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International fashion franchise in Finland

Case study: Stockmann- Zara Finland

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Thesis abstract

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The study concentrates on exploring international clothing franchise and particularly international clothing franchise in Finland. The main objective of the research is to discover obstacles Finnish franchisees encounter when bringing an international fashion franchise to Finland and recommendations that are beneficial to their success. The thesis is inclined to exploit aspects concerning franchisees' perspectives.

In the literature review, main concepts presented are franchising, franchisor, franchisee; international clothing franchise; types of franchise system and franchise agreement; pros and cons of opening an international franchise; and steps of purchasing an international franchise.

The empirical part features a case study – Zara Finland as a successful international fashion franchise in Finland, under the management of the franchisee Stockmann and franchisor Inditex Group. For collecting data, qualitative methods including documentation study and two electronic interviews are utilized. Eventually, findings from both interviews were analysed and evaluated, and the research questions were answered.

In summary, main obstacles for franchisees in Finland are small market, high investments including high rent, high salary, high cost of logistics, lack of good locations, finding suitable franchisors. In order to survive, they should have a good market research, good financing, calculation of costs and returns well-negotiated agreements, and professional helps.
Keywords: Franchise, franchisees, Zara, Inditex, Stockmann, Finland, fashion, clothing.

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Abbreviations

IFCN	International Franchise Consultants Network
FranCon	Franchise consulting
GM	General Motors
B-2-B	Business to Business
FINATEX	Federation of the Finnish textile and clothing industry
H&M	Hennes & Mauritz AB
GDP	Gross domestic products
GNI	Gross national income
FFA	Finnish franchising association
LVMH	Louis Vuitton Moët Hennessy
EFF	European Franchise Federation
WFC	World Franchise Council

Tables and figures

1 INTRODUCTION

1.1 Purpose of the study

The purpose of this study is to explore building international franchise in fashion industry in general and international apparel franchise in Finland in particular. The research problem is to demonstrate obstacles that Finnish franchisees face and seek right ways for succeeding in fashion franchise in Finland. The study only focuses on franchisee's perspective, rather than both franchisees and franchisors. A case company- Stockmann which brought Zara franchise to Finland in 2002 was selected to clarify the study.

Fashion industry is a competitive one where entrepreneurs never stop struggling for a strong foothold. A critical component in their growth strategy is international expansion. (Harris 2001). Beside other foreign operation methods, franchising is becoming more and more popular, which impacts significantly clothing brands. Compared to other countries, Finnish franchising culture is very young and less developed (Tuunanen&Koiranen 1998, according to Tuunanen 2015,17) but well-known clothing brands have chosen Finland as a destination for their global expansion.

Not only is franchising important for clothing brands' development strategy but it is also an ideal choice for new Finnish entrepreneurs who crave for opening unconventional and trendy clothing stores in Finland without taking so much risk as starting an own business. Besides, international clothing franchise is a perfect fit for ones that would like to cooperate with fast-fashion retailers and unique brands. In spite of benefits Finland generates, it entails challenges hindering international franchise to come to Finland and Finnish franchisees to build a successful franchise.

Ultimately, the thesis aims to exploit barriers and navigations for potential franchisees that want to open international fashion franchise in Finland theoretically and empirically.

1.2 Research problem and methodology

Based on the main objectives of the study, two following research questions were identified by the researcher for further research and explicit answers.

Question1: What obstacles do franchisees face when they bring an international apparel franchise to Finland?

Question2: What should franchisees do in order to be successful in fashion franchise in Finland?

In order to answer the main research questions, case study was utilized as a main research strategy. In the empirical part, the study case is Zara Finland; Stockmann purchasing Zara franchise from Inditex Group in 2002 was analyzed. Stockmann is a stark example of successful Finnish franchisees in cooperating with a topnotch clothing brand. Regard to collecting information for the case study, two selected techniques is documentary analysis and interview. These techniques are classified as qualitative methods. Besides, an interview with Managing Director of Finnish Franchising Association was conducted to supplement the empirical part.

The answers for these 2 questions will be a source of reference for to-be franchisees, helping them anticipate risks as well as find a right track to move on.

1.3 Structure of the study

The thesis is divided into 2 parts, say, theory and research, as illustrated in Figure 1. In the theoretical part, the writer presented main theories as to definition of franchising, its main characteristics, international franchising in general and in

Finland, types of franchise system as well as franchise agreements. Equally important, advantages and disadvantages of buying a clothing franchise in general and in Finland were emphasized. The writer also stated steps before buying a franchise along with steps of purchasing a franchise.

With the second part of the thesis supporting the theories and enabling the researcher to solve the problem, a case study was analyzed through qualitative data collection techniques. In addition to analysis of the case study, another interview was implemented for further understanding.

After all, research findings are analyzed and evaluated. The combination of theories and research results help answer the 2 main questions mentioned above. Obstacles and recommendations are eventually displayed.

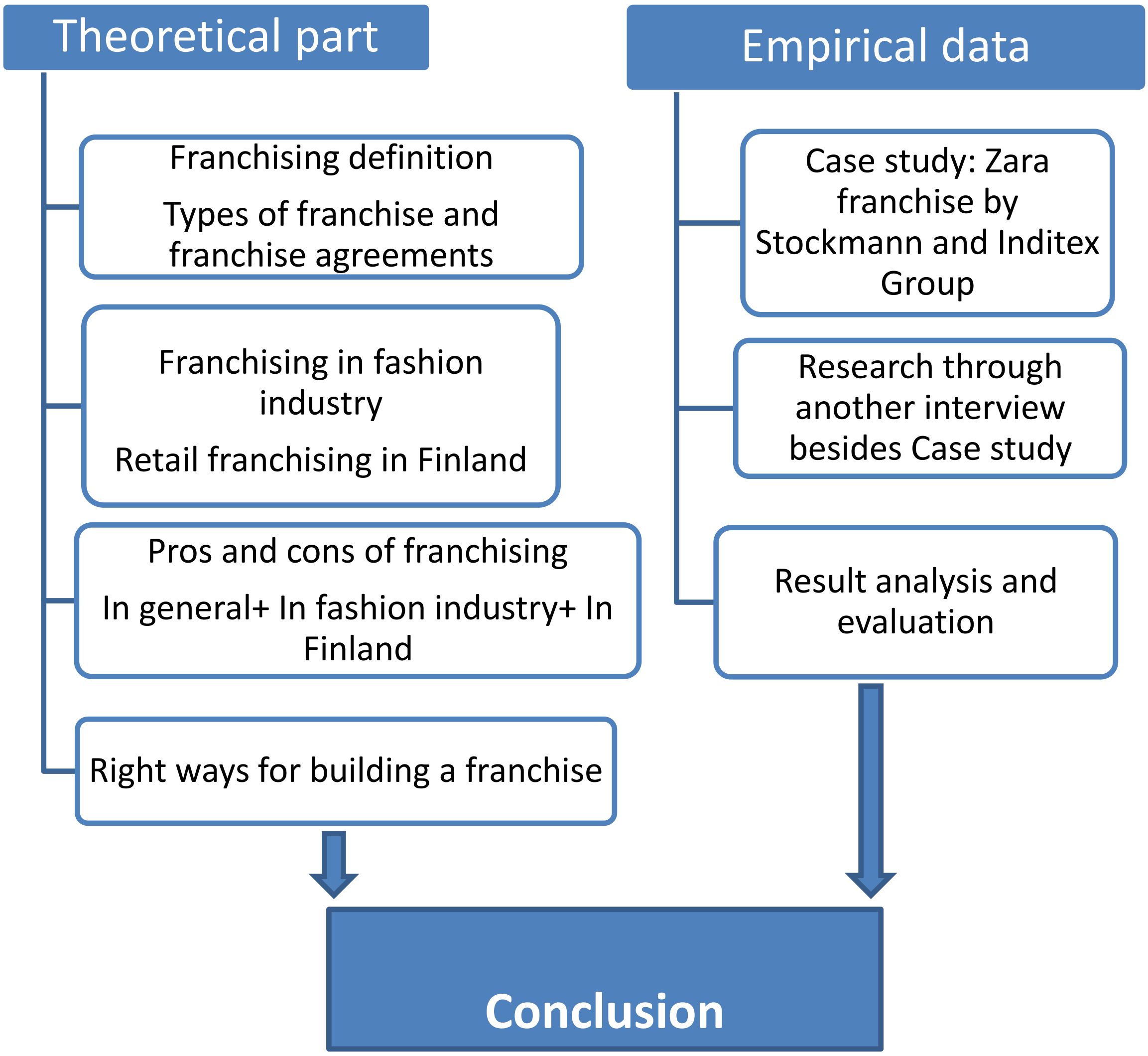

Figure 1 Structure of the study

2 FRANCHISING

2.1 Definition

Originally, when it comes to terminology, “franchise” is derived from a French word meaning “privilege” or “freedom” (Barringer 2010). This English word- franchise indicates that a company is allowed to do or not to do something liberally and free from any prohibition, permission and privilege (Zekan, Peronja & Bacic, 3).

In business, even though franchise is defined in different ways, they all describe the same basic meaning of franchise. According to Scarborough, Douglas & Thomas (2009, 121),

“*A franchise is a legal and business relationship between the owner of a trademark, service mark, trade name or advertising symbol and an entrepreneur who pays for the right to use that identification for his or her business”.*

Specifically, the franchisor is a parent company that owns products and services, whereas the franchisee is a business owner who pays the franchisor for the right to sell the former’s products and services. The franchisor is responsible for providing the franchisee business expertise, resources as well as assistance, while the franchise pays the fees and royalties in return. Additionally, the franchisee also uses the franchisor’s business format and system so as to make the franchise successful.”(Scarborough, et al. 2009, 121)

Briefly, franchising is a relationship that the one party (franchisor) authorizes another part (franchisee) the right to operate a business by selling the former’s products and services under the former’s trademark, business format and management system.

2.2 Characteristic

“First and foremost, franchising demands you” follow the system” ” is what Nicholas A. Bibby, franchise consultant with the Bibby Group claimed. This also referred to the main characteristic of franchising, namely, uniformity of quality and service.

Buying a franchise is fundamentally operating a business for yourself but not by yourself (Scarborough, et al. 2009, 122) because that requires franchisees to exactly follow the franchisors’ business format. Usually, franchisees agree on decisions and terms imposed by franchisor since this is a big benefit in franchising (Purvin 1998, 10, according to Tuunanen 2005,9). The franchisor’s practical experiences play an important role in helping the franchisee manage the business. However, it is those terms, those decisions, and those experiences that drag franchisees into a situation where they feel constrained by rules and they need to find their own way to operate the business. That reason, say, inconsistency between 2 parties can cause the serious failure of the business.

In short, the distinguishing feature of franchising is that franchisees follow the recipe, the rules; the consistency between franchisees and franchisors are maintained.

2.3 International clothing franchise

Fashion franchise is no longer a new concept in entrepreneurs’ world. Basically, it means an entrepreneur pays a clothing brand owner for selling the latter’s trendy products and using the latter’s trademark. Operating franchised clothing stores means franchisees are working in retail industry where they sell clothes and accessories to consumers under the umbrella of retailing.

Franchising famous and renowned brands has become a very successful business for both franchisors and franchisees thanks to the franchisor’s business system and the franchisee’s expertise in local issues. Many well-known and senior brands have accessed new markets through franchising such as Tommy Hilfiger, Benetton and Calliope, Zara and Gap Inc. Franchising was said to balance between maintaining control of the brand and managing the capital at risk (Chatwood & Marzheuser-Wood 2015). Like other business methods, maintaining control of brand and managing capital is the core to keep the brand well-known, and the financial source in the safe zone.

A stark example for the success of franchisors in fashion industry is Gap Inc. Gap is “one of the world’s leading global specialty apparel, offering clothing, accessories and personal care products for men, women, children and babies under its five brands- Gap, Banana Republic, Old Navy, Piperlime and Athleta”(Gap Inc 2011). In order to expand its brands internationally, Gap developed an international growth strategy utilizing online channels, company-operated channels and especially franchise. Thanks to development and promotion, Gap Inc has grown its share of $1.4trillion global apparel market. (Gap Inc 2011).

Chelsea Sloan, a Global Student Entrepreneur who built a fashion franchise stated that running a business as a franchise meant businesses were able to grow faster than they would have through normal expansion or by taking on venture capital partners, although royalties received from franchisees are only 5% compared to royalties of 20% from direct-running stores. (According to Musafer 2013)

Regarding to franchisees that have a strong passion for fashion and apparel retailing, taking a franchise means they will receive business experience of senior businessman in fashion industry. Entrepreneurs in fashion industry never stop rushing for standing on the top in providing trendy clothes or the latest patterns, so franchisors' fashion knowledge and expertise act as a competitive advantage for franchisees.

It is obvious that franchising does exist in fashion industry as a global expansion strategy for franchisors and a way to operate a business for franchisees.

2.4 Retail franchise in Finland

Appearing in Finland in the 1970s with American car rental, hotel and restaurant chains (Francon- Franchise consulting), franchising in Finland has undergone such a long journey to blossom and be found in a wide variety of fields as today; particularly in retail industry. It is estimated that the Finnish franchising market has $6 billion with approximately 300 franchising systems operating over 6000 units (US Commercial service 2012).

According Tuunanen (2005, 74), in the survey "Franchising in Finland", franchise system was categorized into the four largest sectors which are retailing, food-related businesses, business services and automotive service &spare parts. As can be seen in figure 1, out of them, retailing has the most number of franchises, namely, 43 franchises whereas food related businesses, services and automotive service account for 37,19,16 franchises, respectively. By contrast, Laakso, Managing director of IFCN (International Franchise Consultants Network) in Finland stated retailing ranked second with 35% while the largest sector is consumer and B-to-B services with 50%(About Franchising in Finland 2013).

Based on these numbers, it is irrefutable that retail franchising plays a significant part in the whole Finnish franchising system.

Table 1 Franchises by business categories 2003
(Tuunanen 2015, 74)

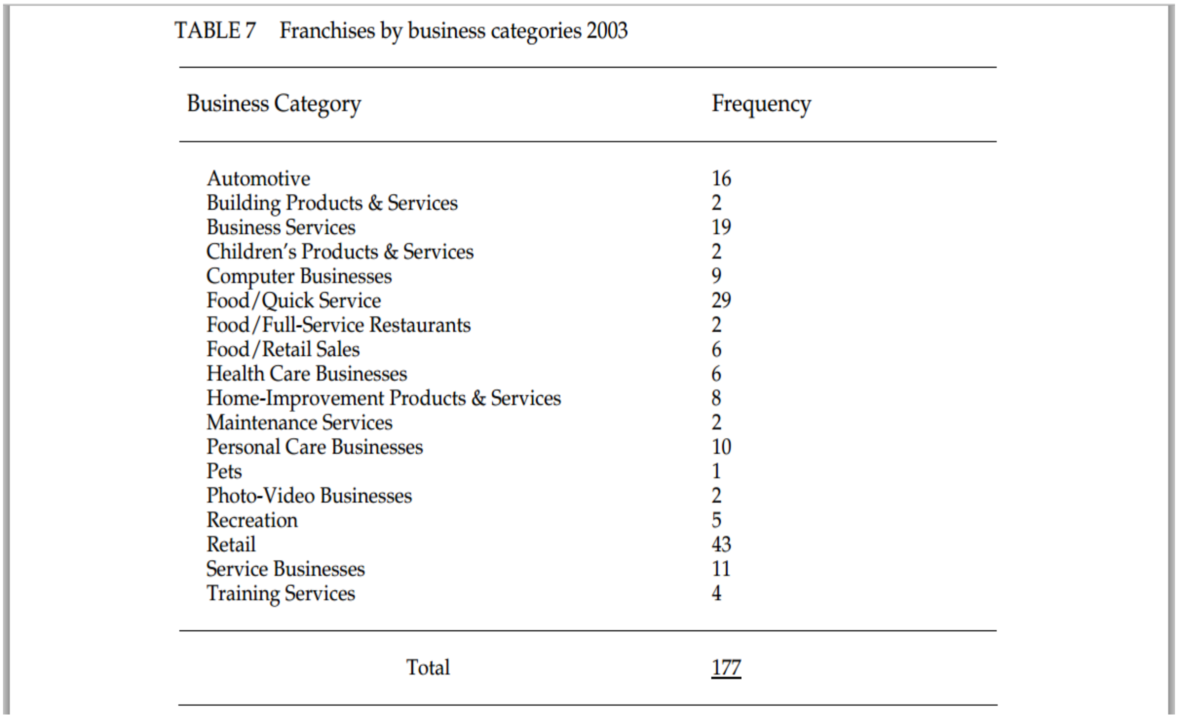

TABLE 7 Franchises by business categories 2003

Business Category	Frequency
Automotive	16
Building Products & Services	2
Business Services	19
Children's Products & Services	2
Computer Businesses	9
Food/Quick Service	29
Food/Full-Service Restaurants	2
Food/Retail Sales	6
Health Care Businesses	6
Home-Improvement Products & Services	8
Maintenance Services	2
Personal Care Businesses	10
Pets	1
Photo-Video Businesses	2
Recreation	5
Retail	43
Service Businesses	11
Training Services	4
Total	177

Additionally, although the majority of franchises in Finland are domestic, international ones do exist with only one-quarter of approximately 300 franchising systems. In terms of clothing chains, Seppälä exemplifies Finnish-owned franchisor business, whereas imported franchises feature with Zara, Mark&Spencer, E-spirit, Pierre Cavallo, Gina tricot, Zara and Best Seller A/S (Vero Moda, Villa, Jack&Jones, and Pieces). Compared to domestic franchise, international ones only constitute a small proportion of franchising system; yet among these imported franchises, the majority belongs to clothing chains.

2.5 Types of franchise systems

According to Scarborough, Douglas &Thomas (2009, 122), franchising contains 3 different types, namely, trade name franchise, product distribution franchise and business format franchising. Yet, in Europe Product distribution and trade name franchising are not included in franchising (Vastamäki 2010, according to Lavonen 2010, 35).

Firstly, Trade name franchising indicates franchisees use franchisors' brand name without distributing products exclusively from this manufacturer, by which franchisees' business becomes identified. In this type, franchiser receives royalties that franchisees pay for using the trade name (Laakso 2005, 34).

The second type is product distribution franchise. It means that the franchisee is licensed to sell specific products under the manufacturer's name. “This approach typically connects a single manufacturer with a network of dealers and distributors” (Barringer 2010, 514). Instead of obtaining royalties, the franchisor in this system gains its income mostly from selling to dealers and distributors.

Stark examples for these systems are General Motors that sell GM cars to dealers and let them use GM trademark in marketing; British Petroleum distribute BP gasoline to franchisee-owned gasoline stations. Besides, these 2 types are utilized to market soft drinks, appliances, cosmetics and other products (Scarborough, et al. 2009, 122). In clothing chains, “Pomp Shop” store in Seinäjoki is a typical dealer for selling Nike, Adidas products.

The last and most popular type of franchise is Business format franchising or pure franchising. By contrast with 2 mentioned ones, it is considered as franchising type everywhere, even in Europe and Finland. In business format franchise, franchisors grant franchisees the right to use a fully integrated business formula which includes trade name, products or services to be sold, training, advertising, physical plant, quality control system, communications and other essential services. Barringer (2010, 514) indicated that this formula in business format franchise can be rigid and demanding. For example, Calliope, an Italian affordable fashionable and glamorous clothing brand, is typical for Business format franchising in fashion industry. In addition to providing products for sale, they support stores with management software, business analysis of Development Department, Communications & Marketing packages as well as Permanent training. (Calliope franchising) Pure franchising is regarded as the most rapidly growing type of franchising not only in fast food chains, convenience stores but also in clothing chains.

In short, there exist 3 types of franchising, namely, trade name and product distribution franchising, and business format franchising. Out of these 3, business format franchising is the most popular and fast-growing type, especially in clothing industry.

2.6 Types of Franchise agreement

In addition to a right business franchise, choosing an appropriate level of franchising contributes significantly to the future success as well as brings personal and professional satisfactions for both parties (Massetti 2013). Franchise agreement is categorized into individual franchise agreement, area franchise agreement & master franchise agreement and multi-unit franchises.

Firstly, individual franchise refers to the right of franchisees to operate only one single unit at a specific location. That location is their protected territory without colliding with other stores of the same franchisor. Single-unit franchisees are involved in all day-to-day operations of that store; therefore, they are considered as owner-operators (Massetti 2013). Barringer (2010, 516) demonstrated this type through a figure as can be seen below. Individual franchise is a judicious choice for first-time franchisees, by which they can familiarize with franchise business before building additional units.

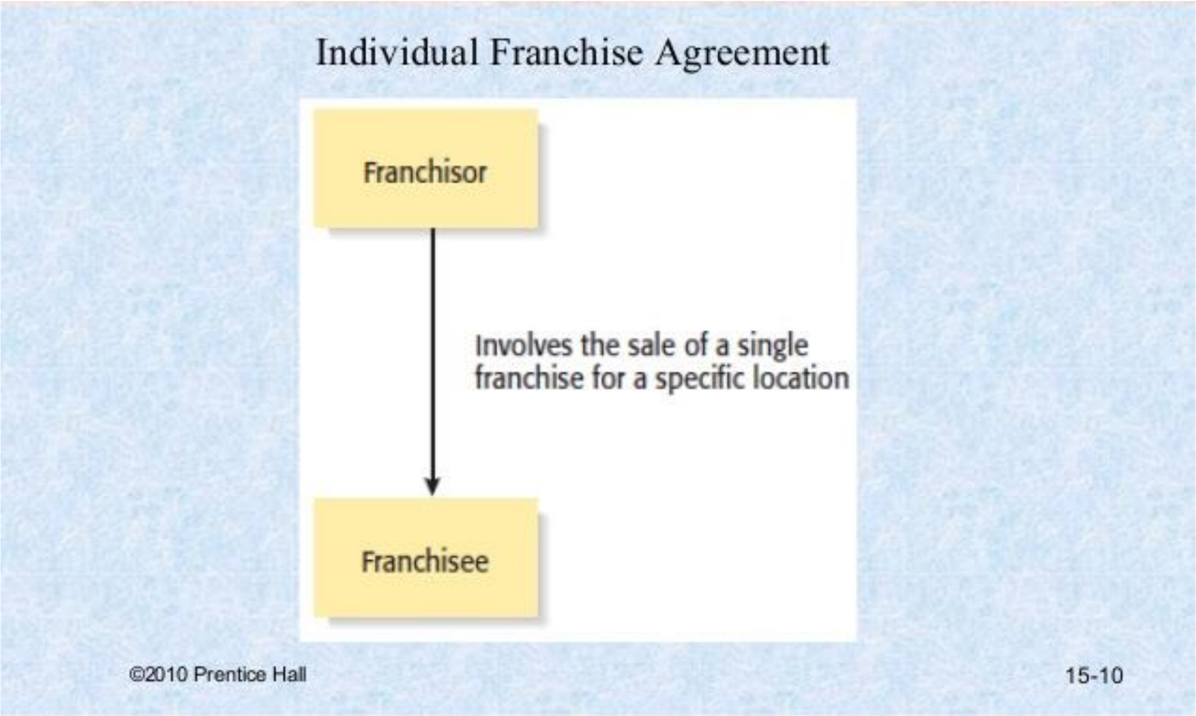

Figure 2 Individual Franchise Agreeement

(Barringer 2012, 500)

By contrast with individual franchise, multi-unit franchise means franchisees own more than one outlet of the same franchisor in different locations. There is no exclusive territory where franchises must be opened (Massetti 2013). Unlike single-unit franchisee, multi-unit franchisees act as a general manager and are less involved in each unit's operations. Opening several units, these franchisees can gain economy of scale with receiving a reduction in franchise fees. Also, franchisors encourage multi-unit franchising because they can grow their business without adding number of franchisees and still develop a business relationship with same franchisees. However, multi-unit franchise is probably risky for franchisors and creates a deeper commitment between a franchisee and a single franchisor (Barringer 2010, 515).

While in multi-unit franchise, franchise units are opened in different locations, area development franchise grants franchisees the right to operate a number of outlets in a particular geographic area. Their areas are exclusive and other franchisees are not allowed to operate business here provided opening schedule is maintained. The territories range from different cities. For example, Stockmann set up 4 Zara franchise stores in Helsinki, Tampere and Turku. Additionally, area-development franchisees also pay reduced franchise and royalty fees (Joseph). The franchisees immerse into the opening of first stores and then management of subsequent units will be transferred to other managers. The following figure 2 created by Barringer (2010, 516) simply describes area franchise agreement.

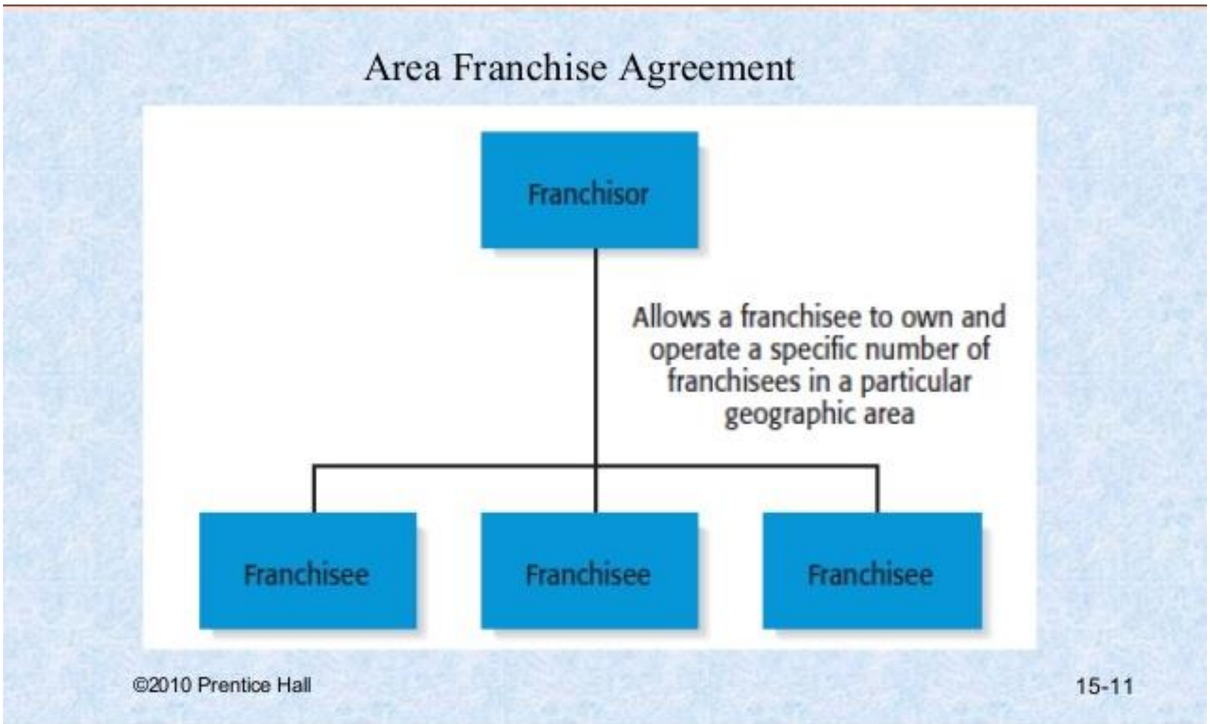

Figure 3 Area franchise agreement

(Barringer 2012, 500)

The last type of franchise agreement is master franchise agreement which is illustrated in the figure 3. Master franchise agreement contains area franchise agreement but on a larger scale. In addition to the right to open franchises in a particular geographic area, franchisees are allowed to sell unit franchises, multi-unit franchises and area development franchises to other individuals. According to Massetti (2010), master franchisees' territory is a large metropolitan area, namely, several states or country. Master franchisees usually run the first unit for generating income, franchise sales and training. After that, they become business consultants for sub-franchisees, coaching them to become successful. The master franchisers receive franchise fees and royalties from these sub-franchisees.

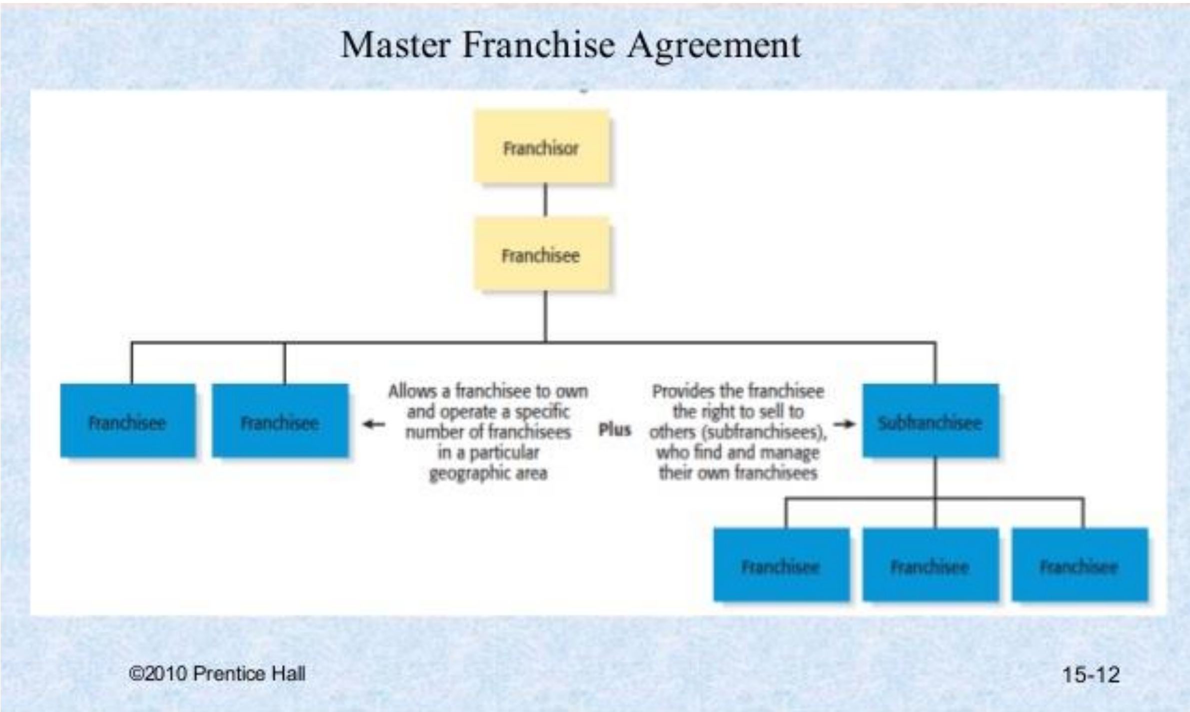

Figure 4 Master Franchise Agreement

(Barringer 2012, 500)

3 ADVANTAGES AND DISADVANTAGES OF FRANCHISING FOR FRANCHISEES

3.1. Franchising in general

3.1.1 Benefits of opening a franchise

"What can a franchise do for me that other business formats cannot do?" is a critical question each entrepreneur should ask themselves before they decide to choose franchising. Generally, franchisors' reputation, renowned established products and experiences are beneficial for franchisees. The franchisor's industry knowledge and expertise, training and support are competitive advantages for franchisees (Scarborough, et al. 2009, 123). It is undeniable that all these resources are catalysts boosting franchisees' success faster than independent business.

First and foremost franchisees' businesses are likely to be identified by customers thanks to the appeal of well-known brand name. Purchasing a franchise with identifying trademark provides franchisees a substantial marketing power. Customer can easily recognize the brand, store design and products of this brand. Compared to establishing a totally new and independent store, opening a franchise that has had a favorable impression on customers will definitely entice instant visitors.

Besides, when franchisors decide to sell a franchise, they have to assure that the next franchisee will not destroy the reputation that they have spent a long time and efforts constructing it. That's why franchisees will be provided with standardized quality of goods and services. The majority of franchisors devote to inspecting local stores and assisting franchises in maintain standard quality. In order to secure the image of the brand, franchisors often demand "strict compliance with uniform standards of quality and service" (Scarborough, et al. 2009, 125). Not only do franchisors provide products that they have invested resources to develop but they also share methods and techniques to enhance franchisees' efficient performances. One Subway executive says "When we say 'Do things our way' it's not just an ego thing on the part of the franchiser. We've proven it works" (According to Scarborough, et al. 2009, 127)

When it comes to management, entrepreneurs understand that inept management triggers business failure. Franchisors strive to reduce franchise disasters by offering managerial training programs to franchisees including before-opening training, follow-up training plus counseling services. Training program consists of both classroom and on-site instruction to cover fundamental steps of operating a business such as producing, selling, purchasing raw materials and paper work (Scarborough, et al. 2009, 125). These phases vary according to what kind of business and what industry. A typical example is Subway which requires franchisees to complete a 55- hour course and 34 hours in on-the-job training. Franchisees manage a store by themselves when the training is in progress. Finally, franchisees will attain final approval from Subway after they pass the final test (Landesberg 2000, according to Scarborough, et al. 2009, 125). Additionally, on-going instruction and support are supplemented, which are supports in customer service, quality control and inventory management.

A must-be-mentioned advantage for franchisees is financial assistance. Franchisors usually offer financial guidance to franchisees. Even though few franchisors directly lend franchisees money to pay for initial fee, franchisors typically are not interested in offering loans. The former normally aids the latter in applying for a loan from another lender, building relationships with banks, investors and other funds (Scarborough, et al. 2009, 126). Franchisors' reputation forms trust in lenders, which facilitates franchisees getting the financing easily.

Moreover, rather than spending money separately on advertising program like other independent businesses, franchising can profit from franchisors' regional or national advertising program with the same amount of money. Usually 1 to 5 percent is subtracted from monthly sales of each franchise to finance cooperative advertising campaign that franchisors organize and control (Scarborough, et al.

2009, 126). By virtue of well-known franchisors with their marketing campaign, franchises are more easily recognized than independent owners.

Last but not least, franchisors assist franchisees to select a proper location for opening a new outlet. Franchisors do understand that location is vital to the success of any business, so they will give the best final site selection. Obviously, a good location should attract a sufficient amount of targeted customers and visitors. Many franchisors charge franchisees for conducting an extensive location analysis containing traffic patterns, zoning site analysis, accessibility and population density (Scarborough, et al. 2009, 127).

All in all, opening a franchise, entrepreneurs are equipped with such attributes as established trademark, a refined business model, qualified products and services, managerial training, expertise, supports, marketing programs as well as financial aid.

3.1.2 Drawbacks of opening a franchise

Although franchising brings benefits that can boost success of franchisees, there exist limitations for franchisees such as freedom sacrifice or financial cost. Franchising is a good choice of business operation; however, it is not a good match with every type of personality.

First of all, initial costs of franchising and establishing a franchise can be quite high (Barringer 2012, 516) as illustrated in table 2. Start-up costs do involve a variety of fees such as franchise fee, initial capital investments and ongoing royalty fee. These costs vary among different franchisors.

Table 2 Initial costs imposed by a sample of franchise organizations.

(Barringer 2012, 510)

TABLE 15.4 INITIAL COSTS TO THE FRANCHISEE OF A SAMPLE OF FRANCHISE ORGANIZATIONS

Franchise Organization	Year Started Franchising	Company-Owned Units	Franchised Units	Franchise Fee	Ongoing Royalty Fee	Total Initial Investment
Bark Busters	1994	4	364	$37,500	8%	$69,100–$97,100
Comfort Keepers	1999	0	660	$38,500	3%–5%	$58,410–$85,280
Game Truck	2008	1	25	varies	7%	$115,250–$320,500
Huntington Learning Centers	1985	33	318	$43,000	8%	$162,000–$257,600
KFC	1952	4,281	11,983	$45,000	5%	$1.3 million–$2.4 million
McDonald's	1955	6,399	26,338	$45,000	varies	$1 million–$1.9 million
Papa John's Pizza	1986	620	2,909	$25,000	5%	$98,823–$528,123
School of Rock	2005	21	36	$49,500	8%	$115,650–$400,400
Subway	1974	0	34,134	$15,000	8%	$84,300–$258,300
Wild Birds Unlimited	1983	0	274	$18,000	4%	$92,157–$140,736

Based on Entrepreneur.com, www.entrepreneur.com (accessed May 19, 2011).

For instance, in terms of franchise fee, School of rock ranks first with $49,500 while the lowest price belongs to Subway with $15,000. According to Scarborough (2012, 104), the average up-front fee is $25,147 (The Profile of Franchising 2006, 62). Also, initial investment is more costly, which is used in inventory purchase, obtaining business license. As can be seen in the table, KFC and MC Donald's require the highest total investment from $1million to $2.4 million.

Furthermore, additional start-up fees consist of location analysis, site purchase and preparation, construction, signs, fixtures, equipment, management assistance and training (Scarborough 2012, 104). Another fee that franchisees must pay franchisors is royalty fee which is imposed as revenue-sharing instrument. The average royalty fee is 5% (Kotliarov 2011, according to Barringer 2012). Royalty is paid based on a percentage of weekly or monthly gross income. It is worth noting that royalty fee is subtracted from gross income instead of net income. Therefore even if royalty fees are equivalent to or more than profit margin, they are still a must-be-paid fee. Without a detailed calculation, all fees mentioned above as well as incidental expenditure may jeopardize unprepared franchisees.

One of the main disadvantages of franchising is rigid attachment to standardized operations. As mentioned above, opening a franchise is for franchisees but not by franchisees. They are not considered as independent owners. They follow rules that franchisors impose such as operating hours, dress codes, operating policies or product and service specifications. In order to protect the public image, franchisors demand standard uniformity from franchisees. Some franchisors even hire mystery shoppers pretending to be real shoppers for checking franchises' performance on key standards. (Scarborough 2012,104.). These result in limited freedom, creativity restrictions and of course franchisees' frustrations.

Another complex drawback is purchasing restrictions, product prices and limited product line. Specifically, franchisors require franchisees to purchase products and equipment from the franchisors or from approved suppliers. According to Scarborough (2012, 104), penalty for using unapproved suppliers is usually franchise agreement termination.   Not only mush material and equipment be approved but products sold through franchises' outlets must receive approval from franchisors. Adding new products, experimenting new products and services &modifying product or service offerings will not be conducted without franchisors' consent. Regarding to retail prices that franchisees charge, although franchisors cannot force franchisees to apply a certain price, franchisors do influence those prices through discount coupons. It is complained by one sandwich company's franchisees that the franchisor's discount coupons prevent them making a profit on discounted items.

Moreover, market saturation is inevitable in some popular industries, leading to severe competition. Franchisees suffer from competing compete with other companies, not to mention other franchisees due to franchisors' rapid expansion as well as lack of territorial protection. Additionally, that some franchisees perform poorly create a miserable impression on public, triggering reduced reputation.

Likewise, franchisees encounter other burdens as unsatisfactory training program, shortage of franchisors' commitment, hard-to- be- terminated agreements.

Behind franchise success always come encouraging stories along with disappointing things. Failure of overcoming obstacles mentioned above results in failure of the whole business. Dependence, strict attachment to principles and being controlled prevent highly independent, "go- my-own- way" individuals from choosing franchise as a method of business ownership.

3.2 Opening international clothing franchise

Generally, apparel franchise involves the same pros and cons as franchise business in other industries. Yet, in fashion industry there come distinct advantages and disadvantages that franchisees cannot ignore.

3.2.1 Benefits of opening an international clothing franchise

First of all, it is obvious that clothing is an essential commodity in our life. The majority of women are keen on shopping and willing to purchase trendy and renowned clothes at a reasonable price. Therefore, franchisees in fashion industry always have a certain number of targeted customers. Also, a famous brand name facilitates clothing franchises to be recognized easily, particularly if that brand is globally well-known. Competition in fashion industry is severe, so a well-established brand provides franchisees a strong head-start (Click to franchise 2012). While new and independent clothing store struggles promoting their new brand, chasing after trends and proving it in the market, franchisees only need to build on a currently growing brand.

In addition to items designed by experienced textile designers, advertising program of franchisors to promote sales is also one competitive advantage for franchises. If the franchise selected has a good image, attractive sales promotion and discounts, franchisees can build a strong customer base and save money in marketing (Click to franchise 2012). Additionally, running a franchise, franchisees do not have to worry about refreshing stock or updating trends themselves because trends are updated in the whole system of the brand.

Besides, building a strong standing in fashion industry is so challenging that franchisors must provide management training and support to franchisees in order to avoid franchise casualties. Training programs are meant not only to keep good image of the whole brand but to benefit franchisees in running a successful clothing franchise. Let's take Plato's Closet as a stark example of how franchisees are trained when doing franchise business in fashion industry. Plato's closet is a chain of resale shops selling clothing for teens and young adults. Franchisees at Plato's closet spend two weeks learning how to develop a business plan, secure financing, hire and manage employees, buy and sell inventory, and use the company's proprietary computer software to manage the stores (Scarborough 2012, 100). This training program enhanced confidence in a former schoolteacher - Charlotte Knowles with no experience in retail clothing to open an apparel franchise (Jones 2003, according to Scarborough 2012, 100).

3.2.2 Disadvantages of opening a clothing franchise

The first disadvantage in franchise business in fashion industry is market saturation. Clothing business is overwhelming nowadays. That's why fashion industry is so competitive. In addition to compete with other franchises, other clothing businesses, franchisees also battle with on-line stores by both franchisors and other entrepreneurs. Online shopping is a method of expanding business for franchisors, for other existing clothing brands and a business format for other entrepreneurs, so these web-sites are taking sales from franchise outlets.

Secondly, the main characteristic of franchise is "to follow the rule and follow the system". The same happens in fashion industry, leading to creativity restriction. For example, franchisees must dress the mannequin as the franchisors told them to do; clothes must be put in the specified places. In case franchisees want to modify the layout of the store or product offerings to fit the customer behaviors and culture of the targeted location, they have to get permission from franchisors. For creative individuals with high independence and an understanding of fashion, franchise is not perhaps an ideal choice of doing business.

Lastly, in fashion industry, whether in franchise business or independent business, purchasing inventory occupies a big chuck of total initial investment. Not to mention, stock needs to be changed regularly due to changing tastes and changing seasons, leading to an on-going cost (Neale).

3.3 Opening an international clothing franchise in Finland

3.3.1 Advantages of opening an international clothing franchise in Finland

Being a developed European country, with favorable support service for franchising and high demand for a diversity of clothing stores, Finland attracts attention of well-known brands for international expansion as well as opens up opportunities for Finnish franchisees.

With a high GDP per capita - €34.900, an advanced industrial and open economy, Finland is placed among the most competitive markets in the world. Facts show that Finland has experienced a swift change towards an economy based on high technology, services and constant innovation, becoming a developed country. (The textile and clothing sector 2012). Also, Finland is listed as high-income country with GNI per capita being $47,110. The mentioned features contribute Finland to become a wealthy country in the world, leading to positive purchasing power. That explains why Finland is a destination that big brand heads to. Francois Smeyers, regional director of Europe at Marks & Spencer, the famous British multinational retailer specializing in clothing and luxury food is moving to Finland and Norway in 2015 under franchise business, said that: “Expanding our reach to Scandinavia, which we see as an important international market for us, is a central part of our ongoing international growth strategy in Europe” (Butler 2014).

Regarding to franchising in Finland, it flourishes victoriously even in times of economic turbulence. Its annual growth rate was expected to be 7- 8% in 2011 and 8-10% in 2012(Doing Business in Finland 2012). In the 2012 report of US commercial Service as to doing business in Finland, it is stated that franchise concepts in Finland seem to survive better during financial crises than non-franchised competitors by virtue of well-structured franchise models.

Furthermore, franchisees and franchisors are provided with favorable training services and support from associations and companies such as Finnish franchising association (FFA) or FranCon Franchise consulting. As a member of the FFA, franchisees and franchisors will attend meetings, training sessions or receive services, namely, assistance with recruitment, networking, revision of franchising contracts and advices. Also, FranCon is considered as a leading consulting company in Finland, offering services for international franchisors penetrating Finnish marketing as well as mastering franchisees.

Even though Finland is a developed and innovative country, it still lacks a diversity of trendy clothing stores compared to other European countries such as Spain, Italy, German, France and Sweden. This is regarded as an advantage for fashion franchisees. An up-to-date and renowned clothing store accompanied with an established trademark may satisfy Finnish customer demand for supplementing their closets. Besides, according to statistics by FINATEX (Federation of the Finnish textile and clothing industry), the consumption of clothing in Finland from 2001 to 2013 has increased positively as illustrated in figure 4. Clothing consumption went up from €2500 million in 2001 to €4000million in 2013.

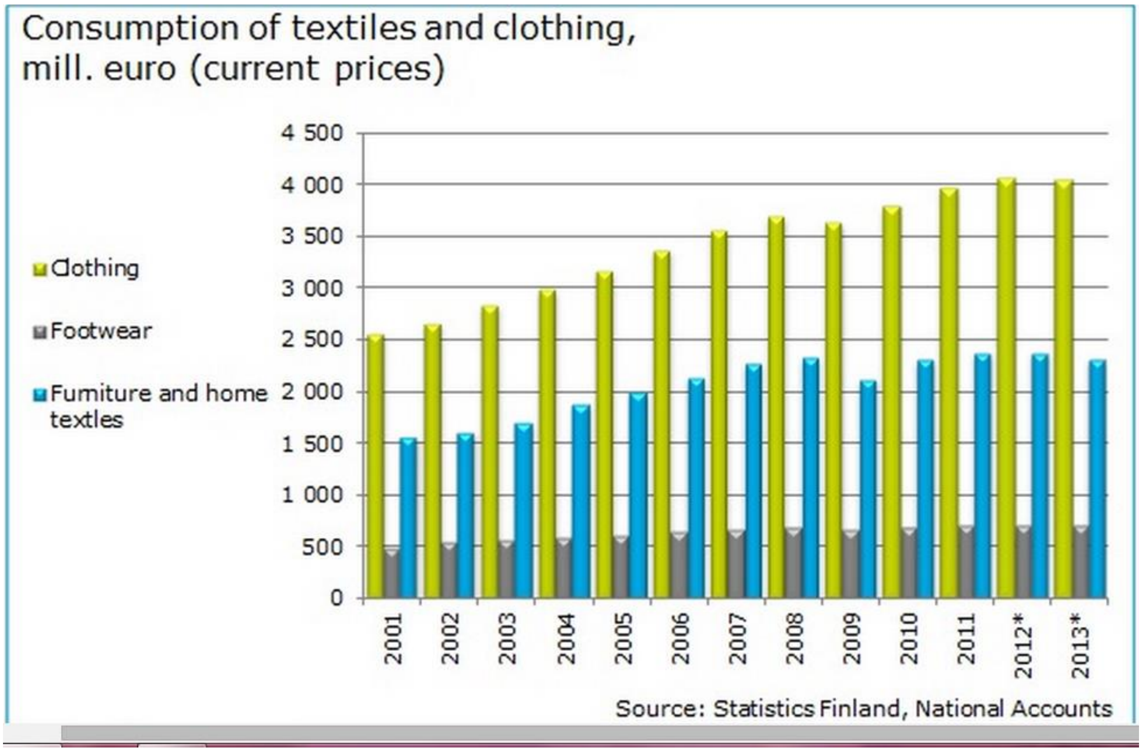

Figure 5 Consumption of textiles and clothing from 2001 to 2013.

(Statistics: Retail and consumption)

Therefore, it is encouraging that Finland is a promising land for both franchisors and franchisees to open fashionable clothing franchise.

3.3.2 Franchisees face obstacles when establishing a clothing franchise in Finland.

Doing business in Finland in general and building a franchise in this Nordic country in particular involve challenges that both franchisors and franchisees should take into consideration.

Primarily, Finland is a small market. At the turn of the year 2015, its population is 5,471,753. This results in the hesitance of clothing franchisors to establish a franchise in Finland because small market put the profitability of both parties in danger. Even Finnish fashion brand has to expand internationally due to small domestic market. Tuomas Laitinen- lecturer of fashion design at Aalto University said that “The Finnish market is so small that we can only survive by internationalization” (Poponen 2014).

Besides, tax in Finland is one of the highest ones in the world. According to Davis 2011, Finland’s tax rate is the world’s fourth highest. Regarding to franchising, it is bound by various tax obligations such as corporate income tax, transfer tax, tax on capital income and withholding tax on royalties, dividends and interest (Taipale 2012).

Moreover, foreign franchisors and Finnish franchisees or non- Finnish franchisees may be prone to cultural conflicts. It is undeniable that the majority of famous, trendy clothing brands in the current market originally come from Italy, Spain, France, Germany and United Kingdom, which is demonstrated clearly by the chart below. The chart ranks European countries in descending order when it comes to textile and clothing production. Specifically, Italy stands on the top with 51 090 mil.euro, followed by Germany, France, Spain and United Kingdom.

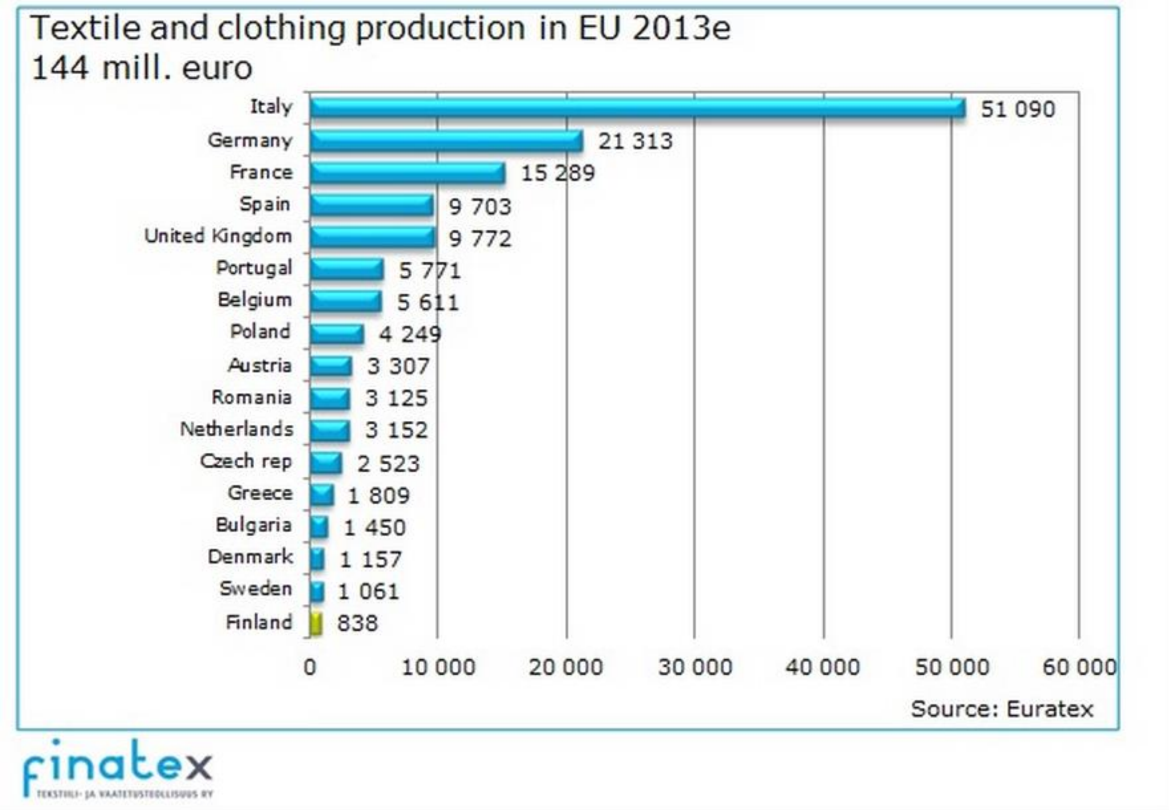

Figure 6 Textile and clothing production in Europe in 2013.

(Statistics: Production and business trends)

Therefore, potential franchisors are usually from these nations, so franchisees can assure that their stores and products will be compelling to customers. Yet, these countries' cultures are relatively different from Finnish culture. Comparison between Finnish culture and Italian culture is a stark example. Italy has a high score in masculinity, which means people are driven by competition, achievement and success. By contrast, Finland is a feminine country in which people value equality, managers strive for consensus and quality in working lives. (Hofstede)This difference will definitely trigger conflicts between Italian franchisors and Finnish franchisees during training programs or rule abidance.

Last but not least, competition in clothing industry in Finland must be taken into account before a fashion franchise is established. Clothing market is currently dominated by Nordic chains. Swedish chains include H&M, Lindex and Kappahl; Finnish chains have Halonen, Seppälä and Moda; Danish chains has a strong position with franchises from Bestsellers with different brands, say, Only, Jack&Jones, Pieces, Vila and Only &Son. Besides, there are also brands from other European countries such as Zara, Mango, Mark &Spencer. Equally important, electronic commerce is said to be grow. A survey conducted by FINATEX indicated that 20% of the respondents purchased women's clothing online and approximately 15% bought children's clothing online. It is also estimated that electronic commerce in clothing industry will increase to more than 1.4 million euros in 2016. (The textile and clothing sector 2012)

In brief, the main obstacles that franchisees and franchisors encounter when building a fashion franchise in Finland are small market, high tax, cultural conflicts and competition.

Table 3 Benefits and obstacles of opening a clothing franchise in Finland

Benefits	**Obstacles**
Developed country + High income	Small market
Growing franchise	High tax
Good training and support for franchise	Cultural difference between foreign franchisors and franchisees
Increasing consumption of clothing Demand for a diversity of trendy clothing stores	Competition Dominance of Nordic fashion brands & Growth of E-commerce.

4 PURCHASING A FASHION FRANCHISE

4.1 Before purchasing

In franchise business, improper and unscrupulous analysis and research before buying a franchise is a main trigger for franchisees' failure. Therefore, franchisees should scrutinize franchise opportunities meticulously through market researches, cost calculation, familiarizing law and taxation of targeted country as well as evaluating clothing franchisors.

4.1.1 Franchisees should consider whether franchise is suitable for them.

Firstly, before jumping to final decision of purchasing a clothing franchise, franchisees should firstly ask themselves questions to ensure that they understand themselves and know what they want. For instance, franchisees should study their own traits, experiences, likes, and dislikes, income requirements, lifestyle, financial situation (Scarborough 2012, 110). Besides, it is imperative that franchisees have a passion for fashion or clothing industry as well as a certain understanding of this industry. Even though franchising is perfect for inexperienced people who want to start a business, this does not mean that they will succeed without passion or understanding of the industry they are working in.

After that, to-be franchisees should compare purchasing a franchise with the alternatives of buying an existing business or establishing their clothing store so as to ascertain that franchising is a good choice for them (Barringer 2012, 509), particularly in clothing industry. Barringer (2012) also listed questions that help people think about franchise as a business format.

• Are you willing to take orders?(Franchisors are typically very particular about their outlets operate.)

• Are you willing to be part of a franchise “system” rather than an independent businessperson?

• Are you willing to lose creative control over how your business is promoted?

• How will you react if you make a suggestion to your franchisors and your suggestion is rejected?

• How will you feel if you are told that your suggestion might work for you but can be put in place only it works in all parts of the system?

• What are you looking for in a business? How hard do you want to work?

• How willing are you to put your money at risk? How will you feel if your business is operating a net loss but you still have to pay royalties on your gross income?

The questions mentioned above are considered as shortcomings of franchise, which requires franchisees to be aware of. People working in clothing industry normally have their own styles and new ideas of styling, so it is not easy for everyone who plans to build a clothing store to follow the same system. It is wise to weigh up anticipated difficulties rather than get defeated later.

Maynard (1996, 57) presented a Franchise Evaluation Quiz which was developed by an American franchise consulting company – Franchise Solutions Inc. (According to Scarborough 2012, 106). The test help franchisees integrate the understanding of own personalities into franchise. Through doing this self-test, potential franchisees can decide whether franchise suits them or whether they need to do further research.

Taking the emotion out of buying a franchise is the goal of this self-test developed by Franchise Solutions, Inc., a franchise consulting company in Portsmouth, New Hampshire. Circle the number that reflects your degree of certainty or positive feelings for each of the following 12 statements: 1 is low; 5 is high.

	Low High
1. I would really enjoy being in this kind of business.	1 2 3 4 5
2. This franchise will meet or exceed my income goals.	1 2 3 4 5
3. My people-handling skills are sufficient for this franchise.	1 2 3 4 5
4. I understand fully my greatest challenge in this franchise, and I feel comfortable with my abilities.	1 2 3 4 5
5. I have met with the company management and feel compatible.	1 2 3 4 5
6. I understand the risks with this business and am prepared to accept them.	1 2 3 4 5
7. I have researched the competition in my area and feel comfortable with the potential market.	1 2 3 4 5
8. My family and friends think this is a great opportunity for me.	1 2 3 4 5
9. I have had an adviser review the disclosure documents and the franchise agreement.	1 2 3 4 5
10. I have contacted a representative number of the existing franchisees; they were overwhelmingly positive.	1 2 3 4 5
11. I have researched this industry and feel comfortable about the long-term growth potential.	1 2 3 4 5
12. My background and experience make this franchise an ideal choice.	1 2 3 4 5

The maximum score on the quiz is 60. A score of 45 or below means that either the franchise opportunity is unsuitable or that you need to do more research on the franchise you are considering.

Source: Roberta Maynard, "Choosing a Franchise," *Nation's Business*, October 1996, p. 57.

Figure 7 Franchise Evaluation Quiz(Maynard 1996, According to Scarborough 2012, 106)

4.1.2 Cost of franchise and financial consideration

Considering financial cost is so crucial that franchisees cannot ignore. Firstly, franchisees must evaluate all costs involved. Barringer (2012, 511) stated that franchisors are required to list all costs in the Franchise Disclosure Document and hand it to franchisees. The costs that are mentioned earlier in chapter 3 in the study are initial franchise fee, capital requirements, royal fee, advertising and other fees.

Capital requirements depend on franchisors. They usually include the cost of buying real estate, constructing building, buying business license and especially inventory. In fashion franchise, the cost of purchasing inventory is quite high due to updating stock frequently in order to reach fashion trends on the market.

Advertising fee involves national or regional advertising fund for the purpose of promoting franchisors' products and services. Advertising fee is less than 3% of gross income. Royal fees in clothing franchise vary between 5% and 10%. Other fees are charged for training additional employees, computer assistance or support services. (Barringer 2012, 511)

Franchisees should weigh affordability up before determining to buy a franchise. The fees mentioned above need to be calculated carefully before they start. It is not wise to borrow a huge loan, which dooms the business from the starting point. Franchisors usually offer financial guides to franchisees. Franchisees are assisted in applying for a loan from the bank or another lender. Thanks to The reputation of franchisors, franchisees can borrow money easily.

Besides, franchisees should evaluate currency rate between euro and currency of the country from which they buy franchises.

4.1.3 Market research

Before opening a clothing franchise store in Finland, not only do international franchisors but also franchisees staying in Finland must do researches as to Finnish market. Based on the list of questions given by Scarborough (2012, 111), the sample questions for Finnish market regarding to clothing industry are:

- How fast is Finland growing?
- In which areas/ cities is that growth occurring fastest?
- Is the market for fashionable clothing growing or declining?
- How strong is the competition in the clothing or fashion industry? Who will be your competitors? What is your competitive advantage?
- Who are potential customers?
- What are their characteristics?
- What are Finnish income and education level?

- What is the product trend? What kinds of items or styles are favored but still missing? Are those products that they prefer compatible with the products you want to sell?

In any business method, market research is an essential phase that cannot be ignored. Business owner is supposed to understand the market they are heading to and see whether their products are good fit for that market and how they have to adjust to the market. Doing researches to determine whether the targeted area has a potential for success is time-consuming but worth investing time into. The same principle is applied to franchising. The fact that franchisees are passionate for a specific concept of franchise or products cannot completely lead them to success. The long-lasting success also requires compatibility between the offered clothing items and the public in the targeted area, which can only be clarified by meticulous market research. Offering fashionable items that are consistent with lifestyle patterns of the main population contributes significantly to the long-term development.

4.1.4 Finnish laws of franchising

First and foremost, it is vital that franchisees and franchisors are familiar with franchising legislation in Finland. Equally important, not only international franchisors but also franchisees in Finland need to work with a knowledgeable lawyer who can give them wise legal advices as to bringing an imported franchise to Finland, how franchising law works in both Finland and franchisors' country.

When it comes to Finnish franchising legislation, there come certain legislative stipulations applicable to franchise agreements. Generally, the most crucial principle regarding to franchise agreements in Finland is freedom of contract (Rinkinen 2005). This gives franchisees and franchisors chance to create a contract that benefits both parties.

Rinkinen (2005) presented that in Section 36 of the Contract Act (228/1929), reasonableness is required, whereby a court of law or an arbitrator has a right to alter a franchisee agreement that includes unreasonable terms. It is difficult to anticipate the manner that a court considers to be unreasonable. Therefore, the franchise agreement should be drafted from the commencement and regarded to be reasonable by both parties.

Additionally, that non-competition clause may not be too restrictive is mentioned in section 38 of the Contracts Act. The non-competition clause or restraint of trade conditions may unreasonably limit the freedom of action of a party. (Rinkinen 2005)

In the Section 4 of the competition Act, price fixing is prohibited. Neither the franchisor may impose the prices to be charged in the chain nor do franchisees agree themselves on applicable prices. This does not mean that price recommendation is prohibited but it suggests that the price recommendations provided by a franchisor should be effective. (Rinkinen 2005)

In Finland, there are no special stipulations regulating disclosure obligation, but the Unfair Trade practices Act that prohibits the use of false expressions concerning business operations is applicable to franchise agreement negotiations. The franchisor must provide precise information and accurate description of their operations. In case the franchisor violates this requirement, the entire contract will be revoked or terminated.

Furthermore, the Finnish Franchising Association issued a Code of Ethics that members of the association must comply with. The code guarantees a high ethical standard in franchise agreement and operating practices.

The provisions mentioned above are the most relevant to franchising in Finland. Besides, when drafting the agreement, both franchisors and franchisees must take such things into account as trademark law, employment law, consumer protection laws and company laws. Due to the complexity of doing business internationally, it is judicious that both parties should work with attorneys or consultants specializing in franchise business.

4.1.5 Finnish taxation of franchising

Franchise business is prone to different taxes in Finland. These taxes normally include corporate income tax, transfer tax, tax on capital income, value added tax, and taxation on non-residents. (Taipale 2012)

The corporate income tax is applicable to Finnish companies with 24.5%. In international franchise, only one party is a Finnish company, so that Finnish company is subject to national corporate income tax on their world-wide income. The foreign franchisor will not be susceptible to corporate income tax unless they operate their business permanently in Finland.

The transfer tax is applied on passing of title to property from one company to another company. A transfer tax on shares is 1.6 % of the price agreed, while on the real estate it is 4%. This tax is payable by the buyer. If the buyer is a non-resident, the seller must collect the tax from the buyer. If both the seller and the buyer are non-residents, they are exempt from Finnish transfer tax. (Taipale 2012)

In Finland, value added tax (VAT) is applicable to all goods and services supplied. The general rate of VAT is 24%, while for food and restaurant services it is 14%, for books, newspapers, cultural events, transport and accommodation it is 10%. VAT is also applied to franchising fees including royalties, marketing, and downpayments. (Zeidman 2014)

When it comes to tax on capital income, the general rate for Finnish individual is 30% to the amount of EUR 50000 per year and 32 % if the income exceeds EUR 50000 per year (Taipale 2012). Non-residents are also taxed on their income gained in Finland. The most common types of income that non-residents earn in Finland are earned income, namely, salaries, wages, pensions and capital income, say, dividends, royalties as well as interest. They are subject to withholding tax at the rate of 35% for salaries, wages and pensions, whereas 30 or 32 % are deducted from dividends, royalties and interests. (Taipale 2012)

4.1.6 Finding a good fashion franchisor

Generally, clothing and accessories is a densely populated industry, but it still captivates entrepreneurs thanks to consumers 'demands for good appearance and rapid trend changing. Before bringing a new franchise to Finland, entrepreneurs must ask themselves several questions concerning with choosing a right franchisor in order to ensure the future success.

Although clothing industry does not lack well-known brands, a suitable franchise cannot be found easily. Entrepreneurs should contemplate choices through various aspects such as the salability of the products in Finland, reputation of franchisors, cost of franchises. The figure 7 demonstrated benefits that a prospective franchisor brings to enterprisers.

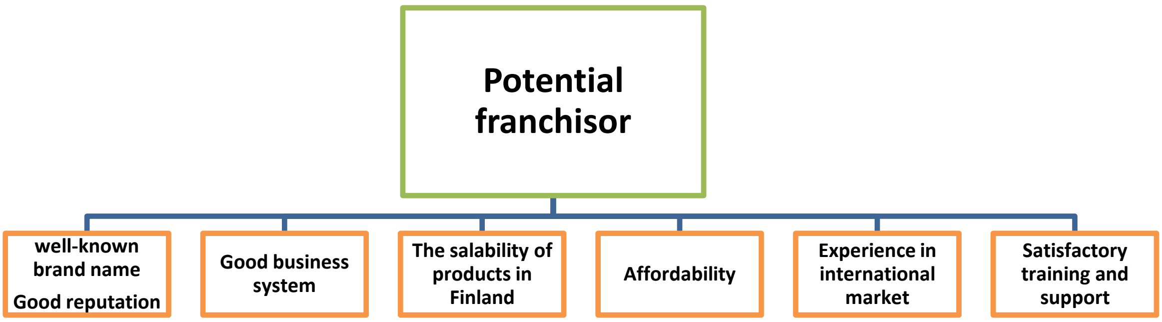

Figure 8 Important aspects make a franchisor become a good fit

Firstly, entrepreneurs should start seeking for a list of renowned clothing franchise opportunities, followed by filtering the list so as to have a manageable number of good fits. A prospective franchisor should offer a well-known brand name, an effective business system and a good reputation in franchise business as well as in the clothing industry. It is recommended that entrepreneurs interview existing franchisees to evaluate the reputation of a franchisor. Also, entrepreneurs should visit franchisor's headquarters to ask questions about the company and its relationship with its franchisees (Scarborough 2012, 113). Barringer (2012, 514) presented a list of questions for asking a franchisor and current franchisees, as can be seen in table 4.

Table 4 Questions to ask franchisors and franchisees before purchasing a franchise (Barringer 2012, 514)

TABLE 15.5 QUESTIONS TO ASK BEFORE BUYING A FRANCHISE

Questions to Ask a Franchisor

- What is the background of the company and its performance record?
- What is the company's current financial status?
- What are the names, addresses, and phone numbers of existing franchisees in my trade area?
- Describe how you train and mentor your franchisees.
- If at some point I decide to exit the franchise relationship, how does the exit process work?
- In what ways do you work with a franchisee who is struggling?

Questions to Ask Current Franchisees

- How much does your franchise gross per year? How much does it net? Are the procedures followed to make royalty payments to the franchisee burdensome?
- Are the financial projections of revenues, expenses, and profits that the franchisor provided me accurate in your judgment?
- Does the franchisor give you enough assistance in operating your business?
- How many hours, on average, do you work a week?
- How often do you get a vacation?
- Have you been caught off-guard by any unexpected costs or expectations?
- Does your franchisor provide ongoing training and support to you?
- If you had to do it all over again, would you purchase a franchise in this system? Why or why not?

It is crucial to evaluate the value of those trademarks in Finland and compare them to other clothing brands that exist on Finnish market. Besides, franchisees should determine that their products are salable and desirable in Finland. Before buying a clothing brand, by virtue of conducting market researches, franchisees can jump into decision that which clothing styles are favored in Finland; and the clothing items of the potential franchisors will have a sufficient market on Finnish market.

In addition to other aspects, good fits are the ones that entrepreneurs are able to afford. Borrowing too much to open a franchise outlet seems to doom the business from the inception (Scarborough 2012).

In order to avoid conflicts between both parties, franchisees should expose whether franchisors have had experiences in international markets. Entrepreneurs must be cautious of becoming a “test case” for franchisors who want to expand their business to international markets, yet without any experience in this field (Barringer 2012, 523). Clearly, a good side of franchise is that franchisees can gain benefits from experiences of franchisors. So in case franchisors are new the international markets, the benefits that franchisees can have got will become disadvantages.

Barringer (2012, 523) also indicated that franchisees must confirm that they will receive satisfactory amount of training and support. Franchisees should clarify such ambiguous things as whether franchisors will have area representative in Finland or not, if not, whether you have to make international phone calls whenever you want to talk to your franchisors; your franchisors will travel to Finland for training program; who pay the travel fee; who is responsible for advertising in Finland.

4.2 Steps of purchasing a fashion franchise

After the right franchise is selected, franchisees begin to follow a set of purchase procedures carefully. Barringer (2012, 514) showed a seven- step process in purchasing a franchise, which can be seen in figure. Before an agreement is signed, if franchisees find any abnormal thing or have second thoughts, they should cease the process and guarantee that all issues are tackled.

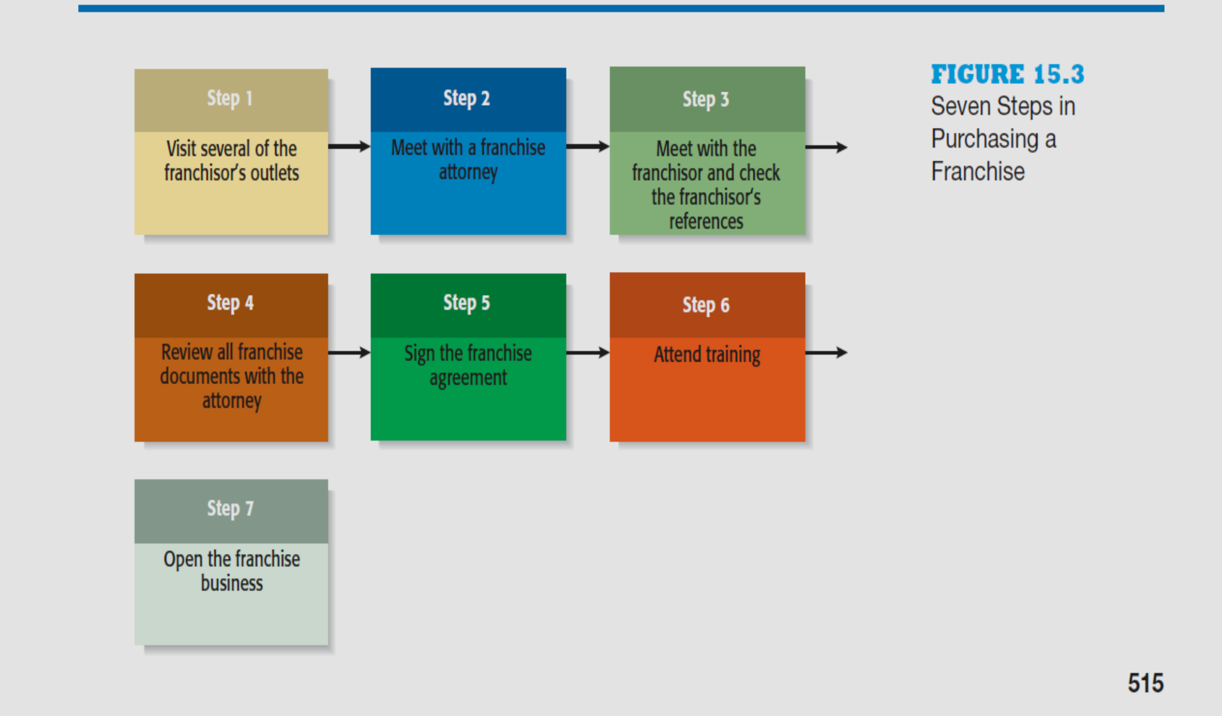

Figure 9 Steps of purchasing a franchise (Barringer 2012, 515)

The first step of the process is to visit various franchisors' stores, observing social surroundings, talking to owners and employees prior to talking to franchisor. These visits are good opportunities for potential franchisees to contemplate once again that they like franchise business, enjoy owning, operating and managing it in the long run. (Barringer 2012, 514)

The second step is to hire an attorney who can represent franchisees' interests. An experienced attorney helps franchisees prepare for meetings with franchisors, reviewing all franchise documents and giving franchisees vital hints.

Followed by the first 2 steps is to meet the franchisor and check the franchisor's references. In the meeting, prospective franchisees should listen to what franchisor says and compare that to what they observed in outlets. Besides, the Franchise Disclosure Document must be shown to franchisees. Barringer (2012, 516) stated that in section 20 of FDD, all the franchisees that have dropped out of the system for the past 3 years are listed. Prospective franchisees should contact these people to ask for further information. Crucially, entrepreneurs should check references thoroughly and have an eye for detail.

As mentioned in step 2, an attorney is hired to assist to-be franchisees. In the step 4, they have to review all the franchise documents, namely, FDD and the franchise agreement.

If everything is going on the right track, it is time for the franchise agreement to be signed. In the chapter 2 of the study, 4 types of franchise agreements were presented. They are individual franchise, area franchise, multi-unit franchise and master franchise. The franchise agreement provides stipulations of the franchisor-franchisee relationship (Barringer 2012, 516)

The sixth step is to attend training program. A stark example of training program in clothing industry is Calliope's training program for franchisees. Calliope indicated that personnel straining is a key element contributing to the development of stores. Trainees and their teams are trained and supported by Calliope's experts, sale consultants with the most effective sales techniques (Calliope franchising).

Eventually, it is time to open a clothing store. This is a very busy and sensitive period for a new store. For the first days, positive word of mouth plays an essential role in marketing; therefore, owners and employees must act subtly and efficiently. Many franchise organizations deploy experienced personnel to assist new franchises. For instance, after the opening of the store, Calliope's franchisees are still supported by consultants and visual merchandisers (Calliope franchising).

5 RESEARCH METHODS

The thesis's topic is International retail franchising in Fashion Industry in Finland, which includes a reach problem named "obstacles and proposals for opening a clothing franchising". Based on the research problem, the writer selected a case study as an in-depth research strategy to explore the problem. The case study is Zara franchise in Finland. Zara franchise was purchased by a Finnish company-Stockmann from Inditex Group - a Spanish fashion company. In addition to the case study, one additional interview with Managing Director of FFA is implemented.

In a nutshell, for the empirical part, the research strategy is case study; the research method is qualitative method; and data collection techniques are interview and documentary analysis.

5.1 Case study

Case study is defined as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence" (Robson 2002,178, according to Saunders et al. 2009, 145). In other words, case study is a method involving systematically gathering enough information about a particular person, social setting, event or a group, which affords researcher to understand how the subject operates and functions (Zagata 2013).

Case study is most often used in explanatory and exploratory research. It is able to generate answers for "why", "what" and "how" questions. (Saunders et al. 2009, 146) Regarding to the topic, a case study is considered as the best choice because the writer can fathom the problem holistically by acquiring a more valid amount of information from experienced people in franchising section in Finland. From 2002 to 2012, Stockmann managed to operate Zara franchise prosperously.

Therefore, exploiting their experiences as well as advices will be beneficial to the thesis.

Regarding to collecting information for case study, multiple techniques can be employed, involving both qualitative methods and quantitative methods. For instance, an individual case study entails 3 data collection techniques, namely, interviews, observation and documentary analysis. In this study, to acquire information about Zara and Stockmann, interviews and documentary analysis were utilized.

Like other research strategies, case study contains certain advantages and disadvantages. While case study provides researchers a rich and holistic understanding of the phenomenon and simplify complex concepts, the results from case study may be biased, subjective and rarely be generalized. Yet, if the case study is conducted properly, it still provides understanding about similar groups and cases.

5.2 Qualitative methods

In order to collect abundant information for the case study, qualitative method will be utilized. Qualitative method was chosen since the researcher aims to gain a deep exploration as to the case. It is very essential to have a comprehensive view of how Stockmann was granted the franchise from Inditex Group. Thanks to the interview with former Deputy to CEO of Stockmann, the interview with Managing Director of FFA and relevant document study, research questions will be resolved based on practical knowledge.

5.2.1 Definition

Research methods entail qualitative method and quantitative method. The dissimilarity between them is that qualitative method focuses on non-numeric (words) data and the quantitative method focuses on numeric (numbers) data.

Basically, qualitative method refers to data collection technique such as interviews and data analysis procedure such as categorizing that resort to non-numerical data. (Saunders, Lewis& Thornhil 2009, 151)

Table 5 Typical data collection techniques of qualitative and quantitative methods

(Isaacs 2015)

Qualitative methods	**Quantitative methods**
Interviews	Mail survey
Documents and content analysis	Phone survey
Text	Face to face survey
Visual and audiovisual documents	Web survey
Observation	Observation
Project methods	Combination of several

5.2.2 Pros and cons

First and foremost, qualitative method possesses a higher validity. Validity means truthfulness and how well the answers fit actual reality. For example, the targeted interviewees in Stockmann have a good understanding of Zara franchise, so their opinions and ideas may be close to the reality.

As I mentioned above, I selected qualitative method for a detailed and complete description, which is also one of its advantages. By using qualitative method, the author can have an in-depth as well as holistic look at the case. If interviewees are competent, skilful and experienced people in the industry, the results researchers achieve will be amazing. Additionally, documentation study plays a very important role which indicates proved facts.

By contrast with high validity, qualitative method tends to be less reliable. Reliability is dependability or consistency. In other words, it means that answers remain the same under similar conditions. It is obvious that in qualitative method, results are based on individuals' interpretation of events, participants' observation. Therefore, qualitative method is said to be subjective and biased.

Moreover, using qualitative method, the researcher may face a barrier that she cannot approach the right person or access organizations' information. Not every organization is willing to share facts or documents. Besides, an interview from important people relating to the research questions is probably hard to accomplish.

5.2.3 Interview

Kahn and Cannell (1957) stated that "an interview is a purposeful discussion between two or more people" (according to Saunders, et al. 2009, 318). From interviews, interviewers can gather valid data relevant to research questions and objectives. There are different types of interviews and various ways of forming them. Saunders, et al. (2009, 321) demonstrated forms of interview, which can be seen in figure 10.

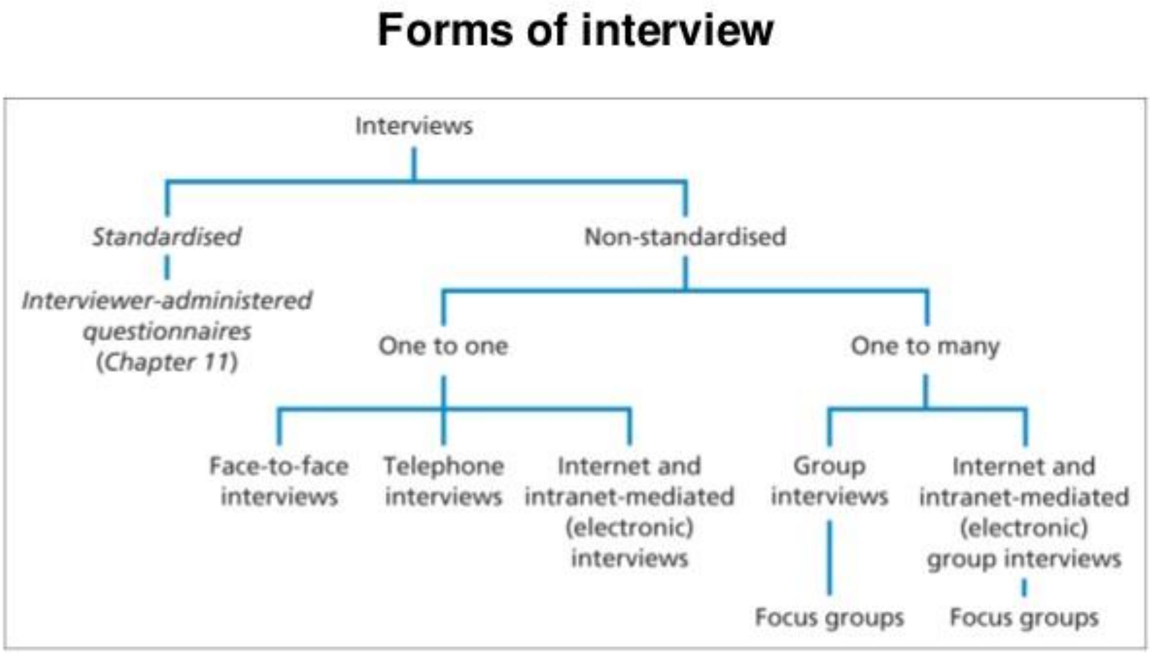

Figure 10 Forms of interview (Saunders et al. 2009, 321)

Specifically, interviews are classified as standardized and non- standardized. Standardized interview means that interviewers play a major role in administering questions. Meanwhile, non- standardized interview refers to number of participants, which can be one to one or one to many. “One to one” interviews are conducted by meeting targeted interviewee face to face or by telephone or via Internet and intranet; whereas “one to many” interviews mean direct group interviews as well as electronic group interviews.

In this study, “one to one” electronic interview is employed. To specify, interviews are conducted thorough emails. Morgan and Symon (2004) defined an email interview as a series of emails each of which containing a small number of questions. Email interviews are advantageous to this study because it allows interviewees to contemplate the questions prior to providing responses. Besides, due to time barrier & distance barrier, email interviews were preferred by both the interviewer and interviewees.

With the aim of collecting enough answers for research questions, 2 email interviews were conducted. The first interviewee is Mr. Jukka Hienonen - the former Deputy to CEO of Stockmann as well as the former Director of Department Store Division, who participated in bringing Zara from Spain to Finland. The second interview is implemented with Mr. Juha Vastamäki- Managing Director of Finnish Franchising Association.

Both interviews lasted for some weeks because of the time delay between the questions asked and answered. The email interview with Mr. Jukka Hienonen lasted from May 13, 2015 to May 21, 2015 (2 weeks), while the interview with Mr. Juha Vastamäki lasted from April 28, 2015 to June 11, 2015. The interviewees were enthusiastic about answering questions; and they provided valuable information for the thesis.

5.2.4 Documentary analysis

Documentary analysis is a type of secondary data. Secondary data refers to reanalysed data that have been collected for other purposes. Documentary secondary data can be used with other sources of data. Documentary sources are not always available because it depends on accessibility of researchers to case organisation's records.

Disman (1996) stated documents are any tangible evidences of human activity that was not produced for the purpose of our research (According to Zagata 2003). Documentary data includes written materials such as newspapers, reports, organisations' websites, interview transcripts; and non- written materials like television programmes, video& voice recordings, and organisations' databases. (Saunders et al 2009, 256)

In addition to the interview, all documents related to Stockmann's history and Zara franchise were used in order to support solving 2 main research questions. These documents include company's reports, online articles and newspapers that include previous interview transcripts, in which Stockmann annual report in 2002 and 1 article from Optio newspaper were provided by Cooperate Communications Department of Stockmann Group by email on April 28, 2015. Besides, 1 online article in 2002 is from Talouselämä newspaper and still available on its website; Stockmann annual report 2014 was found from Stockmann's website; 1 online article in 2001 from CCN; 1 online article in 2008 from The Telegraph UK; Inditex website, and 1 online publication about Inditex Group. All these documents are enclosed below in Appendices and Bibliography.

5.3 Reliability and validity of the research

Firstly, reliability is the dependability or consistency of data collection techniques or analysis procedures. It indicates whether the same things are repeated or recur under the identical or very similar conditions (Zagata 2013). So as to assess the reliability of the study, the following questions are asked:

1. Will the measures yield the same results on other occasions?
2. Will similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?
   (Easterby-Smith et al. 2008, 109; according to Saunders et al. 2009, 156)

For the first question, the answer is probably no. Because this study is conducted in 2015, many things will change in the near future, from population to policy and political issues. Therefore, the obstacles for franchisees are likely to lessen.

Secondly, similar observations may be reached by other observers because some of the findings are obvious in real life. For example, the small population and the expensiveness in Finland are quite clear to everyone. Also, both interviewees indicated answers which are almost the same. Yet, some findings are based on both interviewees' experiences and the way they interpret the situation. Therefore, the answer for the second question is maybe.

The third question is absolutely yes. The researcher displayed the clear source of documents, interview questions which are enclosed in bibliography and appendices. Name of the interviewees, interview time and interview methods are explained clearly in chapter 5- Research methods. Answers by personal emails or contact information are still saved for further supervision if necessary.

Concerning validity, it means truthfulness and how well the answers fit actual reality. The interviewees have been working in franchise business for a long time so their answers are all authentic and close to reality. That the first interviewee participated in the process of Stockmann getting Zara franchise and his position in Stockmann was presented in the documents and articles sent by Stockmann Corporate Communications. Therefore, his answer about Zara case is valid. The second interviewee is the Managing Director of The Finnish Franchising Association; so his understanding of the situation of Franchising in Finland is undeniable.

When it comes to generalizability, results for research questions might be generalizable because results were found not only from one organization or a single case study but also explicated by the Director of Finnish franchising Association which has worked with other Finnish companies regarding franchise business.

6 DATA COLLECTION AND FINDINGS

6.1 Case study- Stockmann and Zara franchise

6.1.1 Stockmann

Stockmann is a Finnish listed company that engages in the retail trade. It was established by a German merchant from Lübeck, named Heinrich Georg Franz Stockmann in 1862.

In 2014, its revenue was EUR 1844.5 million; and it has approximately 55 000 shareholders. As the beginning of 2015, Stockmann has 3 divisions, say, Stockmann retail, Real Estate and Fashion Chains. The Group has 16 department stores in total and over 650 fashion stores in 16 countries and 5 online stores. Also, Stockmann's most well-known retail brands are Stockmann, Lindex, Hobby Hall, and the Academic Bookstore. Regarding to Fashion chain Division, it contains 2 famous brands – Lindex and Seppälä (Annual report 2014 Stockmann 2015).

The main goal of Stockmann is to satisfy customers in all its areas of business. To Stockmann, "business is always about understanding customers. The success stories of the future in retail will be companies who don't just offer goods and services, but really listen to customers; understand them, take their problems seriously, are able to predict their wishes and in addition to all this, produce memorable experiences." (Annual report 2002 Stockmann 2003)

Stockmann group possesses 5 core values that guide its internal conducts and external manners. They are profit orientation, customer orientation, performance efficiency, goal commitment and respect for people.

6.1.2 Inditex group

Inditex is one of the biggest fashion retail groups in the world, headquartered in Arteixo, Galicia in with the possession of 8 famous brands, namely, Zara, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. Having started life as a dressmaker in 1963, Inditex Group now becomes a giant Spanish International clothing company with 6460 stores in 88 countries and includes a hundred companies engaged in fashion design, textile manufacturing and distribution business. (Inditex group 2013; About us, Inditex)

Inditex Group was founded by Amancio Ortega, who used to be a textile maker and is currently the largest shareholder in Inditex as well as one of the richest men in the world. Inditex's business model goes towards creativity, quality design and quick response to customer demands. They aim for flexibility and ability, which means they are capable to adapt to customers' demands in the shortest time (Inditex Group 2013). All of these enable the Group to expand internationally quickly and intrigue global customers.

Internationalization is a part of Inditex's strategy from the beginning. In order to succeed in new markets, Inditex's tactic is no more than "going from stores to stores, listening to customers, and steering which fashion they might be interested in" (Inditex Group 2013). In 1988, it started expanding abroad with the first Zara store being opened in Porto, Portugal (Inditex, our history). Since that, the group never ceased soaring to different parts of the world, especially to Europe, the Americas and Asia. For Inditex, Zara has been the first chain that pioneers in global expansion, from which Inditex has gathered more experiences in internationalizing and taking other chains worldwide.

6.1.3 Zara concept

Generally, Zara is a Spanish clothing and accessories retailer and the flagship chain of Inditex Group. In 1975, the first Zara store was opened in the coastal town of A Coruña in the northwest of Spain. Up till now, Zara has had over 2000 stores in leading cities across 88 countries. (Brands, Zara). Zara stores have women's, men's and kids' clothing, along with accessories.

Zara was said to be "possibly the most innovative and devastating retailer in the world" by LVMH fashion director Daniel Piette. Zara's success secret is having total control of every part of the business, from design, production to distribution process. The majorities of their products are manufactured in hinterland of Spain and Portugal (Nykänen 2012). Specifically, 50% of its products are made in Spain, 26% in Europe and 24% elsewhere (Armstrong 2008).

Besides, Zara also reacts rapidly to changing market trends and customers' taste. While its rivals, Gaps and H&M, used to spend 9 months to update new product lines, Zara only needed 2 or 3 weeks. (Zara, A Spanish success story 2001). This encourages customers to visit stores frequently. Zara is capable of seeing weak signals, keeping track of the trends and acting quickly. The designers mingle into the youngsters' meeting places and for example among clothing designers of the new movies. When they see some fascinating outfits dressed by the young, they buy those and deliver them fast to Spain. In a couple of days, the first batch was released. (Vihma 2008)

Additionally, Zara says "no" to advertising, in contrast to its competitors. Inditex spends only 0.3% on advertising, while fashion retailers traditionally expend approximately 4% of their revenue. Amancio Ortega- Inditex's founder thinks that advertising is a worthless distraction (Zara, a Spanish success story 2001). Instead, Zara changes its window displays in flagship stores swiftly to promote word-of- mouth marketing (Armstrong 2008).

Zara always endeavours to satisfy customers' demands regardless of cultures and ages. Zara appreciates customers' input by taking their feedback, understanding what they want and delivering them. Jose Maria Castellano, the former CEO of Inditex called this as "democratisation of fashion" (Zara, a Spanish success story 2001).

6.1.4 Zara to Finland

In 2002, Zara officially set its foot on Finland, after a franchising agreement was signed by Inditex Group and Stockmann in June 2001. The first 1600 square meter Zara store was opened in Aleksanterinkatu in the centre of Helsinki, right across Stockmann's main entrance. In the same year, 2 more stores were opened, one in Helsinki's Itäkeskus Shopping Centre and one in Turku's Hansa Block. (Annual report 2002 Stockmann 2003) In total, there are 4 Zara stores in Finland, 2 in Helsinki, 1 in Turku and 1 in Vantaa.

The uniqueness of Zara was an obstacle for Stockmann before the franchise agreement was signed. Mr. Hienonen- Department Store Manager of Stockmann at the time recalled after the business trip to A Coruna: "Everything completely stopped. When we came back home, we felt that Zara had taken everything from the foundation, what we thought we could do and what we believed. The whole thought had to be redone". (Vihma 2008) This means the difference between the operation way of Zara and Stockmann.

As soon as Zara was opened, Finnish customers were quickly attracted to Zara's trendy clothes, bringing a positive turnover to Zara (Stockmann annual report 2002), without the intervention of advertisements. Its success exceeded the expectation and Mr. Jukka Hienonen - said that "the start has been very great" (Vihma 2008).

On March 1, 2013, Inditex and Stockmann agreed to end the franchising co-operation in Finland. Four Zara franchising stores in Finland and approximately 180 employees were transferred to Inditex through the sale of Stockmann's subsidiary Z-Fashion Finland Oy which is responsible for franchising business. (Penttilä 2013)

Since 2002 to 2012, the franchising business with Inditex generated slightly positive profit for Stockmann. Revenue of Zara Finland, in total, was 22 million in 2012. "Zara has been a better lesson for Stockmann than any business school could give. It aroused to notice that what kinds of forces for change are afoot" Mr. Hienonen says (Vihma 2008).

6.1.5 Findings from the interview

Due to the fact that Stockmann and Inditex Group ended the franchising agreement in 2013, it was difficult to contact the targeted interviewee who had been connected to Zara franchise. The concerned people left Stockmann Group to a new company, so they refused to reveal information about their previous workplace. Also, the Corporate Communications of Stockmann responded that it is unlikely to find any person concerning to the beginning of Zara franchise.

Fortunately, thanks to the documents provided by Stockmann Corporate Communications, Mr. Jukka Hienonen who was involved in bringing Zara to Finland was found. He was the Deputy to CEO in Stockmann Group from March 2000 to September 2005, and the former Director of Department Store Division. He was also one of 3 directors that went to Spain to visit Zara after Inditex rejected taking Zara stores to Stockmann's department stores for the first time. After being contacted on May 13, 2015, he was willing to reply and provide helpful information. The email interview ended on May 21, 2015.

The interview was classified into 4 categories, namely, before purchasing Zara franchise, purchasing Zara franchise, advantages & disadvantages of bringing Zara franchise to Finland, and proposals for opening international franchise in Finland.

Before purchasing Zara franchise

Stockmann decided to choose Zara because Zara was identified as the most interesting retail concept. Mr. Hienonen stated that they knew quite well that how Zara had operated elsewhere. Since Zara was not present in Finland that time, it was obvious that it would succeed. Stockmann did not conduct any specific market research in Finland. Their ultimate target is to get Zara to Russia, Finland was just a step to do it.

Purchasing Zara franchise

The franchise agreement between Stockmann and Inditex was country franchise, first in Finland and later in Russia. The agreement between Stockmann and Inditex Group indicates that both parties had their obligations and rights. Stockmann was responsible for the expansion costs such as setting up the stores, hiring people and buying the merchandise. In the meanwhile, Inditex supported Stockmann by providing training program for Stockmann's selected personnel.

Advantages and disadvantages of bringing Zara franchise to Finland

Stockmann had a flying start with Zara because it is a proven concept or well-known brand. Besides, the agreement between Stockmann and Inditex were negotiated so well that when the profitability from Zara Finland was not prosperous, Inditex Group decided to take over it after 2 years of operation. Mr. Hienonen stated that they already took the situation into account from the beginning when the agreement had been signed and the agreement was quite good.

The obstacles that Stockmann faced were high investment and the small amount of customers. Finland is a small country ; therefore, customer amounts were low or inadequate. When it comes to investments, Zara only accepts the best possible locations to open the stores, which means very expensive rental agreements. Zara store concept's interior cost was 1500€/ m^2. Furthermore, Inditex requires plenty of service personnel. Hiring an employee costs approximately 2000€/month in Finland, whereas in Spain that only costs about 1000€/month.

According to Mr. Hienonen, inventory and franchise fee are just small charges compared to other costs. Inventory rotates 12 times per year; as a result, that is not an issue, either.

In brief, investing in the store concept in Zara's case is very expensive but understandable. It was a good business after all.

Proposals for opening clothing franchise in Finland for potential franchisees.

Prospective franchisees seldom have an access to a world – class player like Zara whose business case is so strong and proven in a number of markets.

In order to succeed in most cases, to-be franchisees will have to do their homework better by analysing the market, understanding the costs and returns. Also, agreements must be negotiated before they even start because it is impossible to go different paths when the franchise business already starts.

6.2 Interview with the Managing Director of FFA

Besides the case study, an interview with the Managing Director of the Finnish Franchising Association was conducted in order to achieve a broader range of information regarding fashion franchise in Finland. The email interview with Mr. Juha Vastamäki lasted a bit longer, almost 7 weeks, due to a matter of time as well as his workload. Yet, the answers he provided were very useful and beneficial to the research.

Introduction of the interviewee and FFA

Mr. Juha Vastamäki is the Executive Director in Finnish Franchising Association and has been involved in franchising business since 1995. He defined the franchisor as the company that allows an individual (franchisee) to run a location of their business. The franchisor owns the overarching company, trademarks, and products. The franchisee is given the right to run the franchise location by the franchisor, in return for an agreed-upon fee.

The Finnish Franchising Association, founded in 1988, is an organization which goals are to stimulate the collaboration of companies in the franchising business.

Furthermore, it aims to encourage good franchising behavior, increase knowledge about franchising and handle the relations towards the authorities and franchising associations throughout the world.

To achieve its goals, the association arranges meetings, seminars and training sessions, publishes pamphlets, books, and websites; makes statements and gives advice. The association also produces information and statistics about franchising in Finland. General information is broadcasted through its web pages, but one important media is also the publication named “Franchising Suomessa”.

The association is a member of the European Franchise Federation (EFF) and the World Franchise Council (WFC); and FFA also has good relations with other European associations. Through EFF and other channels, the association is given the possibility to have an effect on the European franchising legislation.

Exploration of international franchising in fashion industry in Finland

According to Mr. Vastamäki, there is not official data available about fashion industry and franchising in Finland. Some of international fashion brands are established in Finland under franchise business or others such as Mark & Spencer, Benetton, Mango, Lindex, Maxmara, Zizzi, Ulla Popken.

Franchising is one of the fastest growing business models in the world. Many international franchise companies are monitoring Finnish markets and have the intention of establishing in Finland. There already exist some clothing franchises in Finland and more are becoming interested in. Concerning fashion industry, more available information about companies and clothing brands in Finland can be found from Muotikaupan Liitto ry. – Fashion Trade Union, which is located in Helsinki.

Advantages and disadvantages of opening clothing franchise in Finland

Overall, fashion industry is not so much different than other franchise businesses. Opening clothing franchise has the same advantages and disadvantages with other franchises.

When it comes to advantages, Finland is a safe country with good buying power and high GDP. Finland has a reliable legislation. Franchising isn’t regulated by the laws or by the government. Also, there are relatively good financing possibilities.

However, the challenges in Finland are small population with only 5, 5 million people, long distances between cities, and a few big cities. Additionally, cost of logistics may be high; and it could be hard to build big enough chains. Wages in Finland are also high. For franchisees, finding investors and franchisors is probably challenging.

When asked about Finnish franchisees that failed in opening international franchise, Mr. Vastamäki stated that most failures happen if business is not profitable enough. Usually, the business plans are too optimistic or otherwise, inadequate. Sometimes, a franchisee will run out of money because financing for start-up is too small.

Shortly, the most common obstacles are tiny market, problems in finding master franchisors and financial issues or good locations.

Proposals for franchisees and franchisors

A good plan includes market research and gets a suitable financing, so that the business will not run of money if the business does not fly as thought.

Franchisees should do their homework, make considerations and make a good business plan. Do not hesitate to use professional help with contracts such as hiring lawyers and consultants. For franchisors, they should invest enough time and money to recruiting franchisees.

A wise advice is to join FFA in order to gain credibility and help from FFA's networks. FFA can help with networks, publicity and advices. Although FFA supports international franchise, every party has to work on their own success.

Future of international apparel franchise

Based on current facts, he is convinced that international franchise will become more popular in clothing industry. After some recent business meetings with French fashion people, he realized that there are several French fashion brands becoming intrigued by Finnish markets.

International apparel franchise will potentially contribute significantly to Finnish retail franchise. Nevertheless, retail business probably has the biggest challenges with on-line shopping, especially in clothing business. Winners will tackle the combination of on-line shopping and traditional stores. What the new government is going to do will have a big influence on how any businesses develop in the near future. The start and the programs are promising, however.

7 EVALUATION OF FINDINGS

As introduced in the beginning, the objective of the thesis is to explore international clothing franchise in Finland. The research problems are what challenges Finnish franchisees encounter when bringing clothing franchise to Finland and recommendations for success of franchise business. Findings from the study were totally related to the goal as well as the relevant theories in theory chapters. These results test the relevance of details in the literature review, correct & supplement them and importantly, solve the research problem.

7.1 Status of international clothing franchise

First of all, answers from the interview with Mr. Vastamäki shows the situation of franchising in general and international clothing franchise in Finland in particular. This plays an important role in forming an overall idea in prospective franchisees' minds about the development of franchise and the position of apparel franchise in the future.

Mr. Vastamäki presented a fact that franchising is one of the fastest growing business models in the world and international franchise will become more popular in clothing industry. Many international companies are interested in Finnish markets, particularly French fashion brands. Therefore, there is more possibility for to-be franchisees looking for potential international franchisors. There exist international clothing brands in Finland and Fashion trade Union – Muotikaupan Liitto ry where franchisees can find more information about clothing brands in Finland. Besides, international apparel franchise will contribute considerably to Finnish retail franchise, which again affirms the significance of clothing franchise to retail franchise. The interviewee also said that programs of the new government which was set up by Juha Sipilä- Prime Minister of Finland since 2015 will be promising and have a big impact on the business in the future. These encourage prospective franchisees to follow their goals and materialize their business plans.

Regarding to benefits of opening an international franchise in Finland, in the theoretical part, the hypotheses are that Finland is a high income country with high GDP; supports from franchising associations; and increasing consumption of clothes. Mr. Vastamäki indicated almost similar advantages such as good buying power, high GDP; reliable legislation; good financing possibilities; and franchising is not regulated by the government. These benefits are the motivations for to-be franchisees building an international franchise in Finland.

7.2 Zara franchise Finland exemplifies the theories.

Mr. Hienonen indicated that Zara was selected as a franchise owing to its interesting retail concept and its reputation in other parts of the world. The flying start with Zara was also thanks to its proven concept and well-known-ness. These things were mentioned before in the theory chapter, purchasing franchise (Figure 8), as important aspects of considering potential franchisors. Stockmann selected Zara based on those criteria, leading them to the success.

Besides, in the t6heory, there 4 types of franchise agreements and Zara franchise agreement was country franchise, which belongs to area franchise. Stockmann has right to open stores in a particular area or in other words, in a specific country.

Moreover, it is said earlier that franchisees are responsible for additional costs and franchisors provide supports along with training programs. That is exactly what Stockmann and Inditex did. Stockmann was in charge of expansion costs such as setting up the store and hiring people, while Stockmann implemented training programs for Stockmann’s personnel. To franchisees, expansion costs are considered as disadvantages but training programs from franchisors are advantages.

7.3 Research questions are solved

The study aims to answer 2 main research questions, which are:

Question1: What obstacles do franchisees face when they bring an international apparel franchise to Finland?

Question2: What should franchisees do in order to be successful in fashion franchise in Finland?

These 2 questions were not only answered in the literature review but also unraveled in both interviews. Eventually, both research questions were solved, meeting the objectives of the study.

For the first question, results from both interviewees are almost the same. The main obstacle for international franchise in Finland is market size. Finland is a small market with a few big cities, so it is not easy to find good locations as international franchisors' expectations. The small population with 5 439 million (2013) causes a low amount of customers. Secondly, financial issues are a concern, including high investments, high rent of good location (about 1500€/ $m^{2)}$, high wages (approximately 2000€/ person/month) and high cost of logistics, in addition to insufficient financing. High cost of logistics is partly caused by long distance between countries, leading to challenges in building big chains. International franchisors require locations in the city center for stores and a big number of personnel, which are too expensive in Finland. Inventory, franchisee fee and royalty fees are just small expenditures compared to other fees.

Additionally, Finnish franchisees have difficulty in finding suitable franchisor and investors and seldom have access to world-class franchisors, as the result of the main obstacles mentioned above. Also, international franchise will be in the game with the main competitors, say, e-commerce and traditional stores.

In order to open successful international clothing franchise, the franchisees are recommended to have a good plan with conducting a thorough market research and analysis; understand the costs and returns, simultaneously attain a good source of finance; hire lawyers or consultant to attain professional helps for agreements and legal issues. Speaking of agreements, agreements should be well-negotiated to open exists in case the business is unprofitable. Equally important, choosing a well-known franchisor with proven concept and endeavoring to cooperate with them will contribute noticeably to the success of the business.

Equally important, franchisees should visit associations in Finland like FFA or Muotikaupan Liitto ry for more information. Specifically, franchisees should join FFA to gain advices, networks and knowledge concerning all matters of franchising, whereas from Muotikaupan Liitto, they can have more information about clothing brands in Finland during the process of analyzing the market.

8 CONCLUSION

8.1 Conclusion

The whole study was implemented with the aim of understanding international clothing franchise in general and international fashion franchise in Finland in particular. Importantly, the study concentrates on resolving the problem, say, what obstacles Finnish franchisees encounter when opening an international clothing franchise in Finland and what should they do to be successful in clothing franchise business. Zara Franchise in Finland and Stockmann were typical example for international clothing franchise and prosperous franchisees in Finland. Findings from both the theoretical and empirical part of this study are utilized to bring potential Finnish franchisees a reference source.

8.1.1 Summary of the literature review

In brief, franchising is one of the fastest flourishing business models in the world. In fashion industry, franchising is no longer a new model. It is a good way for franchisors to enter new markets and for franchisees to work with well-known clothing brands. International clothing brand plays a remarkable part in Finnish retail franchise. There is already a number of international clothing brands in Finland and more and more are becoming interested in Finnish markets.

Regarding franchise agreements, there exist 4 types, namely, individual franchise, area franchise, multi-unit franchise and master franchise. Franchise system, otherwise, includes 3 types which are trade name, product distribution and pure franchise.

In the chapter 3, advantages of opening an international clothing franchise were indicated. They are clothing as essential commodity, reputation and proven concept of franchisors and training program as well as advertisement of franchisors to promote sales. Yet, disadvantages are market saturation, high investments, updating the inventory frequently, following the rule rigidly, and creative restriction.

The chapter 4 presented the process of purchasing a fashion franchise. Before purchasing, franchisee should consider if franchise is for them, calculate cost of franchise, analyse market, consider legal issues and find a good franchisor. Steps of purchasing a franchise are to visit franchisor's outlets, meet a franchise attorney, meet the franchisors and check the franchisors' references, review all franchise documents, sign the agreement, attending training and finally open the franchise business. (Barringer 2012, 515)

8.1.2 Summary of the empirical part

For the empirical part, the research methods are Case study combined with qualitative methods. Collecting information was mainly based on documents and interviews. Zara Finland brought to Finland by Stockmann was an outstanding case to exemplify the literature review. Zara Finland was not only a business lesson for the franchisee-Stockmann but also an international experience for Inditex Group- the franchisor. Especially, that Zara was exploited in the study helps readers have a better understanding of Zara- a fast fashion player, Stockmann- a big Finnish listed company and Inditex Group – the biggest multinational fashion group in the world. Essentially, analysis of the case study and the interview with Mr. Jukka Hienonen, who was involved in the process of Zara franchising partly gave answers to the research question.

Since 2002 to 2012, under the management of Stockmann, Zara Finland was a good business, despite high investments. Thanks to its proven concept, Finnish customers were attracted to its trendy clothes, bringing good turnover to

Stockmann. Investments into Zara were expensive due to a large number of service personnel, high salary and rent of central location.

The interview with the Managing Director of the Finnish Franchising Association brought more details to the study. FFA was introduced as a place where franchisors and franchisees can seek for advices, networks and knowledge about franchising. Besides, the situation of international franchise and fashion industry in Finland, advantages and disadvantages of opening a franchise, recommendations and future of the international clothing franchise was displayed. Finland is a promising land for franchise business thanks to good buying power, high GDP; reliable legislation; good financing possibilities; and franchising is not regulated by the government. The future of international clothing franchise is believed to be optimistic.

8.1.3 Summary of the answers for the research questions.

The study fulfilled the objectives and explicated 2 main research questions that were pointed out since the beginning. The table 6 listed the obstacles that Finnish franchisees face when bringing an international clothing store to Finland under franchise business. Finally, there are some tips or suggestions for them, which is hopefully beneficial to their future franchise businesses.

Table 6 Summary of answers for the research questions

Obstacles	- Market size: Small market, lack of customers. - Store location: lack of good location due to a few big cities. - Financial issues: high investments, high wages, high rent of central locations, cost of logistics (Requirements from international franchisors cost a lot in Finland)

	- Expansion: Challenges in building big chains - Difficulty in finding top-notch franchisors and investors due to the impact of other mentioned obstacles - Competitors: E-commerce and conventional stores
Recommendations	- A good plan Thorough market research Analyse market - Financial issues: Evaluation of costs and returns Acquire a good source of finance - Agreements : Well-negotiated to have open exits - Professional helps :Hiring lawyers and consultants - Help from associations: Help from FFA and information about fashion industry from Muotikaupan Liitto – Fashion trade Union in Finland.

8.2 Recommendation for further studies

As clarified from the beginning, the study mainly focuses on franchisee's perspective. Even though some matters concerning franchisors were mentioned, the purpose and the research problem of the study are inclined to franchisees.

For further study, it is suggested that a research about Finnish clothing brands who would like to go overseas under franchise model is conducted. Internationalization will be a big step for Finnish fashion in order to survive, rather than being hemmed in the small domestic market. “Finnish fashion has just developed a great deal and there is an international demand for it” (Koski, according to Popponen 2014). In order for Finnish fashion brands going abroad, the questions can be researched are, for instance, what their international expansion strategy should be, what they need to prepare and how they compete with other big clothing competitors across the world. Based on this issue, an intriguing study may be created.

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APPENDICES

Appendix 1 Questions for interview 1- Questions about Zara franchise

Before purchasing Zara franchise

1 Why did Stockmann choose Zara? What to consider before choosing a right franchisor?

2 How important is market research?

Purchasing Zara franchise

1. What kind of franchise agreement Stockmann and Inditex signed?(Individual franchise, area franchise, master franchise, multi-unit franchise)
2. Type of franchise Stockmann use when buy Zara franchise (Tradename or business format).
3. How Inditex supported Stockmann? Training program for Stockmann
4. Advantages and disadvantages when bringing zara franchise to Finland?
5. Obstacles for Inditex group and Stockmann? What challenges Zara franchise face from the first day of launching till now?
6. Financial thing: what is the most costly when buying a franchise?

Proposals for opening franchise in Finland for potential franchisees

7. What should franchisees take into consideration?

Appendix 2 Questions for interview 2- The questions about clothing franchise

Opening questions:

1. Can you introduce about yourself? How long have you been working in franchise field?

2. Can you introduce something about Finnish Franchising Organization?

Probing questions

Part 1: Exploration of international franchising in fashion industry in Finland

3. With your hands-on experiences, what do you think about international franchising in general? International clothing franchise in Finland?
4. In clothing industry in Finland, what is the first company that pioneers International retail franchise? What is the most successful company in international retail franchise in fashion industry?
5. Typical types of international franchising in Finland in general? In fashion industry? Typical types of franchise agreement?

Part 2: Obstacles of opening an international franchise in Finland, particularly in fashion industry

1. In your opinion, what are advantages and disadvantages of building an imported franchise in Finland? (To both parties: franchisers and franchisees). How about in fashion industry?

2. Obstacles or main challenges that franchisers and franchisees encounter? Do you know any example of Finnish franchisees that failed in opening international franchise in fashion industry? What lessons can we learn from their failures?

Part 3: Solutions and proposals

1. What are the best solutions for those obstacles?

2. Is there any hint that you could propose to new franchisees in fashion industry and international franchisers who are eager to access Finnish market in order to be successful?

3. What can FFA do to support new franchisees and boost International franchise?

Part 4: Future of international apparel franchise

1. Based on the current facts, do you think that in the future, international franchise will become more popular in clothing industry?

2. Will international apparel franchise contribute significantly to Finnish retail franchise?

Appendix 3 Annual report 2002 Stockmann: Major events in 2002

MAJOR EVENTS IN 2002

JANUARY

• Stockmann opened a new full-service Ford dealership and tyre service outlet along Ringroad III in the Tikkurila district of Vantaa as well as an Outlet oddment store for the department stores.

FEBRUARY

• Stockmann celebrated its 140th birthday on February 1st by putting in a good day's work.

• The Stockmann Exclusive card was launched for key loyal customers. To be eligible to receive an Exclusive card that offers a host of special benefits, one must have annual purchases above a certain level, which is 2 000 euros at present.

• Construction works on the Riga department store got under way in the centre of town. The building will have a total of 32 000 square metres of floor space, of which the retail sales space of the Stockmann department store will come to 11 000 square metres. The building, which also houses – among other attractions – a 14-cinema film centre, will be completed on schedule in autumn 2003.

MARCH

• The Moscow department store was expanded by 1 500 square metres, bringing its retail sales space to a total of about 6 500 square metres.

APRIL

• The Stockmann Account Card became an accepted means of payment at all Alko wines and spirits shops.

• In Helsinki's Aleksanterinkatu, Stockmann opened Finland's first Zara store, which has about 1 600 square metres of retail space.

MAY

• Hobby Hall opened a new store with approx. 1 400 square metres of sales space in Helsinki's Herttoniemi district.

• Hobby Hall opened a new store with more than 1 000 square metres of retail sales space in the Rocca al Mare Shopping Centre in Tallinn.

• The Hobby Hall store in Vantaa's Tammisto district was expanded by 650 square metres, bringing the retail sales space to 2 000 square metres.

JUNE

• The cornerstone of the Riga department store was laid.

• Hobby Hall celebrated its 40th birthday.

• In line with Stockmann's strategy of freeing up capital, the company sold its logistics buildings in Vantaa, which were used by Hobby Hall, to Nordea Life Assurance Finland Ltd. Stockmann rented the properties sold for Hobby Hall's operations by signing a long-term lease with the new owner.

JULY

• The enlargement of the Academic Bookstore in the centre of Helsinki was completed. It comprises an additional floor that provides about 500 square metres of new retail space.

AUGUST

• Stockmann signed a Letter of Intent with Polar Real Estate Corporation and Mutual Insurance Company Pension-Fennia on the leasing of space in the planned extension of the Jumbo Shopping Centre in Vantaa to a Stockmann department store. According to plans, the department store will have about 11 000 square metres of retail sales space. The project is estimated to be completed in 2005.

• Stockmann signed a preliminary agreement with ZAO Znamenskaya, the Russian subsidiary of SPAG of Germany, on the opening of a department store in a modern shopping centre right in the heart of St Petersburg. The department store will be located along Nevsky Prospect, the town's main street. According to plans, it will have about 8 000 square metres of floor space and will be completed in 2005.

SEPTEMBER

• Stockmann's Board of Directors approved a major remake plan for enlargement and modification works on the Helsinki department store. According to the plan, the department store's commercial facilities will be expanded by about 10 000 square metres of retail space both by converting present areas that are in other use to commercial use and by building new space. Completely new goods handling and maintenance areas will be built for the department store as well as access passages to the new customer car-park. After the enlargement, the department store will have about 50 000 square metres of retail space. The project, which is planned for completion in 2007, has been dubbed the "All-time Stockmann".

• The enlargement of the Delicatessen of the Itäkeskus department store was completed. An Alko wines and spirits shop was opened in connection with the Delicatessen.

• When Stockmann's Mitsubishi-Skoda dealership was wound up in the premises in Lauttasaari in June, a servicing outlet and tyre service for Audi, Volkswagen and Ford vehicles was opened in the same premises in September.

OCTOBER

• Stockmann and the Inditex Group of Spain signed an agreement according to which Stockmann received the Zara fashion store chain's franchise rights in the territory of the entire Russian Federation. Russia's first Zara store, with about 1 800 square metres of floor space, will be opened in the Mega Shopping Centre in Moscow in spring 2003.

• Stockmann announced that in spring 2003 it would open new Zara stores in Helsinki's Itäkeskus shopping centre and at the Hansa Block shopping centre in the centre of Turku.

• Hobby Hall launched a programme of measures with the aim of improving profitability by achieving cost savings of about 6 million euros.

NOVEMBER

• The first stores of the Stockmann Beauty cosmetics chain were opened at the Trio shopping centre in downtown Lahti and at the Jumbo Shopping Centre in Vantaa.

• Hobby Hall's pilot marketing of mail order sales was launched in Lithuania.

• Stockmann's Board of Directors approved the Group's new environmental policy.

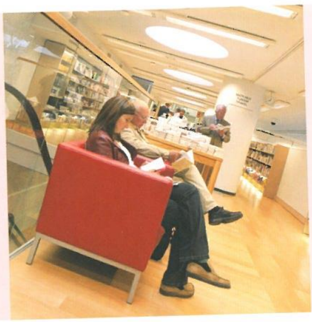
DECEMBER

• Mr Jukka Hienonen, M.Sc. (Econ.), director of the Department Store Division was appointed Group Executive Vice President effective January 1, 2003. Hienonen's operational area of responsibility as the director of the Department Store Division remained unchanged. The managing director of Hobby Hall, Mr Henri Bucht, M.Sc. (Econ.), continues his post as the other of Stockmann's two executive vice presidents and as the CEO's alternate.

Appendix 4 Annual report 2012 Stockmann- Department store division

DEPARTMENT STORE DIVISION

A stylish and attractive store is an essential part of the Zara concept.



Customers have taken a shine to the new 3rd floor of the Academic Bookstore in the centre of Helsinki. The premises were refurbished for retail use in the spirit of the building's designer, Alvar Aalto.

worst bottlenecks are obsolescent logistics areas, the cramped Delicatessen department, insufficient parking capacity and narrow aisles. The massive capital expenditure programme for the "All-time Stockmann" project will provide solutions to all these problems. If the town plan modification process can be carried out in about a year, it will be possible to start up the construction works in early 2004. By staggering the construction works, the inconveniences caused to commercial operations can be minimized, but to accomplish this the actual construction period will have to stretch out over about three years.

GOING FOR GROWTH BY GOING INTERNATIONAL

The growth in operations abroad accelerated compared with the previous year and again clearly outstripped the rate in Finland. The low initial level of the national economies in Russia and the Baltic countries will for years ahead make possible faster sales growth than in the domestic market. Russia's economy has received a boost from the high price of oil, but an even greater growth impulse is expected when Russian capital gradually begins to move back into domestic investments. The operating environment in Russia has shown some signs of stabilizing and, notably, in taxation matters there appears to be a willingness to change procedures in a more rational direction. Although the country is still in every respect a high-risk area and there is a considerable amount of extra causes of friction in day-to-day operations, Russia is nevertheless the largest potential growth area for Stockmann. Thirteen years of uninterrupted operations have given Stockmann a significant lead in Russia: among other things, two thirds of the aggregate 15 million population in Moscow and St Petersburg recognize the company.

The economic and political integration of Estonia with the west has continued ahead energetically and the country is one of the Baltic and east European states that will accede to membership of the EU in May 2004. Liberal economic policy has made Estonia an attractive investment target and, significantly, this has transformed Tallinn's street scene thoroughly in the space of a few years. Competition in the retail trade has hotted up surprisingly fast and, especially for Finnish retailers, it has been easy to expand into Estonia thanks both to the short distance and the countries' cultural and linguistic kinship.

NEW UNITS OPEN

In November Stockmann opened the first Stockmann Beauty cosmetics boutiques in the Jumbo Shopping Centre in Vantaa and the Trio Shopping Centre in Lahti. The aim is to develop Stockmann Beauty into a successful nationwide chain of speciality stores in the fast-growing cosmetics market.

At the beginning of 2002 Stockmann established along Ring Road III in Vantaa a separate Outlet oddment store whose main purpose is to sell products that are left over from the assortments of the department stores at discounted prices. The store's "Go Hunting" slogan was highly effective in getting customers to go out shopping, and Outlet's sales clearly exceeded the budget for the first year. With its lean cost structure, Outlet has peeled off post-season stocks efficiently and thereby made a significant contribution in enabling the department stores to reach their gross margin targets.

ZARA ON THE MARCH IN FINLAND AND RUSSIA

In June 2001 Stockmann signed with Spain's Inditex Group a franchising agreement on bringing the Zara chain to Finland. The first 1 600 square metre Zara fashion store was opened in April 2002 in Aleksanterinkatu in the centre of Helsinki, right across from Stockmann's main entrance. Although it is one of the Zara chain's principles not to advertise at all, the store got off to a very strong start, and Finnish customers quickly found Zara's trendy fashions with their fast turnover rates. During the year the chain was developed further when agreements were signed on the opening of Zara stores in Helsinki's Itäkeskus Shopping Centre and in Turku's Hansa Block. In October 2002 Stockmann also signed a franchise agreement on implanting Zara stores in Russia. The country's first Zara store will be opened in the Mega Shopping Centre in Moscow in late February or early March 2003. Zara has good growth potential in Finland's largest cities as well as in Moscow and St Petersburg.

SITES ABROAD FOR THE NEXT DEPARTMENT STORE PROJECTS

The competitive advantage of Stockmann department stores is based on superior assortments and high-quality service in a congenial shopping environment. In order for a department store meeting this description to operate profitably, there must be sufficient purchasing power in the sur-