some franchised and others independent). When possible, changes were documented on location by taking a photo or recording an audio file. Fourth, we used the professional networking site LinkedIn to administer a short 15-item survey on alternative modes of entry, specifically store-in-store and pop-up store adoption, and the level of interest in these approaches among brand managers and executives responsible for expansion, for the purpose of sharing insights in the managerial implications section of the paper. Microsoft Forms was used to generate the survey instrument and to receive and produce a visualization of the responses. We identified 600 executive profiles and initially filtered them according to the keywords "Retail Director," "Director of Expansion," "Franchise Director," "Director," "Executive Business Consultant." We then filtered the profiles by industry with the following keywords: "retail consumer goods," "food," "technology," "fashion," "service industry." After applying these criteria, we arrived at 100 executives, with whom we shared an anonymous survey link along with an invitation and description of the purpose of the survey through the LinkedIn platform. We received 12 responses, for a 12% response rate. The method is summarized in Figure 2. Our mixed methods approach of integrating public documents, executive's responses via an anonymous survey, and an observational analysis, was useful for contextualizing the phenomenon of alternative modes of entry.

Fig 2. Research procedure



3. Literature Review

Our adoption of the case of El Corte Inglés (hereafter, ECI) requires us to underpin our analysis with different streams of the literature. ECI describes their business model as "omnichannel" (El Corte Inglés, 2021b). The actual model is complicated, however, as ECI applies different strategies for domestic and international operations and thus our analysis must vary depending on which segment we observe. In the domestic market, ECI applies the omnichannel configuration with the integration of online and physical stores; at its department stores, ECI incorporates third-party brands—some of which are corporate-owned and others franchised—and uses a store-in-store strategy. At the international level, ECI uses export arrangements for its own brands in certain segments and franchising and store-in-store arrangements in others. Accordingly, in this review we discuss the recent literature on omnichannel retailing, store-in-store strategies, international franchise partnerships, and relational contracting. This literature provides a suitable background for our analysis of the ECI case.

3.1. Omnichannel Retailing

The transformation of retail settings has been instrumental in the origin and evolution of hosts becoming multi-purpose providers and for them to meet diverse, complex, and—on occasions—conflicting consumer needs (Eroglu & Michel, 2018). Omnichannel environments have evolved as many consumers now use their smartphones as personal shopping assistants inside bricks-and-mortar retail stores (Fiestas & Tuzovic, 2021), using augmented reality features to learn more about products or sharing them on social media and with friends (Grewal et al., 2020). Similarly, consumers may want to experience new smart technologies such as technology-enabled personalization, which can merge the physical in-store experience with data-driven online personalization (Riegger et al., 2021). These data-driven technologies use smartphones or visual mirrors to expand the personalization frontier at physical stores (Display Craft Manufacturing Co., 2021). This hybrid online and bricks-and-mortar experience has closed the gap between the two modes of retailing and increased the experiential expectations of consumers towards a faster and frictionless process of decision-making and purchasing. Nonetheless, although technology must be used to complement the in-person experience, positive interactions with human staff members remain critical and are a necessity to provide the best shopping experience (Riegger et al., 2021). Maintaining consistency between channels is crucial in multichannel management (Hossain et al., 2020), as any sort of interruption to the experience can fail to meet consumer expectations (Quach et al., 2020). Competitive pricing and assortment of products must be similar for offline and online platforms (Jindal et al., 2021) as consumers expect consistency without eroding the benefits of existing offline customers. This is also important for firms that engage in international business, as the use of advanced technologies and big data (Kumar et al., 2017) increase their chances of profitability while exceeding customer expectations.

The physical store is an important element of the omnichannel strategy as it provides converging channel experiences through education and cultural and social interaction. Amidst the evolution of retail formats, the physical store presents consumers with opportunities for experimentation in an impactful and concentrated experiential context (Alexander & Blazquez

Cano, 2020). A physical store also allows consumers to validate the freshness and quality of products at the time of purchase, which cannot be done through an online platform (Jindal et al., 2021).

The benefits of the omnichannel business model are not only experienced by consumers but also extend to the retailer and manufacturers. Retailers with a strong omnichannel business model can be of interest to manufacturers as they provide a better service experience, particularly in foreign markets in which the retailers have a strong position. Retailers that are also manufacturers are in a better position to produce greater efficiencies and have low-risk exposure to new markets. One risk of a strong omnichannel business model is that manufacturers can use it to secure a free ride: consumers may visit the channel store to take advantage of outstanding customer service but then buy the product elsewhere for a lower price (Pun et al., 2020).

3.2. Store-in-store

Store-in-store has been a common strategy adopted by big box retailers and specialty stores in the United States and many other countries worldwide (Rosado-Serrano, 2016). Jerath and Zhang (2010) were the first to explore the store-in-store phenomena through the lens of the distribution strategy of manufacturers in department stores. They found that the use of this strategy can position the retailer in a tradeoff between channel efficiency and interbrand competition. Decisions must be made on the arrangements made for store-in-store patronage as an autonomous store or one that shares resources and costs, such as employees, split inventory costs, etc., with the host. From the manufacturer’s perspective, there are other considerations for the adoption of the store-in-store strategy. Manufacturers might adopt a store-in-store strategy when they have the capacity to determine demand (Shen et al., 2019). Despite the cost efficiencies of store-in-store adoption, some manufacturers might decide on the strategy for more intangible reasons, such as branding and brand positioning. Picot-Coupey et al. (2018) found that the store-in-store strategy favors companies when they use their own brands and provide a highly specialized product or service. Although applying the store-in-store strategy does not require a lot of resources, consideration must be given to the impact it has on brand positioning in the host location; particularly in certain retail segments, such as fashion, some firms might achieve lower financial performance than their counterparts (Amadieu et al., 2013). Rosado-Serrano (2016) explored the store-in-store strategy in franchising and its application by the U.S. retailer Walmart and developed a theoretical model of franchise proposition value and leasing arrangements. The author found that the store-in-store approach benefited food franchises as it reduced their operational footprint to make them more efficient. From the operational perspective, the store-in-store strategy has been found to promote efficiencies in the required space and physical resources for manufacturers and franchised brands. There are many reasons to decide on the adoption of a store-in-store strategy, from both perspectives of the host and the hosted. Hosts might be interested in providing products or services they cannot offer (Rosado-Serrano, 2016) but might be concerned if the adopted store-in-store does not align or favor their concept and image (Banarjee & Drollinger, 2017). Other motivations for store-in-store can be associated with cost efficiencies, lower use of resources, or ease of entry and exit at times of retail uncertainty (Pasirayi, 2020).

3.3. International Franchise Partnerships

International franchise retailing has become one channel option for firms and global distribution systems (Quinn & Alexander, 2002). The traditional view on international franchising tends to focus on three generic governance modes: direct franchising, area development, and master franchising (Alon, 2006; Rosado-Serrano et al., 2018). International franchise partnerships are an evolved mode for which theory suggests that governance mode choice, partner selection, relationship management, and consideration of mutual interests are among the key criteria (Rosado-Serrano et al., 2018). The selected international partners must have extensive and comprehensive knowledge of the host location, including consumer preferences and the legal and bureaucratic framework (Lee, 2008). Although the relationship is not linear, the partners must share similar organizational visions/goals/values, reputation, credibility, and creditworthiness (Brookes & Altinay, 2011). Rosado-Serrano and Paul (2018) developed a successful franchise partnership model based on trust and commitment. Their model explained that benefits can be accrued from franchise partnerships when they are underpinned by relational contracting, in which the relationship is bonded by a fluid dynamic of mutual trust and commitment. Communication is the key mediator of trust and satisfaction in franchise partnerships, which in turn promote the longevity and success of the relationship (Altinay et al., 2014).

3.4. Relational Contracting

The design, implementation, and effects of contracts have long been of interest to scholars, especially when the classical and neoclassical contract laws have been inefficient in the production and distribution of goods and services (MacNeil, 1978;1999). The key characteristic of a relational contract is its incompleteness (Jeffries & Reed, 2000), which allows for maneuvering in the wake of unexpected events (Rosado-Serrano & Navarro-García, 2019). The only elements of a relational contract that the parties are certain of are how the contract begins and how it ends, based on the intentions of the parties (Leblebici & Shalley, 1996). In contrast, traditional contracts may have missing provisions or ambiguity and are exposed to moral hazards and asymmetric information problems (Alon et al., 2015; Hart, 2017). Relational contracts are well suited for dynamic business relationships, particularly at times when uncertainty is the norm in retail and business activities, and can be useful in the retail business landscape, particularly in franchising (Rosado-Serrano &

Paul, 2018) and other business agreements that have trust as an important element. Rosado-Serrano and Paul (2018) developed a conceptual model for international franchising partnerships based on trust and commitment. This model echoes Davies et al. (2011) in placing different levels of trust as key to the mediation of partnerships. Similarly, Evanschitzky et al (2016) found that franchise partnerships benefit from problem solving and greater flexibility, therefore emphasizing the benefits of a relational contract which provides room for maneuver and provides the basis for maintaining a dynamic relationship through the agreement.

4. El Corte Inglés and Sfera

The story of ECI and Spain spans over 80 years, and the firm is now a part of the country's culture and lifestyle with their product and service offerings, physical presence, and as one of the country's largest private employers. As of March 31, 2020, El Corte Inglés had over 99% market share (El Corte Inglés, 2021b) as the leading department store chain. It is structured in two main divisions: retail and non-retail (travel, insurance, and other business). The retail business covers all segments of consumer retail, including but not limited to fashion, food, household, culture, and leisure, under one roof and with a signature brand. Within ECI the firm is considered as offering a unique retail concept (El Corte Inglés, 2021b) as it integrates all the products and services sought by consumers in its domestic market of Spain. In Table 1, we summarize the company's structure for its retail and travel divisions as of February 20, 2020.

Table 1. Selected El Corte Inglés operating units for retail and travel services (Feb 20, 2020).

Division	Units	Brief Description
El Corte Inglés Department Stores	90	Department stores that often work as distribution centers: 88 are located in Spain and 2 in Portugal.
Supercor	187	A supermarket and convenience store providing ECI's product lines along with third-party products and services: 181 are located in Spain and 6 in Portugal.
Hipercor	39	An upscale hypermarket; all located in Spain.
Sfera	473	Brand with 167 owned stores in 5 countries and 306 franchised stores in several countries. Different entry modes are used for the brand, such as independent locations, store-in-store, and corners, depending on the market and specific agreements.
Bricor	60	A home improvement retailer: 56 are located in Spain and 4 in Portugal
Viajes El Corte Inglés	637	A travel agency network with 494 locations in Spain, 22 in Portugal and 121 in other countries.

Similar to department stores such as Macy's in the United States, ECI combines different brands and services under one roof. ECI particularly showcases a combination of its own brands in different retail segments and third-party branded products, with different and dynamic configurations applied, such as store-in-store, pop-up stores, and corners (El Corte Inglés, 2021b). ECI publicity states that it "seek to offer our consumers a comprehensive omni-channel and one-stop shopping experience through both our physical and online stores" (El Corte Inglés, 2021b). As of May 31, 2020, ECI's retail business division generated €12,509 million net turnover and €608 million in EBITDA (El Corte Inglés, 2021b), of which fashion represented €4,135 million (or 30.5%) of net turnover. In the non-retail division, their travel agency represented €2,136 million (or 15.7%) of net turnover.

The ECI group is one of Spain's largest employers, with an average of 80,000 employees. At its physical locations, it reports an average footfall of 700 million per year. It has over 2.5 million active retail stock keeping units. In its non-retail lines, the group provides insurance, financial services (offering a department store credit card in conjunction with Banco Santander), informatics, and a new real estate company to manage its property portfolio. In the retail business, ECI has its own brands in different categories of consumer goods, which are sold domestically and internationally. A high-profile brand in fashion retail is Sfera, which is present in 19 markets as independently owned stores and franchised. In Figure 3, we present the distribution of Sfera locations worldwide. The other international venture is Viajes El Corte Inglés, which is a travel agency with a presence in 14 countries.

Recently, ECI has reorganized some of its operations to weather the retailing crisis. It has decided to expand its Supercor food concept inside Repsol gas stations (Osorio, 2021) and has created a new real estate division to manage its portfolio of properties to seek efficiencies through upgrading and repurposing, among other strategies (El Corte Inglés, 2021b).

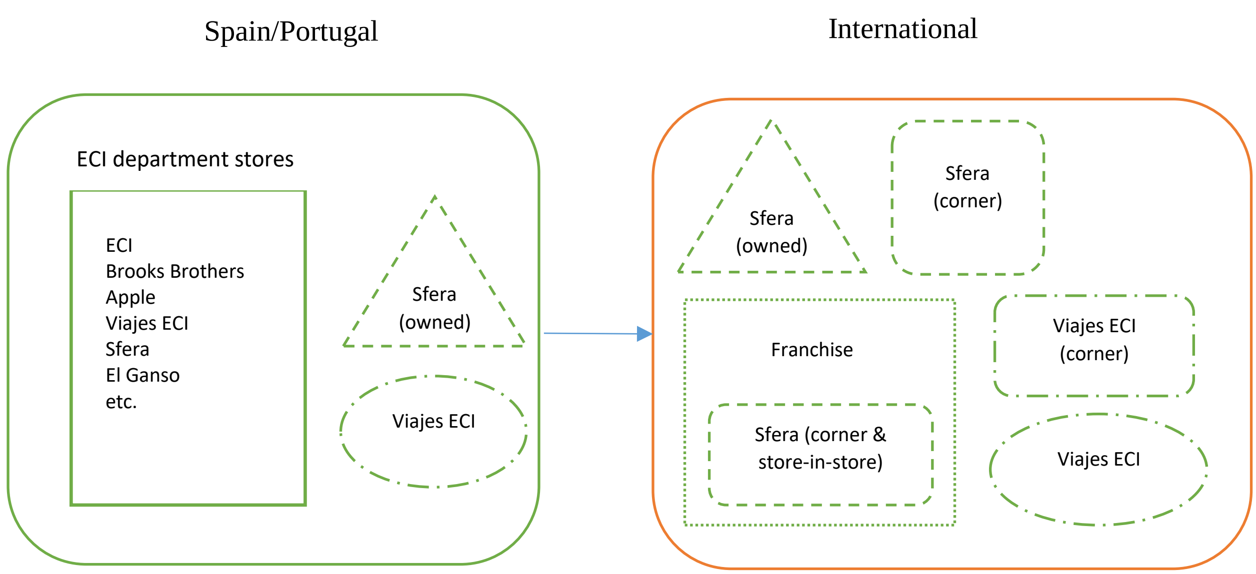
Fig. 3. Worldwide locations of Sfera stores—company-owned and franchised.

Source: Author elaboration

4. The Application of Store-in-store and the Use of Franchising by El Corte Inglés

In its general form, the configuration of ECI is similar to that of other big box retailers such as Macy's in the United States in applying the store-in-store strategy at their department store locations (Howland, 2021). At the entrance of department stores such as Nordstrom, Macy's, and—in the present case—ECI, there are many similarities that are quite easy to spot, particularly in the cosmetics and fragrances section where similar brands with a global presence can be found, such as Estee Lauder and Carolina Herrera (Villardón, 2018). Brands will occupy corners or a store-in-store, often on the same level or floor of a segment, with fashion products grouped separately for women and men. Such a configuration is expected by consumers from their experiences over the years at department stores. Other similarities are the offerings of a department store credit card and/or customer loyalty card. JCPenney, Macy's, Sears, and ECI are among those to have offered such a service, which increases the possibilities for the sale of their goods and services, particularly for lower income consumers. Another common characteristic of large retailers is the use of private brands or labels. JCPenney has such brands as Arizona and Liz Claiborne (Loeb, 2019), and ECI uses the name El Corte Inglés in many of its consumer products and also sells its most successful clothing and accessory line, Sfera, inside its department stores and in stand-alone and store-in-store locations. Table 1 shows that the Sfera brand had 473 retail units as of February 20, 2020, distributed between 167 stores completely owned and operated by ECI and 306 franchise stores. Image 1 reveals the presence of Sfera in Spain, Mexico, Philippines, Perú, Portugal, Chile, Switzerland, Thailand, Poland, Greece, Saudi Arabia, United Arab Emirates, Colombia, Guatemala, Costa Rica, El Salvador, Nicaragua, and Panamá (El Corte Inglés, 2021b). The franchising strategy is applied at Sfera only for international franchising in selected countries, which include neither Spain nor Portugal as the latter is considered domestic by ECI due to its proximity and free movement as part of the European Union. The other affiliated company for which ECI applies the store-in-store strategy is Viajes El Corte Inglés. This subsidiary has 637 units of which 494 locations are domestic in Spain, 22 are in Portugal, and the other 121 are in other countries. Figure 3 presents the conceptual framework for the application of store-in-store by ECI and its Sfera and Viajes El Corte Inglés brands. Various combinations of store-in-store are used in ECI department stores for their own brands, including Sfera and Viajes El Corte Inglés, for international brands such as Brooks Brothers and Apple, and for other Spanish brands such as El Ganso. In addition, the firm also operates independent locations for Sfera and Viajes El Corte Inglés in the Spanish market; internationally, there is a combination of independently owned stores in selected countries and some franchise stores for Sfera. The application of store-in-store in Switzerland is inside Manor department stores.

Fig. 3. Conceptual framework for store-in-store application by EIC department stores, Sfera, and Viajes El Corte Inglés (Viajes ECI)



5. Theoretical Discussion

As a reference case for retail company expansion, ECI has applied different methods but principally operates an omnichannel business model (El Corte Inglés, 2021a). The firm has used store-in-store in its domestic market and to promote its own brands and those of third parties in its department stores. For expanding some of its brands internationally, ECI has opened independently owned stores and used the store-in-store approach in other department stores in host countries. Similarly, ECI has used franchising in particular markets in which the country-related factors do not favor foreign companies and there is limited market knowledge (Rosado-Serrano et al., 2018), among other variables. Consistent with the internationalization literature, some firms follow a gradual internationalization process in which they expand first to the market that is closest geographically (Paul & Rosado-Serrano, 2019) and later to international markets in which they can maintain channel consistency (Hossain et al., 2020). Domestically, the omnichannel configuration requires different arrangements that provide a smooth transition and similarity of experience between online and offline retail for consumers (Jindal et al., 2021; Alexander & Blazquez Cano, 2020).

Figure 4 presents the theoretical framework for store-in-store and its application in franchising for domestic and international expansion. The theoretical underpinning for this framework is relational contracting, the rationale for which is favored by dynamic changes in retail and challenges surrounding international governance (Rosado-Serrano & Navarro-García, 2019). Relational contracting helps in mediating trust and commitment (Rosado-Serrano & Paul, 2018), which are required to govern business relationships in dynamic environments. Domestic hosts that have their own brands can benefit by applying store-in-store in the omnichannel context alongside independent locations in their home countries. Domestic and international third-party brands can benefit by applying store-in-store or pop-up stores at a host department store. For the brands that lack the resources or market knowledge for expansion, applying the store-in-store strategy facilitates the process in domestic and international markets (Rosado-Serrano, 2016). Likewise, companies that use the store-in-store strategy domestically to host third-party brands benefit from being the third-party brand when they expand internationally when the host shares similar vision/goals/values (Brookes & Altinay, 2011) and operates in a similar fashion. When the country context or extent of market knowledge does not favor the brand, expanding into a host market through international franchise partnerships is advised (Rosado-Serrano & Paul, 2018).

Fig. 4. Theoretical framework for expansion through the store-in-store strategy

Relational Contracting (Trust and Commitment)

Domestic Host Omnichannel Store in Store/Corner Independent locations	**Domestic 3rd Party Brand** Store in store/corner Pop Up Stores
International Host Store in Store/Corner Independent Own Stores International Franchise Partnerships	**International 3rd Party Brand** Omnichannel Independent locations

6. Managerial implications

To derive practical and real-life insights for practitioners to benefit from this research, we administered a 15-item survey on the store-in-store strategy and interest in its application in brands that use independently owned stores and franchising. A response was received from 12 executives, of whom two were also consultants. The initial questions sought to identify the company profile regarding franchising and the extent of interest in the store-in-store strategy. Of the eight respondents who were engaged in franchising, one indicated no interest in using this strategy in the future and five responded that they might use it. Half of the companies were in the food service industry, one was a wholesaler/manufacturer, one in technology, two in retail consumer goods, and two in other industries. None of the respondents were identified as in the fashion industry. Only three firms in the sample were family controlled, and 10 were domiciled in their home country. Eight of the respondents indicated that they wanted to operate internationally, one was uncertain, and three stated no interest. Regarding company size, four were below 50 units, six were from 50 to 1000 units, and two had over 1000 units. When asked about knowledge of the store-in-store strategy, five respondents reported that they were already applying the strategy and the other seven who did not apply the strategy were familiar with it. This was an important element of the responses as it shows that all the executives were familiar with the concept. Similarly, when asked about the concept of pop-up stores, six were already using it and the other six who were not applying the strategy were nonetheless familiar with it.

We wanted to identify any relationship or patterns in firms' use of a pop-up strategy alongside store-in-store. Only three of the respondents reported having used a pop-up strategy initially that evolved into a store-in-store. We also wanted to explore if these companies would be interested in applying store-in-store inside a big box retailer. Only three of the respondents reported that they would consider entering through a store-in-store strategy in a department store. Two of our respondents indicated that they would only use store-in-store in foreign markets, four only in domestic markets, and eight in reputable host locations. The most important and insightful question was whether the respondents might decide to use the store-in-store strategy if they were able to estimate the expected cost/benefit, to which all respondents indicated that they would. Finally, we asked a question related to the future research area of other alternative modes of entry, such as a mobile truck. Seven of the respondents indicated they might consider using a mobile truck if their business model was adaptable to such a venue.

The most important outcome of the survey for managers and executives of department stores and third-party brands is that clarity on the costs and benefits provided by alternative entry strategies is crucial. Managers who are initially reluctant to use the store-in-store strategy might change their minds if they are able to clearly identify the costs and benefits. Host locations that want to increase their revenue through leasing in a store-in-store format may therefore look to be more specific in communicating the past and potential performance of given locations and square footage at their department stores. Third-party brands that have some interest in expansion might decide to enter new domestic and international markets if they have more information on the expected benefits.

7. Conclusion

With this paper we developed a conceptual framework for store-in-store as an alternative mode of entry for domestic and international franchising. Our case analysis of El Corte Inglés shows that the store-in-store strategy can be a successful one for brands, manufacturers, and franchises that want to expand domestically and internationally. In Figure 1 we present the traditional theoretical underpinnings for exploring domestic and international expansion for franchising, which was anchored by agency theory, the resource-based view, and transaction cost, and contrast this with the current theoretical underpinnings of relational contracting for alternative modes of entry. Derived from our analysis, Figure 4 presents a theoretical framework for international expansion through the store-in-store strategy based on relational contracting. We thus extend the traditional view drawing on resource-based and agency theories for franchising internationalization toward a more flexible relational contracting underpinning. Rosado-Serrano et al. (2018) found that studies of international franchising have focused on the same theoretical rationale of agency theory and the resource-based view. The present paper reaffirms the findings of Rosado-Serrano and Navarro-García (2022) and Rosado-Serrano and Paul (2018) on relational contracting as a suitable theoretical underpinning for franchising studies. In addition, this paper also contributes to scholarship through its mixed-methods case study approach, in which observations, documents, and a survey were used to develop the conceptual framework. This approach can be useful for scholars that are interested in analyzing a public firm but are unable to interview the higher levels of management.

Although our paper extends the literature on franchising, internationalization, and related theory, there are many unanswered questions and a lack of empirical analysis on the application, efficiency, and timing of the store-in-store strategy, as well as a generally sparse body of literature on store-in-store. For this research, we aimed to interview former CEOs of ECI, but they were not available. Similarly, we reached out to some of the brands currently using the store-in-store strategy in ECI department stores, but they were also not available for interview. Therefore, we provide the following recommendations for future studies of these phenomena. First, more studies are needed of the store-in-store phenomenon and its application in different cultural contexts, with different governance modes, and among family businesses and small and medium enterprises. For example, scholars could examine the application of store-in-store and other alternative entry modes in different cultural contexts. As there is limited knowledge of managerial decisions in the host company, a second line of research that could be pursued is the decision of the host company that engages in store-in-store internationally over whether to continue to apply an omnichannel strategy. A third line of research could be focused on the decision of third-party brands to adopt the store-in-store strategy. A better understanding of the other motivations for adopting this strategy is needed, especially going beyond the simple estimate of costs and for expanding the comprehension of relational contracting.

This paper increases the body of knowledge on store-in-store strategies and provides a theoretical framework based on our case study firm, which has demonstrated successful performance in the domestic market and internationally through one of its brands. Overall, our paper contributes to the understanding of the store-in-store strategies used by manufacturers, brands, and franchisers. Our findings are useful for managers and executives in both host and hosted companies. Small and medium enterprises and family firms can use a store-in-store strategy as an entry mode for domestic and international markets. Host department store managers and executives can see the value of a store-in-store application in more than revenue units and can work to strengthen the creation and use of private brands in their domestic markets and for their internationalization efforts. More generally, through this paper we hope to inspire stakeholders to contribute to economic development through the lens of an academic and entrepreneurial approach to the application of alternative entry modes.

8. References

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