Innovation in Franchising

Some illustrations from the French franchising chains

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ABSTRACT

In many countries, franchisors have to face an increasing competition and a progressive saturation of the market. A way for them to face these problems, differentiate their offers from these of the competitors and survive, is to innovate. Nevertheless, innovation within the particular context of franchising has not been explored in depth. Thus, the purpose of this paper is to work on the three following questions using the French franchising market as the source of our illustrations. What are the main features of the innovations within the franchising sector? Are there real innovations in the franchising industry as suggested by the franchisors in their advertisement? And, which actions can favour the innovations within the franchising chains? The concept of "Orchestrated Solutions", which recently appeared in the retailing sector, will also be analyzed within the case of franchising in order to see if it can lead to a competitive advantage.

KEYWORDS

Franchising, retail innovation, France, "Orchestrated Solutions".

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1. Introduction

Franchising is now everywhere. Franchising chains are expanding in the industrialized countries such as the USA (1,500 franchising chains and 767,483 franchised stores), Australia (720 franchising chains and 50,600 franchised units), etc. but also in emerging markets such as Brazil (971 franchising chains and 161,458 franchised stores), China (2,100 franchising chains and 120,000 franchised stores), etc. (European Franchising Federation, 2005 figures).

Franchising is defined as "a business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor" (Curran and Stanworth, 1983).

In most developed countries, the franchisors have to face important problems mainly due to the saturation of the home market and to an increasing competition. This is one of the reasons for the wide internationalization of many franchising chains (Welsh *et al.*, 2006). The franchisors also have to increase the size of their chains in order to be profitable and reinforce their brand image and positioning in the territory, even facing increasingly growing new expenses. In brief, they have to build a competitive advantage in order to survive.

A way for the franchisors to achieve a competitive advantage is to innovate. Innovation enables them to differentiate their franchising concept from this of the competitors and to attract more customers. When looking at the franchisor advertisements for attracting new franchisees, it seems that most of the chains are innovative. We often read "a tested and totally innovative concept in France" (*Elyse Avenue*, in the French real estate sector), "a unique concept" (*Noblimo*, in the French real estate sector), "an innovative concept" (*Céréa, L'Artisanale des Pains*, in the French bakery sector).

Innovation has often been studied in the literature whatever the field considered: management, marketing, IT, etc. In a more general sense, it is defined as “the task of inserting a new element or a new combination of elements in production” (Schumpeter, 1934). Innovation in organizations involves creating new ideas and implementing or adopting them throughout the organization. According to Van de Ven *et al.* (1999), “the new idea may be a recombination of old ideas, a scheme that challenges the present order, a formula or a unique approach that is perceived as new by the individuals involved”.

Few researchers have explored in depth innovation in the context of retailing. Dupuis (1998) was the first one to consider this topic in the particular case of retailing. He proposed a classification of the innovations adapted to the retailing sector. Dawson (2001) established a model for retail innovations as well. Nevertheless, in the particular sector of franchising, it seems that the different kinds of innovations have not been investigated yet. The franchising papers dealing with innovations were focused on the link between the organizational form of the chain and the innovation process (Bradach, 1997, 1998; Lewin-Solomons, 1999, Cliquet and Nguyen, 2004, Nguyen, 2005) and the sources of the innovations, i.e. the franchisor and/or the franchisees (De Albuquerque and Marccio, 1996; Sundbo *et al.*, 2001).

Therefore, the purpose of this paper is mainly threefold. The first objective is to explore the main features of the innovations within the franchising sector and illustrate them by concrete examples taken from the French franchising industry. The second objective of this paper is to explore the following question: “are there real innovations in the franchising industry as suggested by the franchisors in their advertisement?” Finally, the third objective is to try to underline the actions that can favour innovation within the franchising chains.

The empirical part of this paper deals with the French franchising industry. We have chosen this country because most of the previous papers in the franchising literature have dealt with Anglo-Saxons markets such as the US one (cf. papers of Kalnins, Lafontaine, Michael, etc.), the British one (cf. papers of Stanworth, Watson, etc.) and the Australian one (cf. papers of Frazer, etc.). And, we consider that studying franchising in countries other than the Anglo-Saxon ones can provide new insights and enrich the franchising literature. France has been selected because of its paramount situation at the European level as far as the number of chains is concerned. Indeed, the franchising business is dynamic there, with 1,037 franchising chains, 43,680 franchised units and

45 billions euros in 2005 (French Federation of Franchising, 2006 figures).

The paper is organized as follows. In the next section, the literature about innovation is reviewed firstly in the context of retailing, and secondly in the context of franchising. The literature review allows highlighting the lack of research dealing with the main features of innovations within the particular case of the franchising chains. In the third section, franchising in France is analyzed since all the examples used to illustrate the different kinds of innovations in section 4 will come from this country. A very new kind of innovation in the franchising sector, which had never been used until now, is presented in section 5. It deals with "Orchestrated Solutions". Finally, the discussion of the findings is presented in section 6.

2. Innovation in the Retailing and Franchising Literature

Innovation has been studied through several approaches in the literature. For instance, through a strategic approach, Abernathy and Clark (1985) distinguished four kinds of innovation: regular innovation, niche innovation, revolutionary innovation and architectural innovation. Badot and Cova (1992), adopting a marketing approach, classified innovations into four different categories: radical innovation, incremental innovation, social innovation and technical innovation. An additional typology of innovations has been highlighted in the specific case of the retailing sector by Dupuis (1998). This categorization is presented in the first part of this section together with the model of retail innovations proposed by Dawson (2001) before reviewing the existing literature about innovation in the franchising sector in the second part.

2.1. Innovations in the Retailing Literature

According to Dupuis (1998), innovation in retailing is based on environmental changes, mainly technological and legal ones, and can be developed around the four following dimensions: innovation of concept, innovation in flows, organizational innovation, and relational innovation, as shown in Figure 1 and explained below.

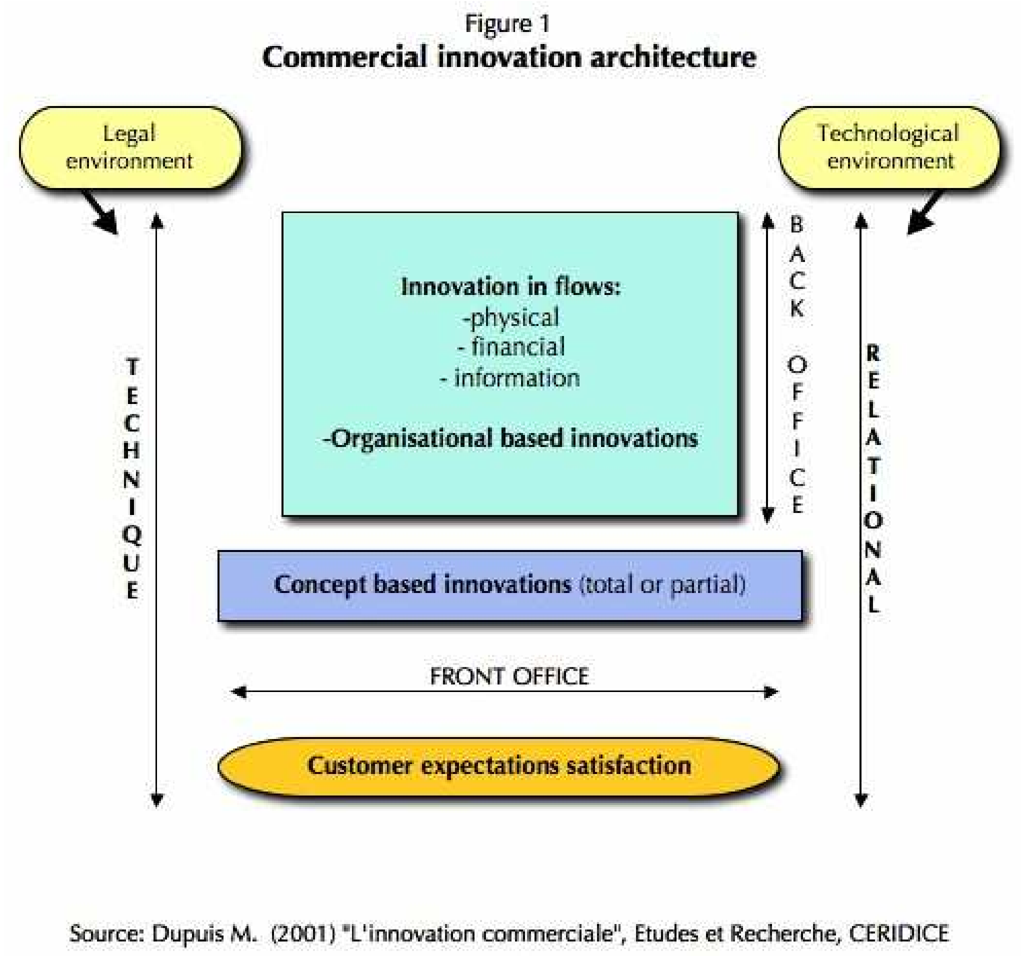

Figure 1: Retail Innovation (Dupuis, 2001)

First of all, it must be specified that retail companies are characterized by a double dimension (Dupuis, 1998):

- the *front office* is composed of those elements that can be observed by the consumers: a new store concept, new relationships with the consumers, new services offered to the consumers, etc.

- the *back office* includes the elements that are usually unobserved by the consumers: supply chain management, e-market places, database management and exploitation, etc.

The four kinds of innovations that can be highlighted in the case of retail companies are the following (Dupuis, 1998):

- *innovations of concept* aim at providing the retail company with a competitive advantage at the interface with the consumers. These innovations can deal, for instance, with the store, the catalogue, the website, etc.

- *innovations in flows* concern the vertical relationships in the retail channel (physical flows, financial flows, and informational flows). They aim at reducing the costs or creating higher added value with less, or at least the same amount of inputs, while improving the services offered to the consumers (reduction of supply delays for improving the availability of the products in the store, etc.).

- *organizational innovations* concern the establishment of new structures in the retail company. For instance, in the past, company ownership and franchising were successively considered as organizational innovations. Plural form - the combination of franchised units and company-owned units within a same chain (Bradach, 1997, 1998) - is also seen as an organizational innovation.

- *relational innovations* modify the relationships existing between the actors of the retail channel, between the company and its suppliers for instance. These relationships evolve towards a partnership, based on a marketing spirit aiming at providing additional services to the consumers.

As a conclusion, Dupuis (1998) defined as an architectural innovation the combination, or the mix, of the different kinds of innovations quoted above. For instance, the hypermarket format has used back office innovations (massive supply) and front office innovations (car park, price, "everything under the same roof" principle). *Wal-Mart* presents an innovative architecture mainly based on the back office (supply chain management, IT, etc.) whereas *Carrefour* is considered particularly innovative with regards to the front office (customer loyalty program, services, etc.) (Dupuis, 2002). *Ikea* is considered as innovative not only in terms of stores but also in terms of products. Thus, retail companies are seeking more and more this kind of architectural innovations enabling them to achieve competitive advantage.

Another research dealing with retail innovation is the model proposed by Dawson (2001), as shown in Figure 2. This model shows the link between a wide range of variables, both internal and environmental ones, also including one of an increasing importance: the consumer or shopper as innovation co-creator or, at least, as a necessary co-participant. Several of these elements will be illustrated in the franchising context in Section 4 of this paper and we will largely focus on the "better customer solutions" element in the fifth section.

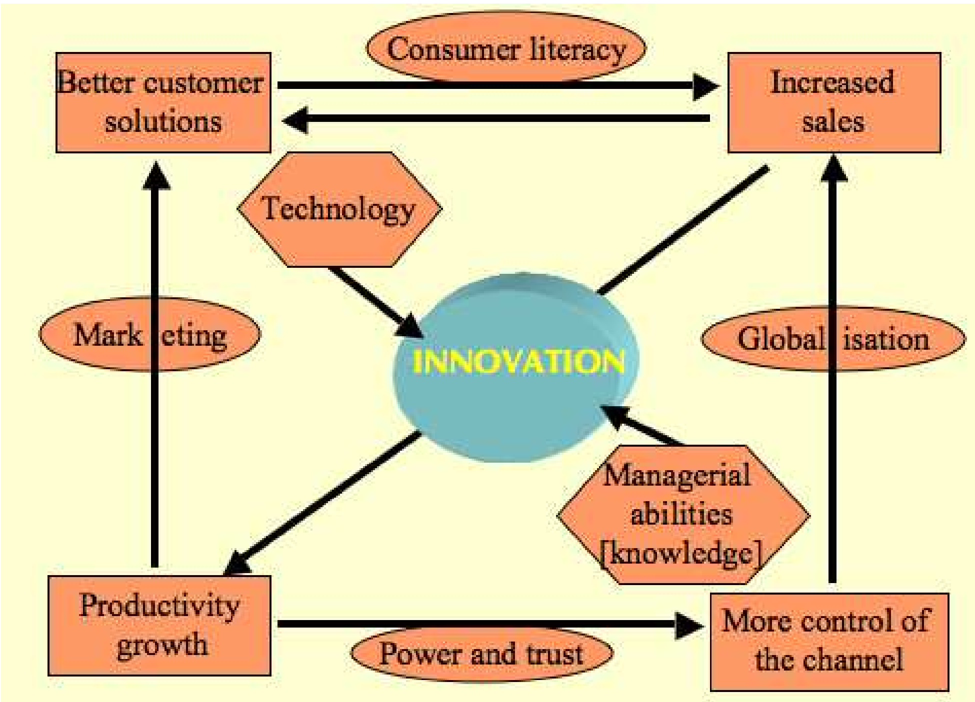

Figure 2: Retail Innovation (Dawson, 2001)

2.2. Innovation in the Franchising Literature

In the franchising literature, the study of innovation has been either linked to: (1) the organizational structure of the chain, and more specifically the plural form organization; or (2) the two main entrepreneurs of the franchising chain, i.e. the franchisor and the franchisees, considered as two possible sources of innovation.

2.2.1. Innovation and Plural Form

Several researchers have focused on the links existing between innovation and plural form, i.e. the combination of franchised stores and company-owned stores within the same chain (Bradach, 1997, 1998). They have asserted that plural form enhances innovation within the chain. For instance, Bradach (1997, 1998) mentioned that, in a plural form chain, innovations must be tested first by the franchisor in his/her company-owned stores before proposing them to the franchisees. Additionally, the franchisees can sometimes criticize the innovative products and/or services in order to improve them whereas the managers of the company-owned stores are not always able to do it because they are employed by the franchisors and not independent entrepreneurs (Bradach, 1997, 1998; Lewin-Solomons, 1999, Cliquet and Nguyen, 2004). Recently, Nguyen (2005) explored the influence of the plural form on the climate and process of innovation. She found a positive and significant influence confirming the first insights of Bradach (1997, 1998). To sum up, according to these previous authors, innovation will be favoured by the complementarity of franchised stores and company-owned stores within the same chain.

2.2.2. Sources of Innovations within a Franchising Chain

The sources of innovations within a franchising chain have also been studied in the literature. The two possible sources: the franchisor and the franchisees have been carefully explored. It appears that most innovations are usually introduced by the franchisors who develop, test and diffuse to their franchisees an original concept and know-how. Indeed, the franchisor is the initiator of the franchise chain, […], of which the franchisor is the long-term guardian (Code of Ethics of the European Franchise Federation). Usually, the franchisees acquire the concept from the franchisor and implement it as specified in the operating manuals or the bible of the franchisor.

Nevertheless, it is noticed that some innovations can emerge from the franchisees as well. Sometimes, the franchisees can innovate by adapting the concept to the local conditions. De Albuquerque and Marccio (1996) underlined the involvement of some franchisees in the innovation process, but considered their roles well defined and without any overlap. In the same way, Sundbo *et al.* (2001), analyzing innovations in service chains that are going internationalized, defined the frantrepreneur as “a franchisee who innovates by adapting a standard service concept to meet local conditions”. They highlighted the roles of the frantrepreneurs in the innovation process but concluded that their innovations were mostly in the form of small and incremental changes.

As a conclusion, according to Lewin-Solomons (1999), innovation is a complex and collaborative process in which no one actor can claim full credit for the outcome. In the case of the franchising chains, the franchisor can develop an idea, but it often depends heavily on the franchisees for feedback.

3. Franchising in France

In Europe, franchising is widely developed. There are a total of more than 7,500 chains (European Franchising Federation, 2005 figures). France, Germany, United Kingdom, Italy and Spain are the most dynamic European markets as far as the franchising development is concerned. As explained earlier in the introduction, the empirical part of this paper concerns the French franchising market which we will present now.

There are 1,037 chains in the French territory generating 45 billions euros. These chains correspond to 43,680 franchised stores and 29,890 company-owned stores and employ a total of more than 400,000 people (French Federation of Franchising, 2006 figures).

Franchising has evolved quite quickly in France as suggested in Table 1. There were only 108 franchising chains in 1977. But, less than thirty years later, in 2005, this number was multiplied by nine. And, the number of franchised units was multiplied by more than five during the same period. It can be noticed that many French franchisors are now going abroad because of the saturation of the national market.

Year	# franchising chains	# of franchised units	Total sales in billion €
1971	34		
1977	108	7,500	
1991	550	27,000	
1992	430	21,300	26.6
1993	400	25,900	25.96
1994	450	25,700	28.31
1995	470	25,750	26.22
1996	485	27,357	26.53
1997	517	28,851	28.51
1998	530	29,673	29.88
1999	553	30,630	31.1
2000	571	31,781	32.62
2001	653	32,240	30.49
2002	719	33,268	33.71
2003	765	34,745	34.12
2004	835	36,773	41.76
2005	929	39,510	43
2006	1,037	43,680	45

Table 1: Evolution of franchising in France (FFF)

Franchising is used whatever the sector of activity in France as underlined in Table 2. Nevertheless, sectors such as person equipment (clothes and shoes), retail businesses (specialized stores) and hairdressing and beauty, are particularly organized through franchising chains.

Industries	# of chains	# of franchised units	% chains	% franchised units
Home equipment	95	3,872	9.16	8.86
Person equipment	257	6,798	24.78	15.56
Food businesses	82	6,869	7.91	15.73
Other retail businesses	111	4,595	10.70	10.52
Car services	38	4,153	3.66	9.51
Building	20	805	1.93	1.84
Laundry	9	345	0.87	0.79
Hairdressing and beauty	107	5,391	10.32	12.34
Other services for persons	78	1,647	7.52	3.77
Services for companies	64	1,068	6.17	2.45
Training	15	189	1.45	0.43
Hotels	20	1,531	1.93	3.51
Fast food restaurants	45	1,992	4.34	4.56
Other restaurants	52	652	5.01	1.49
Real estate	39	3,336	3.76	7.64
Travels	5	437	0.48	1.00
Total	1,037	43,680	100	100

Table 2: Number of chains and number of franchised units, in France according to the sectors

(FFF, 2006 figures)

4. INNOVATIONS IN THE FRENCH FRANCHISING CHAINS

The purpose of this paper, as explained earlier in the introduction, is to present the different kinds of innovations in the particular case of franchising. The literature review about innovation in retailing and franchising, and a detailed analysis of the chains existing in France, mainly through the franchising directories of the French Federation of Franchising, and journals specialized in franchising (*Franchise Magazine*, *Entreprendre Franchise*, *Officiel de la Franchise*), have enabled us to classify innovations in franchising into two main categories: (1) innovations in terms of concepts and offers (products and/or services), and (2) innovations in terms of organization.

4.1. Innovations of Concepts and Offers (products and services) within the Franchising Chains

Innovations in franchising can deal with new concepts, or new products and services. Indeed, the franchisors can launch new concepts or new products and/or services in order to differentiate their chain from these of the competitors, to attract new customers, and/or to serve new consumer attempts.

4.1.1. New Concepts of Franchising

New concepts of franchising are regularly launched in France. On the one hand, some entrepreneurs decide to create a new kind of chains using a mono-product approach. For instance, *Mezzo Di Pasta* is described as an original and innovative concept of take-away restaurant based on the pasta products. Since the opening of the first franchised restaurant in March 2004, fifteen other restaurants have been opened and the chain is still expanding. Other entrepreneurs in the restaurant industry have decided to focus on potatoes. An example is the chain *La Pataterie*, composed of fourteen restaurants, and defined as an innovative concept of restaurant where the main product is the potato.

On the other hand, from a concept already existing, some franchisors choose to create an additional chain presenting some particularities compared to the initial one. This is for instance the case of the *Le Duff* group. Louis Le Duff has opened a new chain from the initial concept of *Del Arte,* a chain of Italian restaurants. In November 2005, they opened the first *Presto Del Arte*, at La Défense in Paris. *Del Arte* is already the leader in the sector of the traditional Italian restaurants and they aim at becoming the leader in the take-away segment as well with *Presto Del Arte*. This new concept is not a mono-product one. Instead, it includes, in a same restaurant, different products such as pastas, pizzas, and ice creams. *Presto Del Arte* will benefit from two previous and successful experiences: this of *Del Arte* in the Italian segment and this of *Brioche Dorée* (another chain of the *Le Duff* group) in the take-away segment.

4.1.2. New Offers (products and services)

New kinds of products and services have been commercialized through franchising chains these last years because of new consumer attempts, an increasing concern for ethics, new laws, etc.

Many chains have been launched to respond to new consumer attempts. In general, people want more free time and so, they are ready to pay for benefiting from services at home. Chains have thus appeared in the following areas: housework with chains such as *Shiva*, belonging to the *Acadomia* group, launched in March 2005 and having about ten units in France, or *Ménage.fr*, guard for children with very recent chains such as *Family Sphere* or *BabyChou Services*, both created in 2006, school support and private lessons for children with *Sylvan*, *Cours Ado*, *2AMath*, etc., brokers for home improvement with *Illico Travaux*, *Activ Travaux*, *Eco Travaux*, etc. All these chains aim at facilitating the life of the consumers. Some chains are specialized in services for seniors or disabled people. They mainly deal with *Adhap Services*, *Age d'Or Services*, *Plaisir d'Aider*, etc. These kinds of chains expanded rapidly these last years.

Other chains have benefited from an increasing concern for ethics. This is for instance the case of chains specialized in recycled inkjet cartridges and toners. The famous Australian chain *Cartridge World*, with 1,300 stores worldwide, entered into the French market in September 2003, and has already about 100 stores in France. Other French chains, aware of the market opportunities, have started their activity in the same segment: *Cub'Ink*, *Encre Station*, *Ink Eco*.

New chains have also appeared because of a new set of laws. For instance, *Exim* is specialized into real estate expertises and diagnoses like lead, asbestos, energy, termites, etc. They opened about 35 units within the last three years and are now planning an important growth over the next few months.

4.2. Organizational Innovations within the Franchising Chains

Innovation in franchising can refer to new kinds of organizations within a chain, too. For some years now, new kinds of organizations such as the combination of franchising and company ownership within the same chain, the use of a multi-channel strategy, the establishment of new contracts, etc. have appeared within the franchising chains in France.

4.2.1. Plural Form

These last years, many franchisors combined two organizational forms within their chain: franchising and company ownership. This new kind of organization has been known under the name "plural form" since 1997 (Bradach, 1997, 1998). Many are the advantages of this combination of franchised stores and company-owned stores that have been highlighted in the franchising literature since the pioneer research of Bradach (1997, 1998). These advantages have dealt with the chain development, uniformity, reactivity and adaptation (Bradach, 1997, 1998), strategic and managerial flexibility, information control in local markets, showcase effect to attract new franchisees by showing personal, financial and professional investment capacity, etc. (Cliquet, 2000), innovation management as already mentioned in a previous section, brand name recognition and sector attractiveness (López and Gonzales-Busto, 2001), cost reduction, quality enhancement, growth stimulation and optimized risk control (Erhman and Spranger, 2004), and survival (Perrigot and Cliquet, 2004).

At the concrete level of the franchising chains, some radical changes have occurred in two opposite ways. First, chains that were wholly franchised have begun to open company-owned stores. This is, for instance, the case of the well-known French chain *Phildar*. This is an old chain (brand appearance: 1903, chain creation: 1956) originally specialized in wool. This chain has been wholly franchised during many years. This was one of the larger chains with more than 2,000 franchisees in the 80's. Because of some important difficulties due to a lack of adaptation to the new consumer attempts, many franchisees have decided not to renew the contracts in the late 90's. Nevertheless, the managers decided to pursue their activities with the launch of a new concept focused on clothes for women in 2000. They decided to use the plural form strategy with the progressive openings of 66 company-owned stores these last years, complementing their 529 franchised stores (instead of the 2,000 in the best period!). They opened these company-owned stores in order to test their innovations and directly collect some information about their customers, etc.

Secondly, the contrary approach can be quoted as well. A chain such as *Del Arte* was wholly company-owned between 1984 and 2002. This restaurant chain belonged to the *Accor* group. When Louis Le Duff bought it in 1999, he decided to orientate the expansion strategy towards franchising. Nowadays, there are 76 franchised restaurants and 11 company-owned ones in the French territory.

4.2.2. Multi-Channel Strategy

Many franchisors have recently chosen to use a multi-channel strategy, usually adding a commercial website to the franchised one. This strategy has been analyzed in the franchising literature in papers such as this of Watson *et al.* (2002). Moreover, the notion of conflicts can be derived from this multi-channel strategy because of the franchisees perception of competition by the franchisor.

This multi-channel strategy is found in many chains whatever the sector of activity. In France, most of the car rental companies have both a franchised channel and a commercial website. This is the case for instance of *Rent-A-Car*. The customer can rent a car either in a franchised unit or directly on the Internet. Another famous example is *Yves Rocher*, the world leader in botanical beauty care. They use various channels to sell their products: Internet, the franchised stores and also phone and mail techniques. The main differences that exist between the two main channels: franchising and Internet concern the services. Indeed, the franchisees can attract the customers thanks to the services. This is the only way to differentiate their offer because the products are the same whatever the way of buying them, and their prices can vary a lot thanks to a strong policy of sales promotion. A chain such as *Phildar* has recently launched a commercial website too. The customers can buy wool on line and receive the wool either at home or in a franchised store. Their main aim consists in developing a certain complementarity between the two channels.

4.2.3. New kinds of Contracts

Franchisors have innovated in terms of contracts these last years. These new kinds of contracts can concern either all their franchisees or only some of them depending on their financial resources, their location, etc.

First, some franchisors, mainly from the clothing sector, use contracts of "commission-affiliation". In this case, the franchisor is proprietary of the merchandise sold in the franchised stores. For instance, Rolland Beaumanoir has based the success of his chain *Cache-Cache* using this kind of contract. There are now 380 *Cache-Cache* stores in France. These stores target the young women of 18-30 years-old with products of a good quality-price ratio.

There is another form of contract that is being more and more used by the franchisors: the multi-franchising (Kaufman and Dant, 1996). Instead of having one contract with each franchisee, the franchisor can have several contracts with the same franchisee that can therefore manage more than one unit. Multi-franchising is mostly found in the hairdressing sector, in the hotel sector (some *Ibis* franchisees have more than ten hotels in the French territory), in the restaurant industry (the bigger *Mc Donald's* franchisee has had up to 23 restaurants).

"Hiring-management" is also another kind of contract. For instance, the *Le Duff* group favours the integration of company's employees within the franchised chain *Del Arte*. Usually, employees that are in the company for a long time, and therefore know well the practices and the culture of the chain, are helped to become their own bosses. Because of a lack of financial resources, they can first rent the restaurant for a period of two or three years thanks to a contract of "hiring-management". During this period, they can acquire the necessary resources and then become true franchisees. *Mc Donald's* uses also this kind of contract but over a longer period (twenty years). *McDonald's France* is thus the proprietary of many franchised restaurants as far as real estate is concerned.

As a conclusion of this fourth section, a preliminary point of discussion can be highlighted here. Indeed, it seems that there is no real innovation in the franchising chains. In fact, there are no sudden innovations or fundamental changes implying a transformation of the company, e.g. a new commercial concept such as the supermarket that appeared in 1957, or hard discount stores entering the French market like in the late 80's, etc. The innovations found in the franchising context correspond more to what Liebmann *et al.* (2003) called gradual innovations or regular innovations, i.e. improvements of existing operations, in day-to-day business, e.g. cost reduction programs, more efficient logistic processes, etc. Innovations illustrated in this section are incremental innovations (Tidd *et al.*, 2005), either an adaptation of existing products, in the home market or in a foreign one, or a new way of delivering a service.

The question that should be answered is the following: Are these gradual innovations enough differentiating from the competitors? Are they attractive enough for the customers?

5. THE TUTTI FLORE CASE AND THE "ORCHESTRATED SOLUTIONS"

A new kind of innovation appeared in the French franchising sector very recently, in mid December 2006. It deals with *Tutti Flore* and can be associated to what we have called "Orchestrated Solutions".

5.1. The *Tutti Flore* case

A recent innovation of a new kind concerns the two existing chains: *Jardiland* and *Rapid Flore*.

On the one hand, within the twenty last years, *Jardiland* became the leader of the French garden-center market. This chain is composed of 113 company-owned stores and 11 franchised ones, and generates total sales of 704 millions euros. *Jardiland* benefits from a strong notoriety: the brand is actually known by 76% of the population (IPSOS survey, 2005). The *Jardiland* stores are based on an architecture of wood and glass developed on a commercial area of 6,000 m². The team consists in 25 up to 50 people. More than 20,000 products are permanently offered in the *Jardiland* stores, around eight universes: animalery, plants, hot greenhouse, seedbed, shop decoration, garden furniture, garden tools and products, and watery garden. *Jardiland* has some stores in Spain and Portugal as well.

On the other hand, with 166 stores of 100-150 m² opened in France since 1996 and with more than four million customers per year, *Rapid Flore* is the leading chain in the sector of cut flowers sold in self service. The concept is based on the following elements: self-service of cut flowers and bouquets, guaranteed quality and freshness, ultra competitive prices, bouquets and compositions for ceremonies, opened seven days a week. The chain began its internationalization in 2001 with the opening of several stores in Belgium and Spain.

Very recently, these two chains decided to initiate a partnership in order to launch a new concept called *Tutti Flore*, a shop corner within the *Jardiland* stores. According to press releases, the two franchisors consider that this shop-in-shop development is “a new and original approach for selling cut flowers”, widening the range of solutions that a *Jardiland* customer can get. In fact, customers now receive an increased solution under the same roof. The French Federation of Franchising qualifies this strategic collaboration between the two chains as a “very new experimentation” (FFF blog, jeudi 30 novembre 2006).

Tutti Flore will then benefit from the common sharing of the know-how and brand image of both companies. They opened three *Tutti Flore* in mid December 2006 near Paris and plan to test this new concept during the next six months before deciding if they will maintain and extend this strategic partnership.

5.2. “Orchestrated Solutions” as a new way of innovation

The case of *Tutti Flore* is an initial example of what is becoming a new form of innovation in retailing: the creation of complete solutions by the cooperation of two or more companies. We have decided to call this new kind of innovations “Orchestrated Solutions” as it will be explained below.

Before exposing in detail the nature of “Orchestrated Solutions”, the presentation of some other examples can contribute to a better understanding of this phenomenon. For instance, *Nike* and *iPod* (*Apple*) have recently launched a new solution for people who like running. By electronically linking their *Nike* sneakers and their *iPod*, runners may know their running pace, the time they spend running, their performance, even the type of songs that best suit their running style, etc. In fact, by combining their core competences, *Nike* and *Apple* have been able to create a new complete solution: a kind of electronic personal trainer for runners.

Another example is the *Nespresso* case, a spin-off company from *Nestlé*, that provides a complete solution for the consumers: a moment of *Espresso* coffee to be enjoyed at home, obtained in a very convenient way, using coffee capsules plus one *Nespresso* machine. This is not only a very easy way to obtain an excellent cup of *espresso*: the result has always the same quality and taste. The way *Nespresso* is achieving this full solution in quite an innovative way is by mixing *Nespresso* core competences on coffee, with third party coffee machines makers, such *DeLongy*, *Krupps*, *Miele*, etc. In fact, *Nespresso* sells the capsules by being in retailing (through three retail formats: their own shops, phone, and web). The machines are sold by a third party: some selected electroappliances shops.

These examples have in common the six features that constitute an "Orchestrated Solution". They enable the differentiation between an "Orchestrated Solution" and a traditional Joint Venture.

- The solution provided to the customers is a full answer to one customer's problem or need. The solution is a complete answer, and not a partial ingredient of the process of solving the customer's problem. In the marketing literature, the concept of solution is defined in a basic way. In fact, a solution is an answer to a problem (Eades, 2003) and must be directly linked to customer problems and needs. Furthermore, Drucker (1993) specified that "the customer never buys a product. The customer buys the satisfaction of a want. The customer is looking for a solution for his/her wants".

- The new solution is basically an innovative solution. Although the boundaries between improvement and innovation are not very sharp, as underlined in the previous section, the nature of these examples tend to be clearly innovative, as a new shopper or consumer behaviour appears after adopting the new solution.

- The solution has been obtained with the co-operation of two or more companies. By being alone, a company is usually not powerful enough to solve a full customer problem in an innovative way. Thus, the involved companies have to provide the others with their core competences and skills in order to obtain a full solution for the target customers. This is the reason why we have used the metaphor of the orchestra and named this innovation method "Orchestrated Solutions": the companies have to work as an orchestra looking for the creation of an efficient system and a complete solution for the customers.

- All the companies composing the orchestra do not only have to know a clearly defined, shared goal but also their participation has to be visible to the customers. So, each company brand must be visible.

- A new business model has to be set up. It must be defined from where the resources come, to whom the profit has to go, and which portion of it must be received by each member. The orchestra conductor, i.e. the company leading the "Orchestrated Solution", usually gets a higher proportion. And, this is not only an issue of money distribution. Any real "Orchestrated Solution" is a network of companies operating as a system, i.e. an assemblage or combination of parts forming a complex whole (Martin, 1966). The companies involved in the orchestra work as a whole and not as an aggregate of elements. This is a very different approach to that of the conventional Supplier-Business Customer relationship.

- As the investments to launch an "Orchestrated Solution" are usually bigger than the typical investments associated to the launch of products, the agreements between the members of the orchestra are strategic and tend to be long-run contracts in order to achieve the logical payback period for their investments.

In conclusion, by providing a complete and innovative solution to the customers, the companies in retailing may achieve to create customer preference, and consequently increase their competitive advantage.

6. DISCUSSION

6.1. Managerial implications

First of all, the observation of the chains in the French market enables to make two main comments. On the one hand, innovations in franchising can be classified into two categories: innovations of concepts and offers (products and services) and innovations that are linked to the chain organization. The first kind of innovations aims at improving the relationship with the customers whereas the second one aims at improving the relationships with the franchisees. In other terms, the first category refers to front office innovations whereas the second one is linked to the back office, if we want to link our research to this of Dupuis (1998). This double approach is particularly important in the franchising chains because the franchisor has two kinds of clients: the final customers that will buy the product or consume the service but also the franchisee that will renew the franchising contract and/or the prospective franchisee that will invest in the chain. So, the franchisors must consider innovations within this double perspective, not only focusing on customers but also considering the franchisees and prospective franchisees.

On the other hand, when examining the different examples, it appears that innovations are more incremental than radical (Leibmann *et al.*, 2003). In fact, we have not found any "revolutionary" concept of franchising in terms of innovation in the French market (except *Tutti Flore*). Even if most franchisors announce in specialized journals that their concept is unique and innovative in their advertisement for prospective franchisees, a detailed look at the competitive offer shows that either not any chain is innovative, or all are innovative in the same way. And this does not lead to competitive advantage. More generally, innovations are mainly due to changes in the consumer attempts, new laws, new ideas coming from the experience of other chains in France or abroad. Of course, these gradual innovations involve less risk for the franchisors and their franchisees but are they enough for building a sustainable competitive advantage within such a competitive and mature market?

Consequently, the future franchisors have to think about real innovative concepts and launch them. This is easier in the case of a new venture because the franchisees that accept to sign the contract will know the concept. Indeed, innovations can be difficult to manage when the chains already exist. The franchisors can have innovative ideas but they have to convince the franchisees about the potential of such new ideas. The franchisees will sometimes have to invest new resources in order to renew the concept of the store, or employ qualified people for proposing new products and/or services to the customers. And, this will be easier for the franchisors if they have company-owned stores in which they will first test the innovations. In brief, franchisors have to create a favourable environment and develop trust between all the actors of the chain. A Knowledge Management approach will be able to favour the management of innovations by reinforcing the culture of sharing within the chain.

One way to really innovate consists in proposing an "Orchestrated Solution" to the customers, as already been initiated recently in the general context of retailing with illustrations such as *Nespresso*. The example of *Tutti Flore* has highlighted the fact that this kind of innovation can be imported into the franchising sector and lead to innovative solutions. The networking between several chains can lead to a real competitive advantage. Of course, it is not always easy to find the right partner outside the company but this can be easily done within existing groups. The example mentioned in this paper was about flowers (*Rapid Flore*) within a green environment (*Jardiland*) but “Orchestrated Solutions” could appear in several other sectors such as hotels and restaurants, or hairdressing and beauty. In a first step, it is easy to manage this kind of collaboration within the company-owned part of the chain before extending it, in a second step, to the franchisees.

6.2. Research limitations and tracks for future research

This paper has some limitations, mainly due to its exploratory and descriptive nature. Moreover, it concerns only one country: France. Nevertheless, it is a first step to analyze innovations within franchising chains, and more specifically, the importation of the “Orchestrated Solutions” model from the retailing world to this of franchising. The tracks for future research are mainly twofold. First, an analysis at the European level could be relevant in order to see if other markets are more innovative than the French one. It could also be interesting to compare France and the United States, often quoted as innovative in terms of franchising concept. Secondly, the focus could be made on how concretely develop this kind of partnerships between different chains at the internal level, mainly at the franchisee level. It will be therefore relevant to follow the development of *Tutti Flore* to see if “Orchestrated Solution” can work well within the franchising context.

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