CHAPTER 4

CONCEPTUAL MODEL: CO-BRANDING

4.1. Overview

This chapter consists of four parts. The first part discusses the category of co-branding, and compares co-branding use in the consumer product industry and the hospitality industry. Both industries use the same terminology, but the way of applying co-branding is slightly different, such as the "software approach" vs. the "hardware approach". Then, the second part comprises a discussion of the co-branding practice in the hospitality industry. The third part explains the relationship between real option theory and co-branding. This study includes the design of a conceptual model of the co-branding investment decision-making process. The fourth part of this chapter explains the model, including explicit and implicit requirements for investment in co-branding. All the propositions concerning constructs and the hypotheses concerning variables are discussed in the fourth part.

4.2. Categorization of Co-branding

Co-branding is an emerging area of study in academic research. To date, a consistent terminology to refer to the phenomenon has not been established. Typically, the public uses the term co-branding to refer to any manner of joint branding relationship (Gibson, 1993; Spethmann & Benezra, 1994). Co-branding has been widely used in the consumer product industry, and the hospitality industry has now adopted the co-branding strategy, where it has become very popular and widely used. However, the means of applying the co-branding strategy is slightly different than in other fields, and is discussed in this section.

4.2.1. The Consumer Product Industry

There are many terms with similar meanings to co-branding used in the consumer product industry, such as "signature branding" (i.e. Jaguar by Toyota) for dual trademarked products (Shocker, 1995). Farquhar, Han, Herr, and Ijiri (1992) use the term "cooperative branding" on a more limited basis to apply to providing "the benefits of multiple brands with a single product purchase or service transaction." Cooperative branding, along with ingredient branding and joint promotional activity, are collectively referred to as "brand bundling" strategies in a taxonomy of brand relationships.

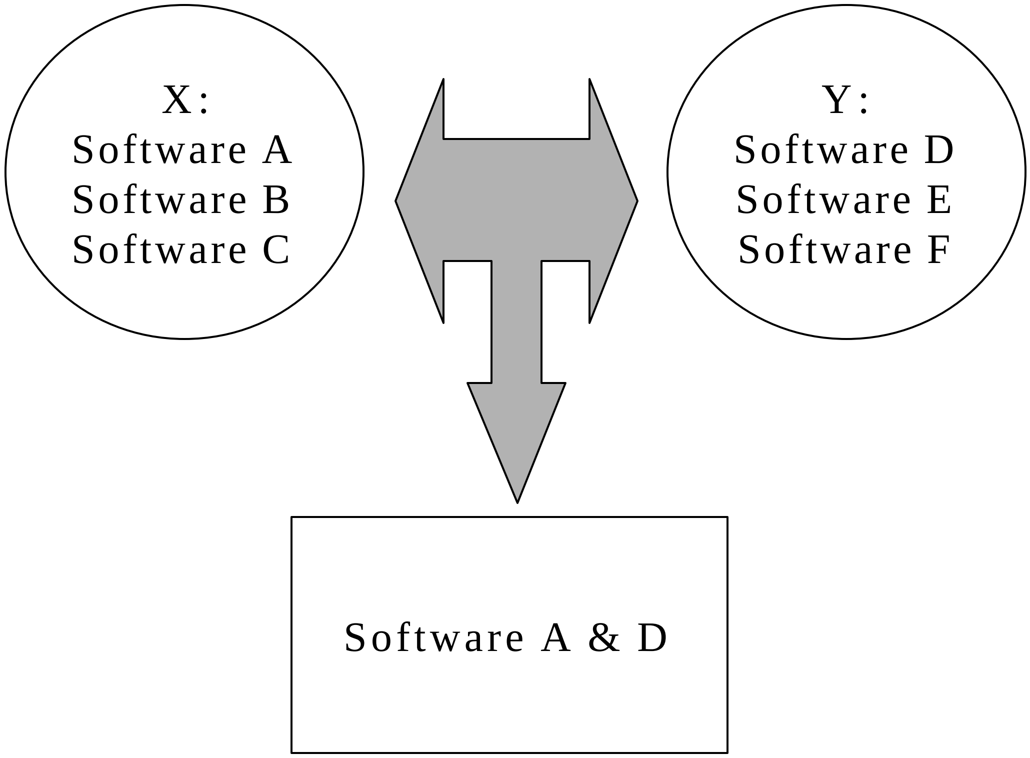


Figure 4.1: Co-branding as a Software Approach

Co-branding in the consumer product industry is based on the "software approach" (see Figure 4.1). In this approach, two brands develop a new product together on the basis of powerful brand recognition and their core products. For example, person X has software programs A, B, and C, and person Y has software programs D, E, and F. Person X gets a project from the U.S. government, but he needs someone who has software D to conduct the research. Person X knows that person Y has software program D, and they form a project team together. They might go separate ways when they finish their project, or person X might find another person who has a higher version of software D than person Y. This software approach could be characterized as a loose form of alliance. The partners could separate at any time if they are not satisfied with performance. The company who has many distinctive but recognized products might use this software approach. This approach is not appropriate for the hospitality industry in that it has only one broad category of product (i.e., food and lodging).

4.2.2. The Hospitality Industry

The hospitality industry also uses co-branding terminology as well as specified terms such as “dual concept,” “dual brand,” and “multiple concepts.” A recent branding strategy that has become popular in the quick service segment is known as dual branding, in which double-branded retailers are housed under a single roof (Khan, 1991). Some recent examples of companies that have experimented with dual-branded locations are: Arby’s/Long John Silvers, Dunkin’ Donuts/Haagen Dasz, and McDonald’s/Wal-Mart. This synergistic strategy allows retailers to share expenses and space, and provides variety and convenience for the customers. Recently some foodservice companies have adopted an advanced form of dual branding, called multiple concepts. Tricon introduced multiple concepts, which are three brands (Pizza Hut, Taco Bell, and KFC) under one roof. In addition, Rao and Ruekert (1994) use the term “brand alliance” to refer to various types of joint branding activity, including dual branding, ingredient branding, and brand licensing.

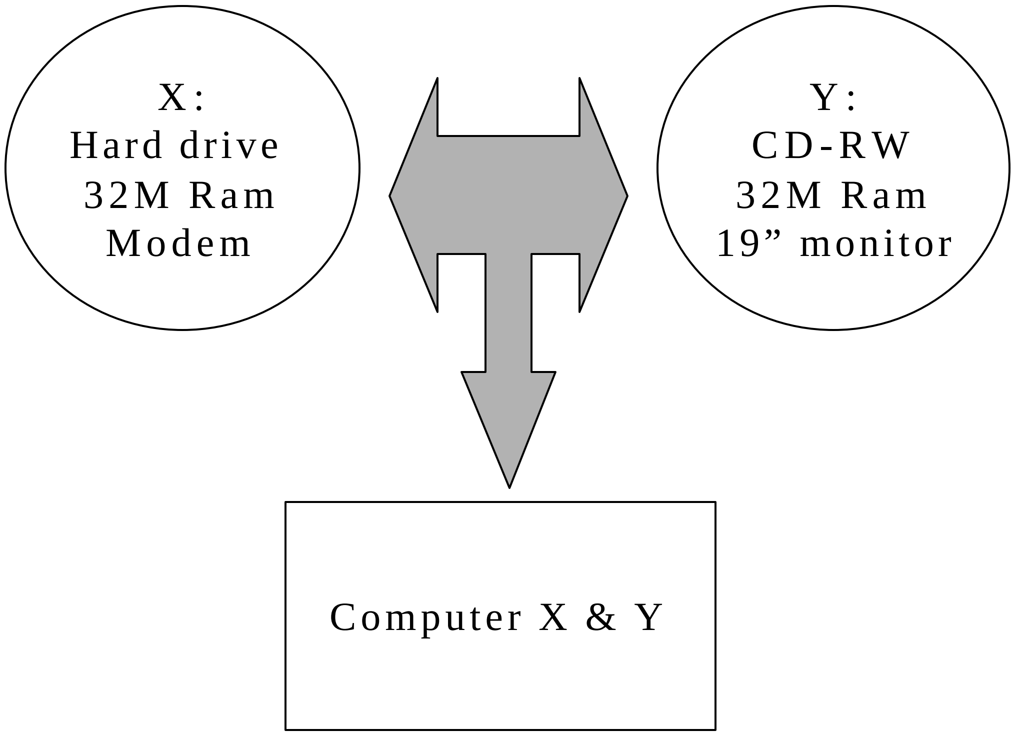


Figure 4.2: Co-branding Hardware Approach

In the hospitality industry, these concepts (i.e., co-branding, dual-branding, dual concept, and multiple concepts) are based on the “hardware approach” (see Figure 4.2). The hardware approach is not just adding brand image and core products, but also sharing services, facilities, and manpower. For example, person X has a computer X with 10G hard drive, 32M Ram, and a modem, and person Y has a computer Y with 5G hard drive, CD-RW, 32M Ram, Ethernet ready and a 19” Monitor. If person X gets a project from the U.S. government, but the project requires a high performance computer with a large monitor, person X needs someone whom has CD-RW, an Ethernet card, and a 19" monitor to conduct the research. Person X knows that person Y has the appropriate hardware in his computer. Person Y also is interested in joining the team, but if he joins the team, he should contribute also. Once they form a project team, both X and Y no longer use their computers at home unless they buy new ones. The partners examine their advantages and disadvantages, and realize that forming a team is a very good opportunity and also good chance to get another project.

The team might separate when the project is completed, or when person X finds another partner who has better hardware than person Y. However, it is risky to change partners unless the hardware is very superior in comparison to person Ys. When both X and Y decide to work together, they have already considered all the possible scenarios, and it is not easy to separate during the project unless their computer systems fail.

It is difficult to adopt the hardware approach by foodservice franchisors, since combining two concepts requires products, services, and expertise. Also, the most significant potential problem is conflict between franchisee and franchisor (i.e. encroachment of territorial right), if the franchisor adopts a co-branding approach throughout the franchising system. The franchisee often displays anxiety over the franchisor's market development. Despite the absence of any territorial protection in its franchise agreement with the franchisor, the franchisee is accustomed to drawing customers from a broad base and could object to a new unit placed close enough to diminish sales and lure away business (Spandorf, 1997). This is particularly true in the fast-food industry where much of the encroachment litigation has occurred (Fox & Su, 1995). One commentator described today’s multiple paths of encroachment: "in addition to worrying about other locations edging closer and closer geographically, franchisees have to deal with them creeping through the Internet, mail order, Kiosks, airports, gas station mini-marts and grocery stores" (Chun 1996, P.150). Therefore, a co-branding approach has been widely adopted by individual franchisees since they could utilize their already established facilities and local expertise.

The major difference in applying co-branding between these two industries is that co-branding restaurant consumers may purchase from one branded store and not the other, whereas in consumer product co-branding, the branded products are virtually inseparable. Even though the meaning of co-branding in both industries is different, we will use co-branding as an umbrella terminology for dual concept, dual-branding etc, since the majority of those researchers who have published in the major trade and academic journals regarding the hospitality industry have used co-branding and dual-concept etc. as synonymous. (see Table 4.1).

Table 4.1

Terminology Used in the Hospitality Industry, by Numbers

		Total	Restaurant Foodservice	Hotel/motel Inn/Lodging		Total	Restaurant Foodservice	Hotel/motel Inn/Lodging		Total	Restaurant Foodservice	Hotel/motel Inn/Lodging
Co-branding	1997	1,677	309	159	1998	2,318	264	160	1999	5,268	325	190
Dual branding	1997	219	136	57	1998	189	123	54	1999	108	59	26
Dual Concept	1997	25	19	3	1998	38	30	9	1999	33	24	9
Multiple concept	1997	7	2	2	1998	5	1	0	1999	6	2	0
Multiple branding	1997	216	16	19	1998	200	27	29	1999	348	22	23

Source: Dow Jones Interactive

4.3. Co-branding Practice in the Hospitality Industry

Co-branding has been introduced as a brand strategy in the consumer product industry. It is also known as brand alliances (Rao & Ruekert, 1994; Park, Jun, & Shocker, 1996), or brand extension (Aaker & Keller, 1990; Park, Milberg, & Lawson, 1991), as well as marketing partnership and strategic alliance in the consumer product industry. This concept also has been widely adopted by the hospitality industry in terms of dual-concept or co-branding, and involves the pairing of two or more recognized brands under one roof (Khan, 1991). An entire class of co-branding activity is directed toward providing special convenience to the consumer for the delivery of multiple services and/or to provide service choice at a single location. Such arrangements have arisen between quick service restaurants, gas stations, convenience stores, and specialty retail establishments.

The common benefit to the consumer of these arrangements is a one-stop opportunity, either to meet complementary service objectives or to satisfy multiple needs. Thus, gas and a meal can be purchased while traveling. And parents can satisfy two different children's tastes with one restaurant stop. From the franchisee's point of view, co-branding harnesses complementary operations to maximize return on investment, enhance drawing power appeal to diverse customer bases, exploit day-parts to their fullest, and maximize back-of-the-house efficiency. Co-branding also provides added value to the customer by serving customer needs that a single franchise concept cannot meet.

A number of hospitality co-branding deals have been negotiated over the past several years (Strate & Rappole, 1997). Also, many companies are forming co-branding alliances with non-foodservice business owners and service providers, who might have seemed the unlikeliest of partners in the past. For example, quick service restaurants are appearing within retail outlets; a major program involves Wal-Mart and McDonald's. Clearly, some restaurateurs see co-branding as offering attractive benefits, not only as a way to minimize the problems associated with the operations, but also for increasing points of distribution and customer traffic in the foodservice business. An area of branding research that has yet to be extensively studied is the combining of two or more distinct brand names in a single marketing strategy. Recent papers by Levin et al. (1996) and Rao and Ruekert (1994) suggest that brand alliances will continue to increase in popularity in the 1990's.

4.4. Advantages and Disadvantages of Co-branding

Co-branding appears to benefit both customers and restaurateurs alike. For customers, co-branding provides more variety. It may be particularly convenient for families or co-workers who dine out, but cannot agree on what type of food they want (Benezra, 1994). Also, unlike traditional food courts, at a co-branded location the consumer who seeks variety only has to visit a single counter.

For restaurateurs, the benefits of co-branding are many. One advantage is that it increases store traffic by balancing day-parts. It is typical to see co-brand partnerships in which one brand does a strong lunch business, while the other has higher sales during the dinner day-part. It also enables restaurateurs to secure prime locations that they otherwise would not have been able to achieve, and to reduce their operating costs. Another potential benefit of co-branding is that it may enable retailers that are relatively unknown to gain credibility by pairing up with a well-established brand. Finally, co-branding allows companies to achieve synergies in their advertising efforts (Benezra, 1994; McDowell, 1994; Nation's Restaurant News, 1994).

The risks of co-branding are parallel with the advantages of co-branding. First, it is possible for a consumer's negative feelings (or neutral ones in the case of an unknown brand) toward one brand to be transferred to a brand with which it is paired (Levin et at., 1996; Loken & Roedder, 1993). Also, a brand may lose its identity if it uses several co-brand locations, especially if some of these co-brand arrangements are with different brands. Such is the case with Arby's, which has a dual brand partnership with Green Burrito, Long John Silvers, and Roast Town. This potential danger mirrors a concern by some authors that brands which introduce several different brand extensions run the risk of “overextention”, or confusing consumers about what the brands stands for (Buday, 1989; Ries & Trout, 1986).

4.5. Real Options and Co-branding

Real options can be either “plain” options or compound options. A “plain” option is just like a call option where the exercise of the option leads to the acquisition of the underlying asset (i.e., co-branding). For example, a chain foodservice company has considered co-branding as an opportunity, but could not aggressively adopt this strategy because of territorial rights of unit owners and uncertainty about the reaction of the financial market to this strategy. They wait until the uncertainty is cleared, and exercise co-branding later on. Another example is when a single brand owner wants to bring in another brand to their unit, he or she might go back to their initial business period and recall what was wrong and what was positive, and then adjust his/her business vision and evaluate the co-brand potential from the new objective. This option has to do with the value of managerial flexibility about irreversible capital investments in an uncertain world.

In the case of compound options, which are options that offer the additional flexibility to make subsequent investments or divestments, the exercise of one option leads to the acquisition of another option. Most sequential investments can be considered as compound options in the sense that the investment in one stage gives the firm the option to continue to the next stage. Today’s investments may have features that enable a firm to exercise a specific strategy in the future.

For example, a hotel company may consider installing a high-speed modem. It will require a significant initial capital investment without showing improvements in profit. However, the customers’ need for a high-speed modem is overwhelming, and a hotel company has no choice. After installing the high-speed modem, the company may change/install web TV in every room to maximally utilize the technology investment and differentiate itself from other competitors who are not installing the high-speed modem. Traditional valuation methods are not capable of capturing the characteristics, and explaining the practices of technology investments. Traditional methods ignore the embedded decision flexibility that decision-makers can utilize to alter the course of the project in a favorable direction. Such managerial flexibility could have important impacts on the realized value of investment projects. If a hotel company does not have managerial flexibility for the market's environmental changes, they could lose their market in the near future.

Options are rights, but not obligations, to take some action in the future (up to a possible expiration date) contingent on the unfolding of stock uncertainties. Analogous to financial options on common stocks, real options are options on physical or "real" assets such as new technologies, information infrastructure, equipment, and licensing, etc. When a firm makes investment expenditures, it exercises its option to invest. The term "invest," thus, means that the firm exercises its option by invoking an initial cost in exchange for a real asset that may pay a stream of future cash flow. Throughout this paper, therefore, we use the terms "invest" and "exercise the option" interchangeably.

4.6. Conceptual Co-Branding Strategic Model

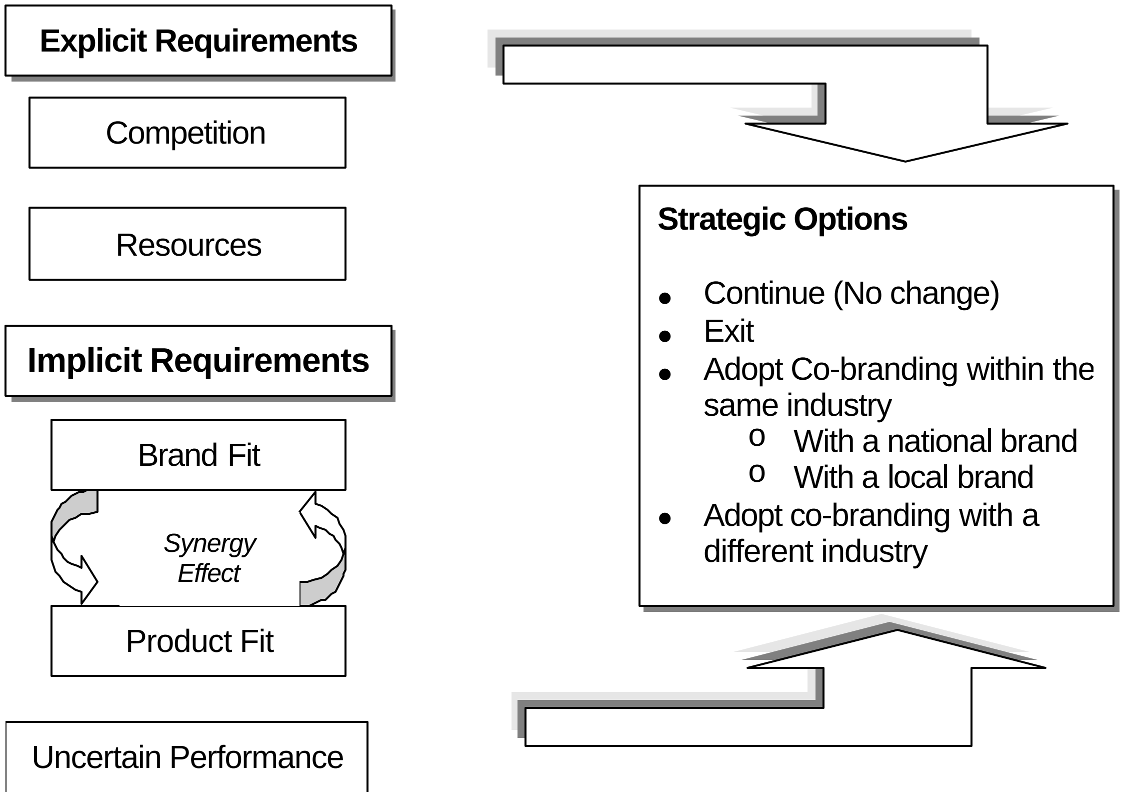


Figure 4.3: Co-branding Investment Decision -Making Model

The effects of implementation requirements in response to market change are generally straightforward. If one assumes homogeneity among competitors in an industry, a responder's requirements should at least equal those of an initiator. Initiating a competitive action is generally part of strategy implementation on the part of initiator. Responding firms, on the other hand, are not always prepared to counteract competitive challenges raised in the market. They need time not only to understand and analyze the action but also to decide how to respond. Some competitors might lack the capability to make necessary responses, even if they have decided to do so. This is especially true in the case of actions with a high level of implementation requirements, (i.e., strategic investment), which usually require a substantial amount of time and resources to restructure the organization. Responses to this kind of action may be slow and few.

In the study, we categorize explicit and implicit requirements to discover the influential factors that make prospective co-branding franchisees invest in different time frames. Under explicit requirements, business competition and the resources of the individual restaurant unit will be the focus of this study. Brand and product fit between trade names, the synergy effect between brands and products, and performance uncertainty will be included in the implicit requirements category.

4.6.1. Timing of Entry (Order of Entry)

Timing of entry is the decision about when to enter a new or existing market. There is a substantial body of literature on the effects of early entry on performance. The common view is that early movers in a given product sector enjoy enduring advantages over later entrants (Caves & Porter, 1977; Lambkin, 1988; Mitchell, 1991; Robinson, Fornell & Sullivan, 1992). We define an early mover as one that is perceived to have made an earlier investment in the co-branding concept in their market, and a late mover as one that is perceived to have made a later investment in the co-branding concept in their market. Bond and Lean (1977) found that the first firm to offer and promote a new type of product received a substantial and enduring sales advantage. Robinson and Fornell (1985) found that first-movers had higher market shares than later entrants. The later study of Robinson (1988) and Parry and Bass (1990) also found that first-movers had higher market shares than later entrants. In 1991, Mitchell investigated the relationship between entry-order effects on market share, and found that survival depends on whether the first-mover is an industry incumbent or a newcomer. She found that newcomers benefit from early entry, and incumbents perform better with later entry.

While early-mover advantages have been shown to be empirically robust, there are circumstances under which late entrants may overcome the disadvantages (Lilien & Yoon, 1990). These conditions include free rider effects, low costs of imitation, shifts in technology, and consumer preferences leading to new product and market opportunities, or simply the complacency of early movers (Carpenter & Nakamoto, 1989; Lieberman & Montgomery, 1988).

Because of the distinctive characteristics of the franchising concept, especially co-branding, once early movers acquire a nationally recognized quality brand, late-movers never have the same brand in the same market or at least the same territory. There are not many advantages for the late-mover in the case of co-branding expansion. Although researchers have often discussed that changes in the environment (such as changes in technology and/or customer needs) give firms an opportunity to be early-movers (Liberman & Montgomery, 1988), some firms pursue an early-mover status, while others adopt a "wait-and-see" stance, depending on how environmental forces and prospects for profitability are assessed. In this study, the investigation is designed to find out what makes firms exercise the co-branding option differently in different time frames. Two categories are discussed as key differentiating factors in terms of order of co-branding investment.

H1: There are group differences between early movers and late movers within the co-branding investment model.

4.6.2. Explicit Requirements

A review of the literature reveals the dynamic factors influencing the order of co-branding investment. Examples of explicit requirements are easy to identify and relatively easy to value because they result from visible transactions such as competition and resources.

4.6.2.1. Competition

A number of studies suggest that as competition increases, firms increase their business activities (Zahra, 1993; Zahra & Covin, 1995). Competition would be a result of a market share expansion effort, or the competition would be judged by the frequency of the competitive action by players. For this study, we have defined competition as the key operative dimension of environmental uncertainty within the context of our industry (Dant & Gundlach, 1998).

Franchised foodservice companies are facing increased competition in the marketing and strategy areas, and are encouraging innovation on the part of their franchisees. By an extension of the same logic, franchisees are likely to attain sustainable growth of their businesses under conditions of higher levels of competition. Research indicates that franchisees may exercise an adaptation process based on local knowledge that will result in competitive advantage for the franchise system (Baucus, Baucus, & Human, 1996). However, there is a limitation to local markets' ability to adapt to increase the already diminished revenue flows caused by competition. This limitation is likely to prompt franchisees to seek supplementary earnings from alternative sources, thereby motivating them to invest in co-branding.

4.6.2.1.1. Market Share

For many firms, sustaining industry leadership, dethroning the current leader in their industry, or closing the market share gap between themselves and the current leader are key organizational objectives. Other factors being equal, market share leaders are more profitable because they exploit economies of scale and market power, as well as having first-mover and reputational advantages (Buzzell, Gale, & Sultan, 1975; Zeithaml & Fry, 1984; Lieberman & Montgomery, 1988; Armstrong & Collopy, 1996). Market share can be defined as a share of the served market accounted for by a business (Murthi, Srinivasan, & Kalyanaram, 1996).

The co-branding option is used as a market expansion strategy exercised by the franchisor, franchisee, or independent operators in the hospitality industry. It may present opportunities that give unit owners the confidence to commit resources to new projects. Porter (1980) mentioned that the emergence of competitive niches might motivate administrators to experiment with different tactics in order to capture additional business. And Kester's (1984) qualitative research investigated investment opportunities as options for a company's future growth. Co-branding can induce restaurant unit owners to expand their facilities or to modify their offerings in the hope of attracting new customers before their competitors. Research indicates that early movers often command larger market shares than late entrants (Mitchell, 1991; Robinson, Fornell, & Sullivan, 1992). We may assume that if franchisees focus on increasing their market share, they should exercise a co-branding option earlier than other competitors.

4.6.2.1.2. Competitive Action

Schumpeter (1950) argued that once a leading market position is achieved due to alert competitive action, a leading firm inevitably finds itself dogged by imitators. That is, without further aggressive actions of their own, industry leaders will eventually yield to the moves of more aggressive rivals. We define competitive action as any newly developed market-based move that challenges the status quo of the market process (Jacobson, 1992; p. 787); status quo is defined here as routine, ordinary, and patterned competitive behavior (Nelson & Winter, 1982; O'Driscoll & Rizzo, 1985).

The study of competitive action is important because firms learn that routine past actions are now ineffective (Miller, 1990) or were erroneous (Kirzner, 1997), and the aggressive firms carry out newly created actions which affect, and indeed, threaten rivals. Dutton and Jackson (1987) contend that decision-makers are more likely to respond strongly to actions perceived as threats. Although competitors may initially be uncertain of the implications of a given action, its occurrence will tend to impel them to react. If an action simultaneously threatens a major proportion of several competitors' markets, its average attack intensity on all competitors is thus raised. Thus, the competitive action creates a chain reaction effect of strategic or tactical attack and response.

There are two types of competitive action: tactical action and strategic action. Tactical action can include a whole series or a simultaneous thrust of new actions implemented in a short time frame to disturb and paralyze a rival (D'Aveni, 1994). A discounting coupon would be a good example of tactical action. Strategic action needs long-term preparation and requires a large amount of investment. Co-branding is an example of strategic competitive action. When one firm initiates strategic competitive action, other competitors need time to react to this action. If someone exercises a co-branding option to expand their market to fulfill the consumers' needs, other competitors will consider when and how to exercise their co-branding options depending on the intensity of the competitive action. Once a few competitors respond, others will tend to follow suit, creating a snowball effect (Farrell & Saloner 1985). Some competitors may respond unnecessarily. Even though all the competitors decided to invest in the co-branding concept sooner or later, the late mover may experience a certain degree of disadvantage because of the difficulty in finding appropriate brands and products, in that early movers may already have acquired licenses from franchisors. Thus, co-branding has a powerful first mover advantage since the first adopter has the opportunity to choose a national brand, which has strong recognition by customers, even though there is always a risk involved in investment decisions.

Even though there are no signs of threats from competitors in the market, one can initiate competitive action when strategic opportunities or threats from outside sources are identified. Therefore, the co-branding option could be used as a market protective competitive action. Even though some companies have experienced financial difficulties, they adopt the co-branding option to protect their market. Mason and Merton (1985) discuss protective options emphasizing the importance of future strategy, which are primarily investments made to protect the value of current or planned future opportunities. Some scholars argue that poor performance is just as threatening and challenging as market decline, and has similar motivational implications. It forces managers to adjust their ways of competing in order to keep their companies viable (Miller, 1990; Rogers, 1992).

Whatever the reason for their interest in co-branding as a competitive action, once companies have framed an investment decision in terms of an option-based strategy, they can look to the markets to gather the information to evaluate those options. Based on that information, some may wait and see how markets are reacting to this change. Others may move quickly to invest in co-branding as an opportunistic option, which may expand their market and will provide for customer needs or protective options, and thus maintain the current market share.

Proposition 1: Competition is related to franchisees' attitude toward co-branding.

H_{2a}: An emphasis on market share expansion is positively related to the timing of the co-branding investment.

H_{2b}: An emphasis on competitive actions is positively related to the timing of the co-branding investment.

4.6.2.2. Resources

A firm's resources are defined as all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983; Learned et al., 1969; Porter, 1981). Coyne (1986) points out that, not only must a firm have a resource that its competitors do not have, but also the capability gap must make a difference to the customer. In other words, for a business to enjoy a competitive advantage in the foodservice industry, the difference(s) between the firm and its competitors must be reflected in one or more product/service attributes that are motivation factors for the customers. In the face of changes in business environments (i.e., life style change), a firm's competitive advantage would depend on its ability to adapt to these changes and fulfill customer needs (Hamel & Prahalad, 1991; Boulding et al., 1993; Treacy & Wiersema, 1993). Co-branding would be adopted to utilize the tangible (i.e., real estate, cash) and intangible (i.e., location, franchising experience) resources as a result of these changing environments.

Since individual restaurant owners may have very limited resources to invest in another project, exercising a co-branding option would be very risky. If they do not accomplish what they have planned to achieve, co-branded restaurateurs could have less power to control future market changes, which could lead them to lose their markets. It is crucial to understand the firm's resources and invest them in the right project.

Today, the hospitality industry is facing resource constraints, including: (1) a shortage of labor or physical inputs, (2) a shortage of finance, (3) a lack of suitable investment opportunities, and (4) lack of sufficient managerial capacity. Kerin, Varadarajan, and Peterson (1992) discussed that a high degree of resource capability is necessary to capitalize on an environmental opportunity. In addition, they found that a greater degree of resources are necessary to achieve sustainable competitive advantages through market pioneering, and the greater the order of entry-related competitive advantages of the first mover. Therefore, understanding and utilizing limited resources would be an important factor in the investment decision-making process of co-branding.

4.6.2.2.1. Franchising Experience (Managerial Skills)

The firm's unique capabilities in terms of technical know-how and managerial ability are important differentiating factors that may result in sustained competitive advantage. As Mahoney and Pandian (1992) noted in their essay on the resource-based view of the firm, managerial know-how and abilities are important sources of competitive advantage. A firm’s distinctive managerial skills are viewed as the source of a business’s competitive advantage in the marketplace. Superior managerial skills do not, however, automatically give a business competitive advantage. They only provide the business an opportunity to leverage its skills and resources to achieve competitive cost and/or differentiation advantages. An emerging body of research suggests that performance will be enhanced if a business utilizes the managerial skills and attitudes available within the firm (Grant, 1988). Managerial skills and attitudes or managerial know-how are not established in a short period of time. It takes time to build expertise in a field. In this study, franchising experience was defined as the operator's unique capabilities in terms of technical know-how and managerial ability in the franchising business.

Research shows that franchisees have fewer or lower quality skills than independent business owners (Williams, 1999). Thus, franchisees may choose to purchase the experience and information that a franchisor has accumulated in order to reduce commercial uncertainty and risk (Knight, 1986). The practical implication of these findings is that franchisees would search for safe business opportunities but earn lower profits than independent owners. The attitude toward co-branding involves the same decision-making process as with new franchisees. Unlike new franchisees, co-branded franchisees are local market experts, know the franchise mechanism, and are experienced with a variety of competitive methods in the local market. For example, Peterson and Dant (1990) note that with increasing experience with franchising, franchisees acquire reasonable proficiency and self-confidence in operating those systems. Kerin, Varadarajan, and Peterson (1992) also found that a high degree of managerial skill is necessary to capitalize on an environmental opportunity. In addition, they discovered that the greater the degree of managerial skill necessary to achieve sustainable competitive advantages through market pioneering, the greater the order of entry-related competitive advantages of the first mover. A high degree of franchising skill takes a long time to build, but is a powerful advantage in differentiating a firm from others. Stanworth (1995) and Dant and Nasr (1998) show that longer established franchisees tend to be more resistant to compliance with franchisors' directives or sharing market information with them. It is logical to assume that extensive previous franchising experience may help to develop a co-branding concept earlier and with confidence, and may reduce the time and effort necessary to understand a co-branding format.

4.6.2.2.2. Financial Resources

Because demand for many customer services is based on convenience, preemptive identification of ideal locations is critical to achieving better facility utilization (Allen, 1988). However, service delivery in the foodservice industry could require a firm to invest in multiple foodservice facilities at locations that are convenient to the served market. As a result of the need for multiple locations, the franchising approach has received attention from many practitioners and academic professionals. A new franchisee pays the franchisor large up-front fees, sometimes more than $1 million, to buy the rights to establish a new outlet. The franchise fee is just the beginning of the investment. They are often required to purchase specific assets, such as signs, menus, equipment, and training that cannot be recovered or easily put to other uses. Since the growth of the franchised company is based on the initial franchising fee, royalty fees, and leasing fees, it is critical to have a prime real estate site that has great accessibility and visibility. However, there are few primary spaces available for the foodservice industry; therefore, utilizing existing prime locations is an important issue.

It is clear that pre-existing strategic locations are an important source of competitive cost and a differentiation advantage in the foodservice industry. Although bringing in a new brand under one roof would require the same amount of initial investments, such as the initial franchising fee, the royalty fee, etc., there is a strong possibility of leveraging existing resources into the new business and of reducing total costs, such as the leasing fee, equipment costs, employee payroll, and utility costs, that would be associated with entry. This can be stated as, "buy one franchising unit and half price off for next franchising unit under one roof."

Therefore, if a single-brand franchisee needs additional revenue sources, co-branding might be the preferred solution because it facilitates the sharing of resources, which gives the entering franchisee competitive advantage and high entry performance. Even though co-branded franchisees have many competitive advantages, they need to invest a certain amount of money. Financial resources are defined as the potential monies available for investment in a co-branding concept, including, savings, cash generated by operations, new debt, lines of credit, and disposal of existing assets and ventures (Hofer & Schendel, 1978; Fogg, 1999 pp. 263).

Conceptual, empirical, and case study literature on first-mover advantage strongly suggests that the financial resources at a firm's disposal play an instrumental role in achieving positional advantages (Chandler, 1990; Cooper, 1979; Day, 1990; Green & Ryans, 1990; Schnaars, 1986). These studies suggest that unless the first mover has substantial resources, it is unlikely to convert environmental opportunities into long-term positional advantages. It is reasonable to assume that there is a relationship between financial capability and the order of investment decisions.

Proposition 2: Resources are related to franchisees' attitude toward co-branding as a strategic option.

H_{3a}: The franchising experience is positively related to the timing of the co-branding investment.

H_{3b}: The financial availability is positively related to the timing of the co-branding investment.

4.6.3. Implicit Requirements

Implicit requirements are based on customer's perceptions, which would be a result of their own experiences (i.e., experience eating hamburgers at McDonald's) and expectations of the co-branding concept (i.e., one stop shopping). In addition, implicit requirements appear to represent the owners' goal (i.e., increased profit). Implicit requirements are important. However, often their value is difficult to determine. For example, travelers may choose to eat at a particular chain restaurant because they believe this company provides a clean facility and a consistent menu. Customers may choose co-branded restaurants because of a greater variety in menus. People may choose to buy gas at a co-branded gas station because of the convenience of one-stop shopping. We have selected two constructs, including the synergy effect and performance uncertainty, for the implicit requirements.

4.6.3.1. Synergy Effect

Two or more brands operating under one roof should be complementary to each other in their attribute distinctions and performance levels. There have been many studies on synergy (i.e., Grossman & Lindhe, 1984; Truitt, 1985; Park, Jun, & Shocker, 1996; Caron & Jeffrey, 1999), and several authors have loosely defined synergy as a phenomenon where the value of a combination of ingredients in a business is greater than the sum of the values of those ingredients taken separately (Grossman & Lindhe, 1984; Truitt, 1985).

Synergy effects are not just coincidences caused by particular numerical values or ad hoc structures. Different strategic and market conditions will produce different results. The joint effect is larger than the sum of the effects of independent investments. However, this does not mean that synergy is always beneficial, since the effect on the value of the strategy can be negative. Thus, even though there are great advantages to investment in the co-branding concept, co-branding is widely used among franchisees, and franchisors would not aggressively exercise a co-branding option throughout their entire chain system because of negative effects. From the franchisor's point of view, it is difficult to achieve a synergistic effect in co-branding throughout their entire franchise system since the synergy effect of co-branding should consider that the use of the investments has to include all crucial determinants of the competitive situation of the individual restaurant unit. Although standardization of the product and service is the number one priority of doing business in the franchised foodservice industry, understanding an individual restaurant business environment by the franchisor and implementing a standardized co-branded concept into each unit is almost impossible. As a result of these considerations, co-branding has been exercised more actively by franchisees.

Achieving synergy between products and brands is extremely important to the prospective co-branding franchisee. Since these franchisees typically have limited resources, it is critical that they achieve the maximum impact from the use of these resources. Thus, a co-branding option would be exercised when two brands are synergistic in the sense that the performance-level strengths and weaknesses of their relevant attributes mesh well. Unique and innovative combinations of synergistic components (brand and product fit) can achieve market results far beyond what might be expected by viewing the elements on an individual basis.

4.6.3.1.1. Brand Fit

A brand is defined as any name, term, sign, symbol or any combination of these used to identify a product or service and differentiate it from its competitors (Kotler, 1984; Aaker, 1991, 1996). Aaker and Keller (1990) found that brand extension strategies are more likely to be successful when the initial brand is perceived as high quality and when there is a perceived fit by customers between the initial brand and the brand extension. For the purpose of this study, the definition of "brand fit" derives from Aaker and Keller (1990), as perceived fit by decision-makers between two brands.

The trademark or brand name is often mentioned as the most distinguishing feature of a franchising business. Hence, the value of franchising is likely to be related to the degree of the value of the brand name to consumers. Brand name restaurants offer consumers a number of benefits, especially in circumstances where consumers may be uninformed. A brand name can give consumers information about a firm's products and services. Some of the attributes commonly associated with a brand name include standardization, quality assurance, and the lower transaction costs or search costs associated with purchasing a product with a familiar brand name.

By reducing the variance of a firm's expected quality, co-branding can reduce business risks by bringing in another brand. This concept will give customers more confidence about consistency and level of quality. It may be expected, therefore, when the prospective co-branding franchisee considers introducing a new brand within the same store, the operator should think about the brand fit, which may include brand familiarity (i.e. national affiliation or local brand), the synergy effect, investment costs, and franchisor support.

If a prospective co-branding franchisee finds that the new brand's attributes have an attractive and higher degree of brand fit, then the successfully combining brands will differentiate themselves from competitors. A brand image, as mentioned by Kunkel and Berry (1968), represents the total expected reinforcement that a consumer associates with patronizing any of its outlets. Co-branding, therefore, will give a confident and consistent image of product quality to the consumers, and this may increase customer retention. We may assume that the franchisee, who brought a nationally recognized brand along with an existing brand, may initiate co-branding activity earlier than those who do not find the right brand.

4.6.3.1.2. Product Fit

One of the most important factors differentiating franchising from independent business is standardization, so the entire product is the same from one place to another. However, this may not be possible when the market is bigger and broader. For example, McDonald's introduced Lamb-burger in India because of the cultural difference. A local market adaptation can be important for both the franchisor and franchisee. The overriding benefit of local market adaptation is increased revenues through better fit, which will accrue primarily to the franchisee who is deviating from system standards to better serve his or her market. By extension of the local market adaptation logic, the prospective co-branding franchisee should seriously consider a product type based on local market research and the product fit between two products.

Customers' perceptions of "product fit" are expected to play a significant role in how customers respond to co-branding. This can be the critical point for the prospective co-branding franchisee. There are some co-brand-related studies in the consumer-product industry. One of the studies concerns brand-extension strategy. Prior brand-extension research (Aaker & Keller, 1990; Park, Milberg, & Lawson, 1991; Dacin & Smith, 1994) observes that product category similarity or "fit" works through its relationship with brand attitudes. For the purpose of this study, the definition of “product fit” derives from Park, Jun, and Shocker, (1996) as perceived fit by decision-makers between the products of two brands.

In the case of co-branding in the hospitality industry, however, product dissimilarity also can be an important consideration, since similar products may overlap the sales performance of both products. An example would be co-branding between Burger King and Taco Bell. Both concepts focus on same day-part (in this case lunchtime), which have overlapping food and beverage sales, and which may reduce the royalty fee (calculated as a percentage of sales) to each franchisor.

Therefore, similar-product co-branding, which has the same day-part, may reduce the synergy effect, and may minimize financial performance because of inappropriate product fit, even though they both have nationally recognized brand names. Therefore, even though the consumer product industry is looking for similar products, the hospitality industry should consider the dissimilarity of the products, such as donuts and ice cream, hotels and restaurants, and gas stations and restaurants, or different day-parts, such as donuts and hamburgers, or pizza and tacos. We may assume that the franchisee, who brought well matched dissimilar products along with existing products, may initiate co-branding activity earlier than those who do not find the right product.

Proposition 3: The synergy effect is related to franchisees' attitude toward co-branding as a strategic option.

H_{4a}: Finding a brand that is perceived to have a better fit with an existing brand, is positively related to the timing of the co-branding investment.

H_{4b}: Finding a product that is perceived to have a better fit with an existing product is positively related to the timing of the co-branding investment.

4.6.3.2. Performance Uncertainty

Capital investment decisions have been known as one of the most critical and difficult areas of business decision-making. Decisions are important because they affect the economic welfare of the company. To be successful in the competitive market, companies must invest their capital in the most advantageous manner possible. Because these companies must contend with varying quantities of unknown future events, they face a generalized problem of capital investment under uncertainty.

The term uncertainty is used when future events are unknown, and the nature of the probability distribution of event occurrence is also unknown. In this study, performance uncertainty is defined as the variability of future performance of investments made compared to current performance. This area is particularly concerned with judgmental or subjective probability distribution estimates, where the person making the predictions cannot precisely define the distribution parameters. Since most factors can be bounded (either loosely or tightly), future cash flow estimates are frequently presented as some form of probability functions, with estimated parameters for expected values and variances. These parameters are estimates, and are not known with certainty due to the variability of the market or performance conditions.

We assume that order of entry into co-branding very much depends on current performance. For example, it has been suggested that current good performance can make operators/managers so complacent, so content with the status quo, that they resist change (Miller & Friesen, 1984; Tushman & Romanelli, 1985). In addition, healthy performance induces owners to believe that they have "gotten it right;" it makes them reluctant to change (Lant & Montgomery, 1987; Milliken & Lant, 1991; Miller, 1994). In support of this idea, Miller and Chen (1994) found that good past performance contributes to competitive inertia and a lack of action and aggressiveness. This would be true in the case of co-branding. If past and current performance is greater than other competitors, and expecting continuous successful future performance, franchisees might resist investing in a co-branding option or late entry into the co-branding business.

Unsatisfied performance, on the other hand, provides an incentive to improve things by altering prices, embarking on new promotional schemes, introducing new products, and so on (Cyert & March, 1963; Lant & Montgomery, 1987). Some researchers have indicated that poor performance widens the gap between managerial aspirations and achievements and thus motivates remedial action (Cyert & March, 1963; Miller & Friesen, 1984; Lant & Mezias, 1992). In addition, poor performance makes managers question the adequacy of their methods and motivates them to search for improvements (Starbuck & Milliken, 1988; Milliken & Lant, 1991). It is logically assumed that one who has a poor performance experience, in the past or currently, would have the potential to exercise a co-branding option earlier to increase their performance.

Often the early mover is required to make investment decisions in the face of uncertainty about future performance/demand (Porter, 1985; Wernerfelt & Karnani, 1987). The greater the uncertainty level, the lower the likelihood that a first-mover will make sizable investments (i.e., bring in a national brand) in a capacity to achieve competitive advantages. If the early mover is unwilling to commit substantial resources in the face of demand uncertainty, or simply enters on a small scale of investment, its advantage will be correspondingly lower. Exercising a co-branding option is not just for market share increase or profit maximization, it also satisfies customer needs. Co-branding may not guarantee an immediate return on invested capital or an immediate response by customers; however, fulfilling customer needs increases customer retention and will increase performance in the future.

Proposition 4: Previous performance is related to franchisees' attitude toward co-branding as a strategic option.

H_5: The degree of prior sales performance satisfaction is negatively related to the timing of the co-branding investment.

In general, firms can enhance their performance by cultivating new customers and/or retaining their existing customers and selling more to them. Cultivating new customers is generally more expensive than retaining existing customers, particularly in mature markets. Reichheld and Sasser (1990) found a 5% reduction in customer defections to be associated with profit increases ranging from 25 to 85% in the industries they studied. Therefore, the combination of two national brands provides great recognition, quality assurance, consistent service, and trust in products. These can be related to an increase in customer visits and loyal customers, and could be related to the competitive advantage of the co-branded unit.

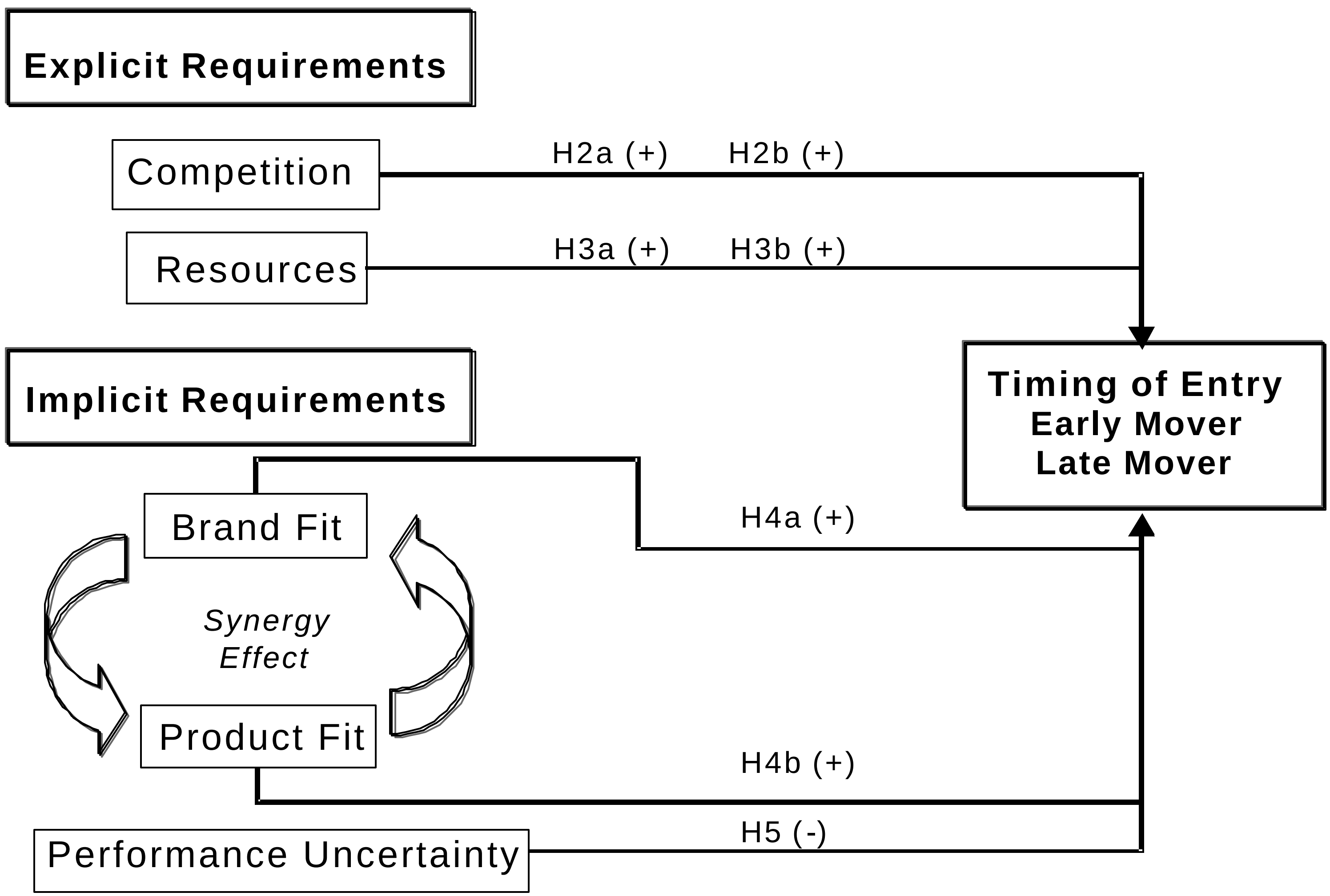


Figure 4.4: Hypotheses of the Conceptual Model

CHAPTER 5

RESEARCH METHODOLOGY

In chapter 5, we use two statistical techniques to understand recent developments in the hospitality industry. Study 1 discusses the recent trends of co-branding development in the hospitality industry by using content analysis. This study relies exclusively on publicly available information. The primary data consists of full-text articles appearing in the newspapers, magazines, newsletters, and journals of the business, hospitality, and retail industries. Each article describes both the implementation of co-branding by a foodservice industry, and some of the consequences associated with its use. Study 2 discusses the research procedures of the hypothesized co-branding model. Cross-sectional analysis was conducted to test the hypotheses, and a mail questionnaire survey was used to collect the appropriate data set.

STUDY I

Co-branding Strategy in the Hospitality Industry

5.1. Overview

Today, franchised restaurants can be found operating on almost every street or in almost every shopping center in any neighborhood. Lafontaine and Shaw (1998) found out that more than 200 new franchise systems have been born each year during the past several years. As a result of this growth, the restaurant industry is already saturated in terms of the lack of new restaurant sites. Therefore, co-branding has been a new way of doing business used by the franchisor and franchisee. An underlying assumption of this research is that both foodservice franchisors and franchisees adapt their business strategies in response to changes in the external environment. It is further assumed that both franchisors and franchisees face considerable uncertainty concerning both the number and interdependence of those forces precipitating the need for change and the means-ends relationships of actions taken in response to them. In this chapter, an investigation is made to understand the co-branding trends in the hospitality industry by using the last three years of publicly traded data. The accounts of co-branding patterns described in the press reflect both the franchisor and franchisee's beliefs about and causal models concerning their actions taken in response to changes in their environment.

5.2. Sample

This study relies exclusively on publicly available information. The primary data consists of full-text articles appearing in the newspapers, magazines, newsletters, and journals of the business, hospitality, and retail industries. Each article describes both the implementation and consequences of co-branding by a foodservice industry. The primary source of full-text accounts for this research was the *Dow Jones Interactive* (DJI) database for 1997, 1998, and 1999. This electronic database contains selected full-text articles and abstracts from over 6,000 global sources, including newswires, newspapers, trade and industry publications, magazines, and academic journals. Topics covered include, but are not limited to: branding and menu trends, organizational change and restructuring, acquisitions and mergers, business and industry analyses, franchising activities, corporate and executive profiles, effects on economic conditions and policy, economic trends, foodservice case studies, and research findings.

5.3. Data Gathering

The procedure for collecting data had three steps. The first was to search DJI for articles on a file containing all records in which the word "co-brand or dual-brand or dual-concept" appeared for the years 1997, 1998, and 1999 (see Table 5.1). Second, each record in the files was scanned to determine if it was truly related to the topic of co-brand marketing strategy. Third, for the small number of article entries compared to the total number of article entries in each year's brand database the keywords were reassigned with the word "restaurant or foodservice" in order to narrow the search (see Table 5.2 and 5.3). Finally, to focus on new trends in the foodservice industry, the key word "multi-brand, multi-concept, multiple concept, and multiple brand" were added (see Table 5.2 and 5.3).

The full-text articles used in this research were largely derived from five types of publications: (1) major news and business publications such as *The Asian Wall Street Journal, Business Week, Dow Jones News Service, Economist, Time, and U.S. News and World Report* (2) the top 50 U.S. newspapers such as *The Wall Street Journal, The Los Angeles Times, USA Today, and The New York Times*. (3) food and beverage publications such as *The Cornell Hotel and Restaurant Administration Quarterly, Restaurant Business, Nation's Restaurant News, Restaurants and Institutions, and Food Review* (4) retail and consumer goods publications such as *Consumers' Research News, Convenience Store News, International Journal of Retail and Distribution Management, and Journal* *of Retailing*. (5) and management and business publications such as *Franchise Times, Franchising World, Harvard Business Review, Hotel & Motel Management, Journal of Business, Journal of Management, and Sloan Management Review*.

5.4. Measure

Many researchers have used content analysis (Namenwirth, 1969; Namenwirth & Lasswell, 1970; Rosengren, 1981; Namenwirth & Weber, 1987; Weber, 1981, 1990). Content analysis can be thought of as a technique for objectively and systematically making inferences about the intentions, behaviors, attitudes, and values of actors through the identification and analysis of specific characteristics in text-based materials (Krippendorff, 1980; Weber, 1990; Morris, 1994). In this study, a text-based content analysis is used.

5.4.1. Headline Analysis

Headline analysis refers to the content analysis of the headline with the first few sentences which accompany all full-text articles in the *Dow Jones Interactive* database. The purpose of headline analysis was to identify the trends indicated in the full-text articles. All headlines generated by searches of the DJI database were read in their entirety. For each headline that mentioned the use, adoption, or implementation of any form of co-branding by a retailer and foodservice company in the sample, the full-text of the referring article was also collected. Articles with headlines not containing information on the use of co-branding may be collected or used in other ways in the analysis. Of the over 10,000 citations that were reviewed, more than 1,600 full-text accounts were collected for the full-text analysis in the next section (see Table 5.1).

Table 5.1

Articles Relating to Co-branding and Multi-concept Strategies, by Year and Percentage.

	Co-brand[1]						Multi-concept[7]					
	1997		1998		1999		1997		1998		1999	
Total results	1921	100%	2545	100%	5409	100%	398	100%	513	100%	823	100%
Foodservice[2]	558	24	524	16	502	8	100	25	141	27	108	13
Hotel[3]	219	11	223	9	225	4	56	14	86	17	67	8
Gas station[4]	106	6	79	3	71	1	8	2	6	1	6	1
Franchise[5]	285	15	446	18	422	8	86	22	138	27	144	17
Competition	206	11	259	10	672	12	43	11	80	16	123	15
Resources	259	13	432	17	1062	20	66	17	77	15	100	12
Synergy[6]	52	3	73	3	161	3	7	2	20	4	36	4

Notes: [1]including co-brand, dual-brand, and dual-concept. [2]including restaurants. [3]including motels, inns, and lodgings. [4]including convenience stores. [5]including franchising, franchisee, and franchisor. [6]including complementary. [7]including multiple brand, multiple concept, and multi-brand. Source: Dow Jones Interactive.

Table 5.1 shows that there are significant signs of an industry-wide interest in a co-branding marketing strategy. In the 1997 database, there are 1,921 articles related to co-branding. The articles devoted to foodservices comprised 24 percent, and 11 percent for the hotel industry. Foodservice chains such as Arby's, Subway, and Blimpie Subs & Salads, among others, were frequently referred to in the articles. The second most cited topic in co-branding was franchise-related articles. This topic was cited 285 times in co-branding articles, compare to 15 percent of total co-brand related articles. The articles mentioned franchise opportunities and companies' activities in co-branding. In the entire database, only 52 articles were devoted to the synergy effect in the foodservice industry.

In 1999, there were significant changes in terms of the number of articles compared to 1997. There were a total of 5,409 co-brand-related articles, which is an increase of almost three times from 1997. The proportion of foodservice related articles was only 8 percent, 4 percent in the hotel segment, and 8 percent in franchise related citations. This result indicates that the co-branding marketing strategy is spreading to other industries. In addition, this result shows a significant relationship between co-branding and competition, resources, and the synergy effect over three years. Along with co-branding, multi-branding also has increased its frequency in the press, from 398 in 1997 to 823 in 1999. Combined with foodservice and hotel related multi-concept articles, the frequency in the press decreased from 39 percent to 21 percent in 1997 and 1999, respectively. Additionally, table 5.1 indicates a strong relationship between multi-concept and explicit (competition and resources) and implicit (the synergy effect) requirements.

After reviewing the headline analysis of foodservice co-branding and multi-concept strategies for articles of the years 1997, 1998, and 1999, a full-text database was selected. Table 5.2 shows the number of full-text articles, which will be used to analyze trends in foodservice co-brand marketing strategy.

Table 5.2

Articles Related to Foodservice and Co-branding, and to Foodservice and Multi-concept, 1997-1999.

Original Database	**Foodservice[1] and Co-brand[2]**			**Foodservice[1] and Multi-concept[6]**		
	1997	**1998**	**1999**	**1997**	**1998**	**1999**
Total results[3]	558	524	502	100	141	108
Competition	88	84	80	14	23	24
Resources	59	59	69	26	15	17
Synergy[4]	25	26	26	3	9	6
Franchise[5]	315	325	232	47	73	53
Final Database	**Foodservice[1] and Co-brand[2]**			**Foodservice[1] and Multi-concept[6]**		
	1997	**1998**	**1999**	**1997**	**1998**	**1999**
Total results[7]	437	421	401	92	129	101
Competition	63	64	67	12	18	20
Resources	35	34	48	22	13	15
Synergy[4]	18	19	16	3	7	6
Franchise[5]	279	288	209	44	68	47

Notes: [1]includes restaurants. [2]includes co-brand, dual-brand, and dual-concept. [3]total comes from (restaurant or foodservice) and (co-brand or dual concept or dual brand). [4]includes complementary. [5]includes franchising, franchisee, and franchisor. [6]includes multiple concept, multiple brand, multi-concept and multi-brand. [7]total comes from (restaurant or foodservice) and (multi-brand or multi-concept or multiple concept or multiple brand). Source: Dow Jones Interactive.

5.4.2. Full-Text Analysis

The first stage of full-text analysis involved identifying the relevant articles which represent co-branding in the foodservice industry. The articles that were not relevant were eliminated from this study. The bottom of table 5.2 shows the finalized data set in this study. The next stage of the full-text analysis involved discovering the linkage between factors that we defined as implicit and explicit requirements and co-brand franchising. And more specifically, we focused on degree of competition, resource requirements, and product and brand fit and its synergistic effect on co-branding in the foodservice industry. Decision-making factors for co-branding are defined as the impetus for an implementation. A detailed description of decision-making factors were presented at the beginning of this paper (see Figure 4.3).

5.5. Findings

Table 5.3

Articles Related to Foodservice and Co-branding, and to Foodservice and Multi-concept, by Year and Percentage

	Foodservice[1] and Co-brand[2]							
	1997		**1998**		**Difference 1997 & 1998**	**1999**		**Difference 1998 & 1999**
Total results[3]	437	100 %	421	100 %	-4 %	401	100 %	-5 %
Competition	63	16 %	64	16 %	2 %	67	16 %	5 %
Resources	35	11 %	34	11 %	-3 %	48	14 %	41 %
Synergy[4]	18	4 %	19	5 %	6 %	16	5 %	-16 %
Franchise[5]	279	56 %	288	62 %	3 %	209	46 %	-27 %

	Foodservice[1] and Multi-concept[6]							
	1997		**1998**		**Difference 1997 & 1998**	**1999**		**Difference 1998 & 1999**
Total results[7]	92	100 %	129	100 %	40 %	101	100 %	-22 %
Competition	12	13 %	18	14 %	50 %	20	20 %	11 %
Resources	22	24 %	13	10 %	-41 %	15	15 %	15 %
Synergy[4]	3	3 %	7	5 %	133 %	6	6 %	-14 %
Franchise[5]	44	48 %	68	53 %	55 %	47	47 %	-31 %

Notes: [1]includes restaurants. [2]include co-brand, dual-brand, and dual-concept. [3]total comes from (restaurant or foodservice) and (co-brand or dual concept or dual brand). [4]includes complementary. [5]includes franchising, franchisee, and franchisor. [6]includes multiple concept, multiple brand, multi-concept and multi-brand. [7]total comes from (restaurant or foodservice) and (multi-brand or multi-concept or multiple concept or multiple brand). Source: Dow Jones Interactive.

As shown in table 5.3, there were 437 articles related to foodservice co-branding in 1997. The articles related to competition totaled 63, or 16 percent; 35 articles were related to resources, or 11 percent, and there were 279 franchise-related articles, or 56 percent of the total foodservice co-branding articles. This indicates a strong relationship between foodservice co-branding and franchising. Only 4 percent of the total number of restaurant co-branding articles mentioned synergy effects in 1997.

During the same time period, there were 92 articles mentioning foodservice and multi-concept. There were 22 articles relating to resources (24 percent); 12 articles relating to competition (13 percent); and 3 synergy-related articles (3 percent). And, franchise-related articles occur 44 times. Roughly half of the articles on foodservice multi-concept were related to franchising.

In 1998, foodservice co-branding was cited 421 times, which represents a decrease of 4 percent, compared to 1997. The area of competition in foodservice co-branding amounted to 64 articles, or 16 percent. Resource requirements were cited in 34 articles, amounting to 11 percent. Franchising was a popular topic, occurring in 288 articles, or 62 percent of the total articles. Most articles in this category mentioned that people want speedy service with one stop shopping, and they are more willing to visit co-branding units. Nineteen articles (5 percent), reported that foodservice co-branding has some synergistic effect. Compared to the 1997 articles, the mention of competition has increased from 63 times mentioned to 64, which is a 2 percent increase, while articles mentioning resources have decreased from 35 times to 34, a 3 percent decrease. However, articles mentioning a synergistic effect have increased by 6 percent. Additionally, franchise-related articles have decreased by 3 percent.

Foodservice multi-concept was cited in 129 articles; there are 18 articles relating to competition (14 percent); 13 articles on resources; and synergy-related articles totaled 7 in 1998. Franchise-related articles were found 68 times. More than half of the articles on foodservice multi-concept strategies was related to franchise activity. Compared to articles published in 1997, synergy-related articles have increased by 133 percent, followed by competition-related articles, at 50 percent, and franchise-related articles at 55 percent. Resource-related articles have decreased by 41 percent.

In 1999, there were 401 articles related to foodservice co-branding, which is a 5 percent decrease from 1998. The articles relating to competition accounted for 67 articles, or 16 percent. There were 48 articles on resources, or 14 percent, and 16 articles on synergy-related issues. Forty-six percent of the total foodservice co-branding articles, or 209 citations, were related to franchise activities. This indicates that foodservice co-branding is a popular business strategy within the franchising category. Compared to the 1998 articles, resource-related articles have increased by 41 percent, and there was a 5 percent increase in competition. Synergy-related articles have decreased by 16 percent, followed by a 27 percent decrease in franchise-related articles.

Foodservice related multi-concept topics were cited 101 times in 1999, which amounts to a 22 percent decrease from 1998. Within the restaurant multi-concept area, there were 20 articles related to competition (20 percent); 15 articles on resources, and 6 articles relating to synergy. Franchise-related articles were cited 47 times; roughly half of the articles on restaurant multi-concept were related to franchising. Compared to articles in 1998, resource-related articles have increased by 15 percent, followed by an 11 percent increase in competition-related articles. Franchise related articles decreased by 31 percent, followed by a 14 percent decrease in synergy-related articles.

Overall, we could find a continuous interest in the co-branding strategy, and a new interest in multi-concept strategies in the foodservice industry. Also, the result shows a strong relationship between co-branding and explicit and implicit requirements and an even stronger relationship in multi-concept restaurants.

STUDY II

5.6. Overview

In this section, we use quantitative analysis to examine the hypothesized model, which was discussed in chapter 4. Also cross-sectional analysis was conducted to test the hypotheses. A mail questionnaire survey was used to collect an appropriate data set. We tested our hypotheses with a sample drawn from the foodservice industry, where relatively small foodservice franchisees are affiliated with large, powerful, national franchisors. Given our interest in the order of reactions of franchisees to the co-branding option as a result of environmental change, data were collected from co-branded franchisees.

5.7. Research Hypotheses

A hypothesized model (see Figure 4.4) of co-branding was developed based on the proposed conceptual model (see Figure 4.3). Because the intent of this research is to explore the factors affecting the order of franchisee's adopting co-branding as a strategic option, a hypothetical relationship between factors and the co-branding option was constructed. Utilizing the relationship cited earlier, the following seven hypotheses sets are tested:

H_1: There are group difference between early movers and late movers within the co-branding investment model.

H_{2a}: An emphasis on market share expansion is positively related to the timing of the co-branding investment.

H_{2b}: An emphasis on competitive actions is positively related to the timing of the co-branding investment.

H_{3a}: The franchising experience is positively related to the timing of the co-branding investment.

H_{3b}: The degree of previous financial capability is positively related to the timing of the co-branding investment.

H_{4a}: Finding a brand that is perceived to have a better fit with an existing brand is positively related to the timing of the co-branding investment.

H_{4b}: Finding a product that is perceived to have a better fit with an existing product is positively related to the timing of the co-branding investment.

H_5: The degree of previous performance satisfaction is negatively related to the timing of the co-branding investment.

5.8. Sample

An initial inquiry into the foodservice industry was conducted, because of its well-known association with co-branding. And, we selected the foodservice industry (including the fast-food/quick service segments, mid-scale segments, up-scale segments, and retail food sub-categories) because it is both the largest and oldest industry sector populated by franchisors. The sampling frame for this study consists of franchisees engaged in co-branding with at least one brand related to the foodservice industry. Within the sampling frame, we sent 1000 questionnaires to co-branded franchisees, and expected to collect 200 questionnaires, which is a 20% response rate.

5.9. Data Gathering

The primary means of data collection in this study involved a mailed questionnaire survey to co-branding franchisees. The process of questionnaire development commenced with a meeting with Dr. Pamela Weaver (methodology and statistics professor at Virginia Tech). The first version of the questionnaire was pre-tested on franchisees who operate co-branding units in Blacksburg and Christiansburg, Virginia, and on several masters and doctoral students who are studying in the hospitality industry. The final version of questionnaire was mailed to randomly selected co-branding franchisees.

5.9.1. Survey Development

A 4-page survey instrument was developed for the co-branding study project. We adapted questions and items from previous studies, as well as formulating items specifically for this study. The survey was revised over a 2-month period and benefited from the advice and review of hospitality academics and industry practitioners. The survey was pretested in two waves. The first included expert reviews. Colleagues with expertise in survey design filled out the survey and made wording and format suggestions. After these comments were incorporated, the second wave consisted of a small-scale pretest to regional co-branded franchisees. The survey instrument format and items were revised based on reviewing response patterns.

5.9.2. Survey Procedure

The survey procedure approximated the guidelines suggested by Dillman (1978). Two mailings were being conducted. First, a final questionnaire was mailed and personally delivered to co-branding franchisees (see Appendix B). Included with the survey booklet was a signed letter on university letterhead explaining the study purpose, and a business reply envelope (see Appendix A). Second, after removing names of co-branded franchisees who had insufficient addresses, we made an encouragement call to some members on the list.

5.10. Measures

5.10.1. General Information

This section was designed to obtain the general profiles of the respondents and companies. Question 1 indicates the position of respondents, which ensures the appropriateness for this study of the individual who completes each questionnaire. The purpose of question 2 was designed to acquire general information on the responding firm, such as (1) size of the franchising business, (2) starting year of the co-branding concept, (3) brands other than the foodservice brand, (4) perceptions about co-branding, (5) behavior related to environmental changes, and (6) perceived market position. The purpose of question 3 was to acquire information on: (1) financial technique usage in the case of co-branding, (2) the decision-making process time from scratch to signing an agreement, and (3) to collect reasons to wait/delay this process.

1-1. Please state your title ____________________

1-2. Are you involved with co-branding development decisions? Yes___ No ___

2-1. How many franchising stores do you own? (A co-branded store counts as one store)

____

2-2. What year did you **initiate** co-branding? _________

2-3. In your co-branded stores, what businesses do you operate along with the foodservice operation? (Please check all that apply)

Gas station ___ Convenience Store ___ Another Restaurant ___

Lodging ___ Other (Please specify) __________________________

2-4. How did you first perceive co-branding? (Please check one)

Opportunity ___ Threat ___ Don't Know ___

2-5. Make a check (4) on the following scales that describe **yourself** when you consider market/customer changes?

Fast Actor :___:___:___:___:___:___:___: Slow Actor

Early Recognizer :___:___:___:___:___:___:___: Late Recognizer

2-6. How would you characterize **yourself** to other competitors when making a co-branding investment decision? (Please check one)

(a) Early Mover ___ OR Late Mover ___

(b) Risk Taker ___ OR Risk Aversor ___

3-1. What financial technique did you use when making a decision on co-branding investment? (Please check all that apply)

Discounted Cash Flow (DCF) ___ Net Present Value (NPV) ___

Internal Rate of Return (IRR) ___ Pay Back Period Method ___

Capital Asset Pricing Model (CAPM) ___ My Own Formula ___

Sales Forecasting ___ Other (Please specify) ___________________

3-2. How long did it take to bring another brand into your store?

Less than 6 months ___ 6 months to less than 1 year ___

1 year to less than 1 year 6 months ___ 1 year and 6 months to less than 2 years ___

2 years or more ___

3-3. From the co-branding decision to open a business, why did the processing time take more than one year? (Please check all that apply)

Uncertain Market Condition ___ Conflict With Existing Franchisor ___

Financial Problem ___ Long Negotiation Time With New Franchisor ___

Could Not Find The Right Brand ___ Could Not Find The Right Product ___

Waiting To See Competitors' Action ___

Not Sure About Co-branding Performance ___

Other (Please specify) ________________________________

5.10.2. Competition

Measure of competition, or the extent of rivalry in the marketplace, has generally been perceptually based (i.e., Negandhi & Reimann, 1973), and we emulated this tradition. In this study, the explanation of competition is based on two dimensions, market share and competitive action. The first sub-question of question 4 designed to gain information concerning the local market conditions in the regions where the respondent's operate their stores. Question 4-2 was designed to obtain information about management practices of respondents. The ten-item scale was adopted from Gadenne (1998). Business style is addressed in question 4-3. Questions 4-1 and 4-3 were adapted from Gatignon and Xuereb (1997). Item (a) of question 4-4 was designed to gain information concerning the market share intention (expand vs. protect), while item (b) was developed to measure the competitive action (initiator vs. respondent). The two-item scale was modified from Covin and Slevin (1989) and Calantone and Schatzel (2000).

4-1. **Competition** in our market is cut-throat. (1 = strongly agree to 7 = strongly disagree)

1 2 3 4 5 6 7

4-2. Listed below are management practices that may be adopted in co-branding business. Using the scale provided please show (by circling the relevant number) the extent to which the following management practices have been used in your business.

	Never						All the Time
(a) Emphasize Market Share Protection	1	2	3	4	5	6	7
(b) Advertise Your Product	1	2	3	4	5	6	7
(c) Change or Revise Operating Methods	1	2	3	4	5	6	7
(d) Improve Existing Products/Services	1	2	3	4	5	6	7
(e) Emphasize Building Goodwill (Reputation)	1	2	3	4	5	6	7
(f) Price Products Lower Than Competitors	1	2	3	4	5	6	7
(g) Emphasize Market Share Expansion	1	2	3	4	5	6	7
(h) Emphasize Sales Increase	1	2	3	4	5	6	7
(i) Acquire Knowledge Of Competitors' Activities	1	2	3	4	5	6	7
(j) Initiating Competitive Actions	1	2	3	4	5	6	7

4-3. How would you describe **yourself** in terms of business style?

	Strongly Agree						Strongly Disagree
(a) My action is based on customers' needs	1	2	3	4	5	6	7
(b) My action is based on competitors' action	1	2	3	4	5	6	7

4-4. Please circle one of the following questions on the basis of your current market situation?

(a) Increasing market share 1 2 3 4 5 6 7 Protecting market share

(b)	Responding to competitors' action	1	2	3	4	5	6	7	Initiating competitive action

5.10.3. Resources

Coyne (1986) points out that, not only must a firm have a resource that its competitors do not have, but also the capability gap must make a difference to the customer. Co-branding would be adopted to utilize the tangible (i.e., real estate, cash) and intangible (i.e., location, franchising experience) resources as a result of a differentiating strategy. The explanation of the resources in co-branding is based on two dimensions: franchising experience and financial resources. The primary measure of franchising experience was operationalized in terms of the age of the franchise outlet (Peterson & Dant, 1990). We believe that the respondents' tenure with franchise outlets becomes a significant estimate of the experience construct. Question 5 was designed to gain information on (1) years in franchising business, (2) franchisor and franchisee relationship, (3), (4) and (5) relationship between experience and co-branding. Question 6 was planned to gain information on (1) important financial sources, (2) intensity of financial requirement, (3) financial capability before and after investment in the co-branding strategy, and (4) ownership structure of the property. All scaled questions except questions 6-1 and 6-4 were supplied with 7-point Likert-type scales (1 = strongly agree and 7 = strongly disagree) as response categories.

5-1. How many years has your firm been in the franchising business? ____________ Years

	Strongly Agree						Strongly Disagree
5-2. I had a good relationship with the franchisor of the existing brand before bringing in another brand under one roof.	1	2	3	4	5	6	7
5-3. I have the experience required for operating a co-branded store	1	2	3	4	5	6	7
5-4. My previous franchising experience is helpful in my adopting a co-branding strategy.	1	2	3	4	5	6	7

5-5. My previous franchising experience is helpful

in negotiating with other franchisors to bring in
other brands. 1 2 3 4 5 6 7

6-1. How important are the following financial resources in co-branding investment, based on your experience? (1 = very important and 7 = absolutely not important, DK = don't know)

	Very Important						Absolutely Not Important	
Own money	1	2	3	4	5	6	7	DK
Bank	1	2	3	4	5	6	7	DK
Relatives/friends	1	2	3	4	5	6	7	DK
Investors	1	2	3	4	5	6	7	DK
Franchisor	1	2	3	4	5	6	7	DK

6-2. Initiating a co-branding strategy requires lots of money. (1 = strongly agree to 7 = strongly disagree)

1 2 3 4 5 6 7

6-3. How do you describe your financial capability?

	Very Strong						Very Weak
(a) Before investing in a co-branding strategy	1	2	3	4	5	6	7
(b) After investing in a co-branding strategy	1	2	3	4	5	6	7

6-4. Do you own or rent your co-branded store? (Please check all that apply)

Own ___ Rent ___

5.10.4. Synergy Effect

Question 7 was developed to determine the importance of the synergy effect between products or brands employed by the co-branding franchisees examined. Questions 7-1, 7-2, and 7-3 were designed to obtain information on perceptions about brands. Questions 7-4, 7-5 and 7-6 were designed to gain information about brand fit and product fit. The fit measures consist of semantic differential scale dimensions of brand or product fit, which have been modified from the previous research on brand equity (Aaker, 1991; Agarwal & Rao, 1996; Keller, 1993). The co-branding franchisee’s perception of brand and product fit was measured on one seven-point scale (not well at all-very well), perceived satisfaction on one seven-point scale tapping the overall fit of the brand and overall fit of the product (low-high). Question 8 was designed to address important considerations about brand and product fit. Respondents were asked to circle the degree of importance of each item. A high score is positively related to the importance of the item to the co-branding strategy.

	Strongly Agree 1	2	3	4	5	Strongly Disagree 6	7
7-1. Well-known national brands are best	1	2	3	4	5	6	7
7-2. Brand name goods are usually worth the money	1	2	3	4	5	6	7
7-3. The two brands in my business are well-known national brands	1	2	3	4	5	6	7

7-4. How well do the two brands in your business go together?

Not Well At All 1 2 3 4 5 6 7 Very Well

7-5. How well do the two products in your business of together?

Not Well At All 1 2 3 4 5 6 7 Very Well

7-6. Please describe the overall fit satisfaction?

(a) <u>Brand Fit</u>: Low 1 2 3 4 5 6 7 High

(b) <u>Product Fit</u>: Low 1 2 3 4 5 6 7 High

5.10.5. Performance Uncertainty

Question 9 was designed to obtain information on (1) past performance before joining the co-branding concept, and (2) current performance. It assesses the volatility and unpredictability of sales performance for co-branding products and services. Question 9-1 was adopted from Kuma, Scheer, and Steenkamp (1995). Question 10 was developed to obtain information on (1) co-branding advantages, and (2) overall rank of variable importance.

9-1. How would you describe the sales performance of your store **before** your store became a co-branding business?

(a) Satisfied 1 2 3 4 5 6 7 Not Satisfied

(b) Easy to Predict 1 2 3 4 5 6 7 Difficult to Predict

(c) Accurate Sales Forecasts 1 2 3 4 5 6 7 Inaccurate Sales Forecasts

9-2. **Overall**, how satisfied are you with the performance of the co-branding concept? (1 = Satisfied; 7 = Not Satisfied)

1 2 3 4 5 6 7

10-1. What are the **advantages** of having a co-branding operation?

	Strongly Agree						Strongly Disagree
(a) Low Investment Cost	1	2	3	4	5	6	7
(b) Low Business Risk	1	2	3	4	5	6	7
(c) Increased Customer Visits	1	2	3	4	5	6	7
(d) Increased Profit	1	2	3	4	5	6	7
(e) Increased Security	1	2	3	4	5	6	7
(f) Increased Customer Satisfaction	1	2	3	4	5	6	7
(g) Utilize Manpower Efficiently	1	2	3	4	5	6	7
(h) Utilize Space Efficiently	1	2	3	4	5	6	7
(i) Utilize Locations Efficiently	1	2	3	4	5	6	7
(j) Good Relationship with Franchisors	1	2	3	4	5	6	7
(k) More Independent Operation	1	2	3	4	5	6	7
(l) Less Control by Franchisor(s)	1	2	3	4	5	6	7

10-2. Please **rank** the following items used when deciding on a co-branding option from 1 to 7 in order of importance. (1 = most important; 7 = least important)

___ Market Share

___ Competitive Action

___ Franchising Experience

___ Financial Capability

___ Brand Fit

___ Product Fit

___ Performance Uncertainty

CHAPTER 6

RESULTS

6.1. Overview

The results of the various statistical tests performed on the hypotheses of the model are presented in this chapter, as follows: descriptive statistics, two-group discriminant analysis, and logistic regression. To test the hypothesis 1, that group differences exist between early and late movers in adopting co-branding, discriminant analysis was used by using the enter and stepwise methods. This test was run using two types of mover (early and late) as the dependent variable and investment requirements as the independent variable. Logistic regression was used to test the remaining hypotheses, that there is a relationship between two types of mover and emphasis on market share expansion (V1); emphasis on competitive actions (V2); franchising experience (V3); prior financial capability (V4); brand fit (V5); product fit (V6); and prior sales performance (V7). Logistic regression was run in two ways. It was first run with all seven variables using the enter method, and then it was run with the seven variables, using the forward stepwise method.

6.2. Response Rate and Sample Assessment

We mailed 960 questionnaires to the co-branded franchisee or representative listed in the Axiom Biz database in the Virginia Tech library system, and 112 questionnaires were delivered personally. All variables included in the model, both independent and dependent, were measured in a numerical form using a ratio, interval, or nominal scale. While it is theoretically possible to measure variables like market share and sales performance using a ratio scale, a preliminary exploratory investigation strongly suggested that it would be impractical due to the contributing firms' unwillingness to share precise numerical information. Therefore, we asked perception-based questions rather than requesting precise numerical information.

From the original mailing and delivery, we received 80 useable questionnaires (3 questionnaires were undeliverable). This resulted in a response rate of over 7.5% (80/1072). Prior to the analysis, we removed one response in the coding process that was written by a person who was not involved with co-branding development decisions, and four observations were removed because of a missing value (open as co-branding store). Seventy-nine samples were used to test the descriptive analysis, and 75 observations were used for the statistical test of the co-branding investment model. For this study, an early mover can be defined as one who has had co-branding experience for more than 7 years, and a late mover can be defined as one who has had co-branding experience for less than 7 years. After performing the data recoding process, we arrived at 31 early movers and 44 late movers.

6.3. Descriptive Analysis of the Respondents

In order to compare respondents between the two mover types -- early and late movers -- Table 6.1 gives a frequency distribution of franchising experience, property ownership, and the co-branding experience of all respondents. Some of the descriptive statistics of the sample characteristics include: The average number of years the firms conducted franchising business was 10.65, with a mode of 5, and a median of 8; the firms owned a mean of 4.33, with a mode of 1, and a median of 2 stores; the average number of years the firms conducted co-branding business was 5.41, with a mode of 3, and a median of 5 years (see Appendix C).

Table 6.2 indicates that 55.7% of the respondents own their property, 21.5% rent, and 22.8% both rent and own their stores. Table 6.3 indicates that 83.5% of the respondents perceived co-branding as an opportunity, 11.4% as a threat, and 5.1% did not know. Table 6.4 shows the frequency of partner businesses other than foodservice. In most cases, gas stations were linked with convenience stores. These two types of businesses were checked 60 times by respondents. In other cases, foodservice were linked 24 times another restaurant, 3 with a car wash, 2 with video rentals, and 1 with lodgings. Table 6.5 provides other descriptive statistics, and shows the means and standard deviations of the seven independent variables by the two mover types. Some of the descriptive statistics of the sample characteristic include: The businesses categorized as early movers experienced a mean of 16.74; the late movers experienced a mean of 6.95 years in franchising.

Table 6.1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Years in Franchising Business	79	2	32	10.65	7.34
Number of Stores	79	1	31	4.33	5.59
Years in Co-branding Business	79	2	10	5.41	2.48
Valid N (listwise)	79				

Table 6.2

Property Ownership

	Frequency	Percent
Own	44	55.7
Rent	17	21.5
Both	18	22.8
Total	79	100.0

Table 6.3

First Perception About Co-branding

	Frequency	Percent
Opportunity	66	83.5
Threat	9	11.4
Don't Know	4	5.1
Total	79	100.0

Table 6.4

Frequency of Types of Partner Businesses

	Frequency
Gas Station	60
Convenience Store	60
Another Restaurant	24
Lodging	1
Video Rental	2
Car Wash	3

Table 6.5

Descriptive Analysis

	Early Mover (n=31)		Late Mover (n=44)	
	Mean	Std. Deviation	Mean	Std. Deviation
Market Share Expansion	4.03	1.20	3.27	1.13
Competitive Actions	5.58	1.23	4.57	1.53
Franchising Experience	16.74	6.28	6.95	5.03
Financial Capability (Before)	5.13	1.02	4.36	1.40
Brand Fit	6.06	.89	5.68	1.07
Product Fit	5.94	.96	5.50	.95
Sales Performance (Before)	6.00	.97	5.77	1.18

6.4. Validity and Reliability

The research results infer content validity, empirical validity, and reliability. To address content validity, most of the questions come from prior research. Without a generally accepted list of variables, the criteria establishment occurred concurrently with the model. The co-branding investment model predicts early mover or late mover from the sample with an accuracy rate of about 76 percent ($p < .001$). Statistical testing determined that the theoretical model was consistent with the empirical results. Several pilot tests increased the reliability of the questionnaire. The stepwise method eliminated those variables with little discriminatory power in the discriminant analysis, and minimized multicollinearity to increase reliability in the discriminant analysis and logistic regression.

For the discriminant analysis, the discriminant function could be validated by developing the discriminant function on one group and then testing it on another. "The usual procedure is to randomly split the total sample into two groups. One of these groups, referred to as the analysis sample, is used to develop the discriminant function. The second group, referred to as the holdout sample, is used to test the discriminant function. This validation method is often referred to as the split-sample or cross-validation approach (Hair et al., 1995 pp. 195)." However, this split-sample approach may result in an upward bias and was not appropriate for this study because the sample size was too small to split. Therefore, we used a leave-one-out classification because it met with the sample size assumption (small group size is greater than three times the independent variables), and this leave-one-out approach is in the SPSS 10.0 package.

6.5. Test for Non-Response Bias

A popular approach for testing for non-response bias is the one proposed by Armstrong and Overton (1977). The suggested process involves a comparison between the first 75% respondents and the last 25% respondents in the sample on variables. We coded the early 75% (55) of respondents as 1 and the remaining 25% (late) respondents were coded 2. Then, we ran the t-test to compare the two respondent groups on demographic data, including years of franchising experience, the number of stores, and number of years of co-branding experience. The results of the test which examined demographic information, contained in Table 6.6, do not reveal significant differences between the early and late respondents. This result suggests that our sample is representative of the population of co-branding franchisees.

Table 6.6

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of Years of Franchising Experience	Equal variances assumed	.888	.349	.448	77	.656	.81	1.80	-2.79	4.40
	Equal variances not assumed			.476	51.017	.636	.81	1.70	-2.60	4.21
Number of Stores	Equal variances assumed	1.796	.184	-.923	77	.359	-1.26	1.37	-3.99	1.46
	Equal variances not assumed			-.880	39.441	.384	-1.26	1.44	-4.17	1.64
Number of Years of Co-branding Experience	Equal variances assumed	.071	.790	.071	77	.944	4.32E-02	.61	-1.17	1.26
	Equal variances not assumed			.071	44.720	.944	4.32E-02	.61	-1.18	1.27

6.6. Statistical Analysis

To further study and describe the relationship between timing of entry and firm specific requirements for co-branding investment decision-making, two statistical techniques were used. Discriminant analysis is a multivariate technique which uses metric and non-metric independent variables to explain two or more classes of dependent variables. This statistical technique was employed to discover what characteristics are most important in distinguishing members of one group (early mover) from another (late mover). The groups were based on the investment requirements of the respondents toward co-branding investment decision-making. Then, we used binary logistic regression analysis to test the relationship between timing of entry and degree of market share expansion effort, degree of competitive action, franchising experience, prior financial capability, brand fit, product fit, and prior sales performance. Binary logistic regression analysis enabled us to test the above seven relationships (hypotheses), and identify the independent variables that most strongly influenced the choice of timing of entry.

6.6.1. Discriminant Analysis

In order to employ discriminant analysis, the researcher designated the groups in which the subjects would ultimately be placed. In this case, the intention was to determine whether the two non-metric groups, (early mover and later mover), could be distinguished. Hair et al. (1995, pp. 182) state that "discriminant analysis is the appropriate statistical technique for testing the hypothesis that the group means of the two or more groups are equal". To test hypothesis 1, that no group difference exists between early movers and late movers, discriminant analysis was run using the two types of movers as the dependent variable and requirements as the independent variable. The test of difference was run by two types of discriminant analysis. It was first run with all 7 variables using the enter method, and then run again using the stepwise method. The enter method was set to be a default in the discriminant analysis of SPSS 10.0. However, entering all of the likely variables into the estimation could have proven to be problematic, since discriminant analysis is sensitive to multicollinearity. The presence of multicollinearity can lead to misclassification errors. To minimize such errors, a stepwise procedure was executed. Using the criterion of a 0.1 significance level, four variables were retained.

6.6.1.1. Assumptions

Before applying discriminant analysis, four assumption tests should be performed. Four assumptions for discriminant analysis are as follows: (1) normality of independent variables, (2) linearity of relationships, (3) lack of multicollinearity among independent variables, and (4) equal dispersion matrices. Preliminary analyses showed that the assumptions underlying the discriminant analysis applications were being met. First of all, inspection of the data showed that normality could be assumed. In the normal p-p plot on Figure 6.1, the distribution seems to be normal because the observed cumulative proportion is almost a straight line with the expected cumulative proportion. Second, linearity of relationships would be assumed based on the scatter plot shown in Figure 6.2. Third, multiple regression analysis also was used to check the multicollinearity among independent variables by using the Durbin-Watson D value. The results indicate that the Durbin-Watson D value (1.996) is between 1.5 and 2, which implies that the observations are independent (see Table 6.7). Last, preliminary Box's M tests of the equality of variance-covariance matrices were conducted and found to be not significant in the two groups, indicating that the variance-covariance matrices were also equal across the two types of movers (see Table 6.8). This satisfied the assumption of homogeneous variance-covariance matrices and paved the way for discriminant analysis to be conducted for each of the two group samples. Sample size is also an important factor influencing the final result of discriminant analysis. The smallest frequency group is early mover (31). It is bigger than 7 (independent variables) * 2, and does not violate the minimum sample size assumption.

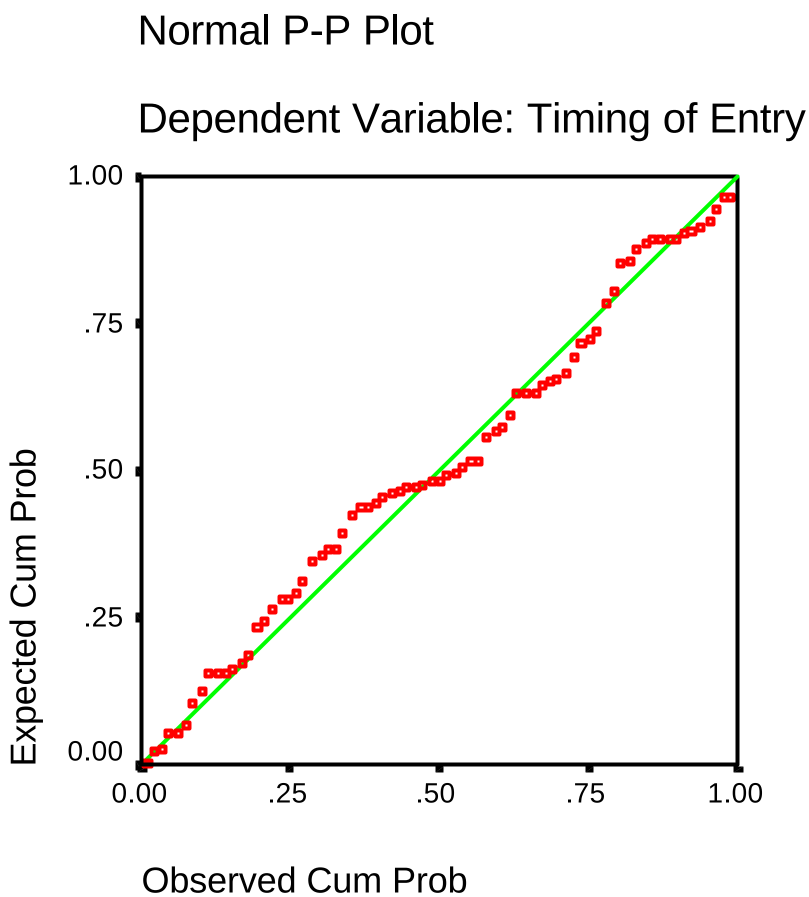
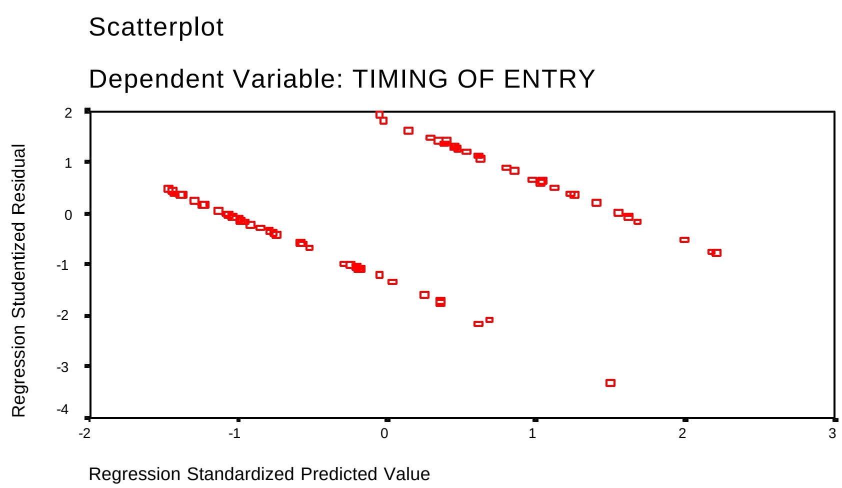
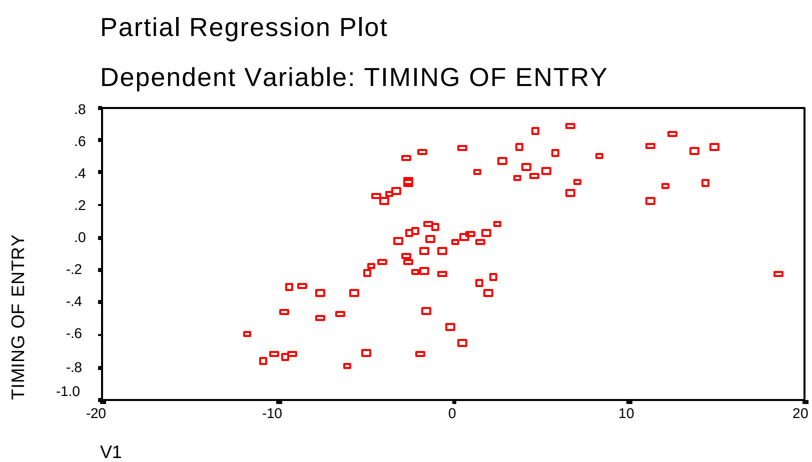


Figure 6.1: Normal P-P Plot





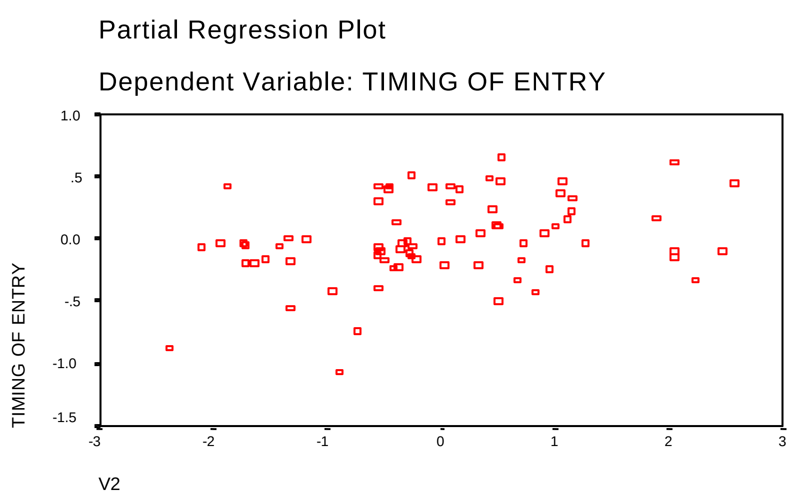
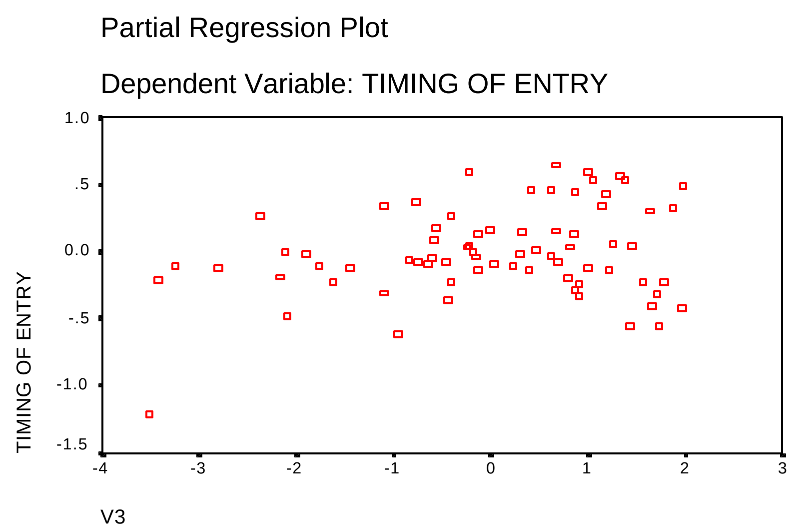
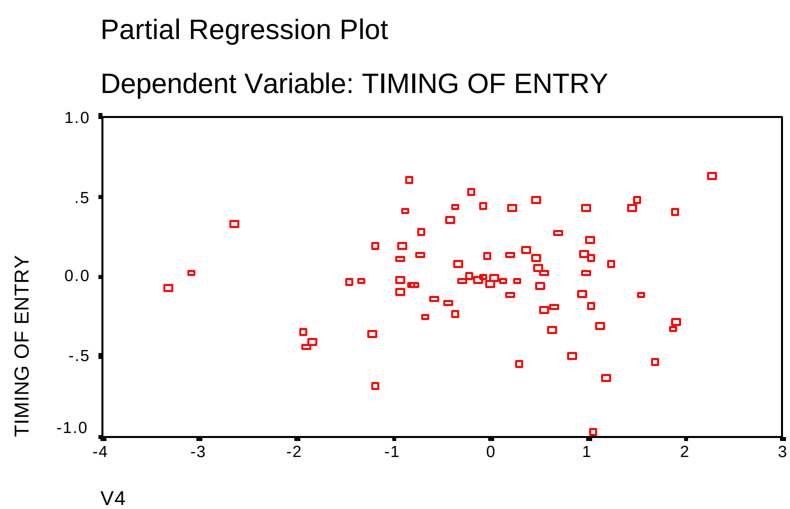


Figure 6.2: Scatter Plots





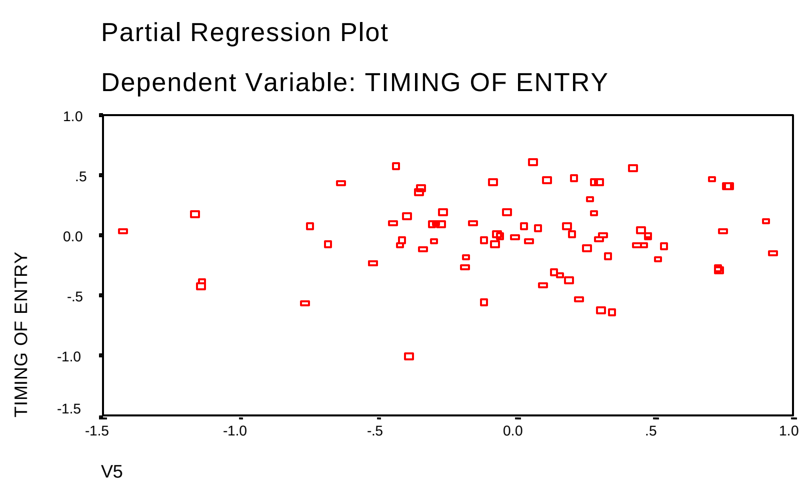
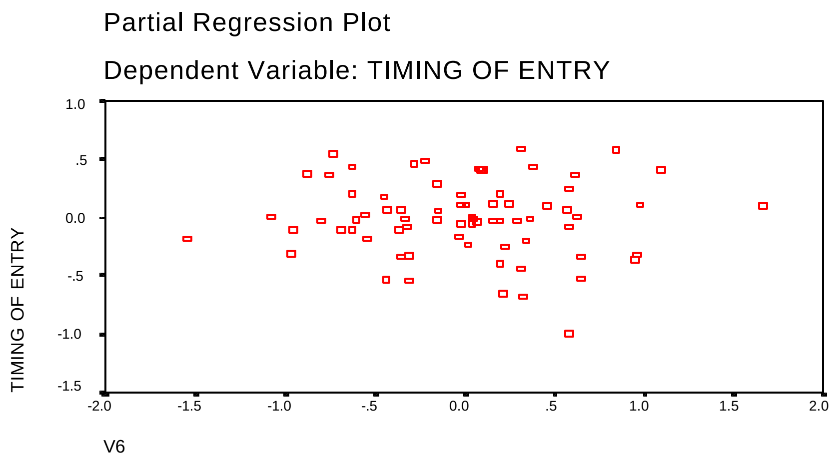


Figure 6.2: Scatter Plots (Cont'd)



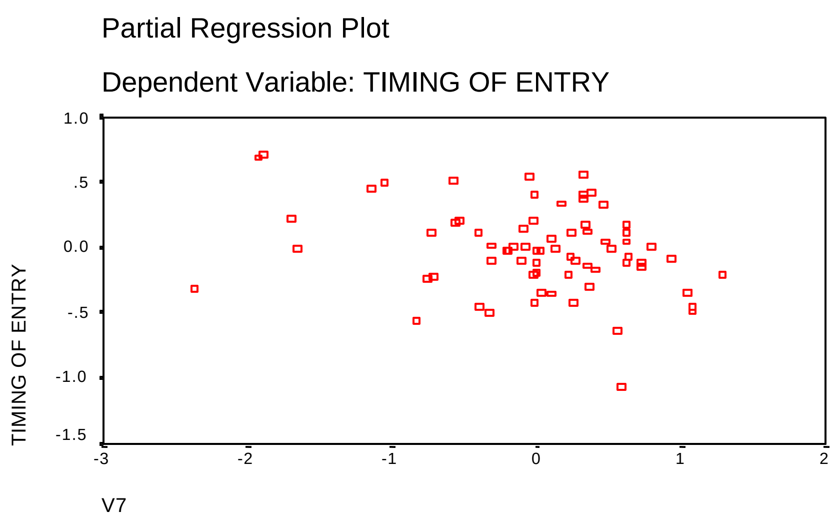


Figure 6.2: Scatter Plot (Cont'd)

Table 6.7

Model Summary [e]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.659[a]	.434	.426	.38	
2	.713[b]	.509	.495	.35	
3	.732[c]	.536	.516	.34	
4	.757[d]	.573	.549	.33	1.996

a. Predictors: (Constant), V1

b. Predictors: (Constant), V1, V2

c. Predictors: (Constant), V1, V2, V7

d. Predictors: (Constant), V1, V2, V7, V3

e. Dependent Variable: TIMING OF ENTRY

Table 6.8

Box's Test of Equality of Covariance Matrices

Box's M		13.465
F	Approx.	1.263
	df1	10
	df2	19559.078
	Sig.	.245

Tests null hypothesis of equal population covariance matrices.

6.6.1.2. Statistical Analysis of the Discriminant Function

The results of the stepwise discriminant analyses for early mover and late mover are summarized in Tables 6.9 - 6.13. From the test of equality of group means shown in Table 6.9, several variables indicate that the group differences are significant at .1 levels based on the F statistic, which shows a ratio of between-groups variability to the within-groups variability. V1 (emphasis on market share expansion), V2 (emphasis on competitive actions), V3 (franchising experience), and V4 (prior financial capability) clearly indicate statistical significance at the .1 levels.

The pooled within-group matrices, Table 6.10, show that several of the seven independent variables are significantly related. However, of the seven variables retained in the co-branding investment model, only two correlation matrices are highly correlated: 0.777 between V5 (brand fit) and V6 (product fit), followed by 0.717 between V5 (brand fit) and V7 (prior sales performance). Stepwise discriminant analysis eliminated variables that are collinear to ensure that multicollinearity is not problematic in the co-branding investment model.

The criteria for evaluating the discriminant function can be located in Table 6.11. Four variables entered into the discriminant function estimation: franchising experience (V3), emphasis on market share expansion (V1), prior sales performance (V7), and emphasis on competitive actions (V3) at the .1 significant level. As Table 6.12 shows, the selected variables have tolerance levels in excess of 0.79, indicating low levels of collinearity. The discriminant function for each of the two movers has significantly different group means ($p < 0.001$). The canonical correlations (0.757) indicate the high strength of the relationship of the discriminant scores in the function and the groups. In addition, the squared canonical correlations indicate the proportion of the total sum of squares for the discriminant score that is due to the differences between the groups (Brown & Tinsley, 1983). The squared canonical correlation shows .573, implying a high degree of explanatory power. Group centroids of the two mover groups from the discriminant analysis show clearly the discrimination between the two groups (see Table 6.13).

The size of standardized discriminant function coefficients would normally indicate the discriminant weights of the respective variables. However, because some of the discriminant variables might be correlated with each other, a more meaningful interpretation of the discriminant function was based on the structure matrices, since these coefficients would not be affected by relationships with other variables (Klecka, 1980). The structure matrices (or discriminant loadings) are simple bivariate correlations between the discriminant function and each discriminating variable, and can be used to determine the relative contribution/importance of the individual variables. These loadings reflect the variance the discriminant variables share with the discriminant function, and can be interpreted like factor loadings. Generally, variables with loadings of +/- .30 or higher are considered significant (Hair et al., 1995). Table 6.13 summarizes the relative discriminating power of each significant variable based on the structure correlations as well as the standardized coefficients. Franchising experience (V3) loaded most heavily in its respective discriminant functions, while emphasis on competitive actions (V2) was the second most significant discriminator.

The canonical correlation (similar to R in regression) is .757, indicating a correlation between predicted and observed group membership. In other words, the model explains 75.7 percent of the variance of contributing factors to co-branding early or late movers. The Chi-Square test explains whether group differences are significant before the derivation of any discriminant function. It also supplies advance information concerning the resulting discriminant function's significance that is whether or not it aids in the interpretation of the discrimination between group means. The Chi-square of 60.5 was used to test the significance level of the model ($p < 0.001$)(comparable to the F test in regression). In other words, the co-branding investment model will reliably predict a group of co-branding businesses as having moved early or late more accurately than random guessing almost 100 percent of the time. Two other discriminant function statistics shown in Table 6.13 include: Eigenvalue 1.344 (the ratio between groups to within-groups variability) and Wilks' lambda .427 (the ratio of within-group variability to the total variability). The larger the Eigenvalue and the smaller the Wilks' lambda is associated with the stronger the discriminatory power of the model. As a result of discriminant analysis for the co-branding investment model, hypothesis 1, that the group means of the two movers are equal, was statistically significant. Thus, there is a mean difference between early and late movers.

Table 6.9

Tests of Equality of Group Means

	Wilks' Lambda	F	df1	df2	Sig.
V1	.903	7.840	1	73	.007
V2	.887	9.300	1	73	.003
V3	.566	56.029	1	73	.000
V4	.916	6.724	1	73	.011
V5	.965	2.648	1	73	.108
V6	.964	2.748	1	73	.102
V7	.997	.249	1	73	.620

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

Table 6.10

Pooled Within-Groups Matrices

		V1	V2	V3	V4	V5	V6	V7
Correlation	V1	1.000	-.120	-.204	.014	-.097	.026	-.149
	V2	-.120	1.000	.111	.204	.268	.231	.316
	V3	-.204	.111	1.000	.163	.316	.270	.348
	V4	.014	.204	.163	1.000	.248	.063	.149
	V5	-.097	.268	.316	.248	1.000	.777	.717
	V6	.026	.231	.270	.063	.777	1.000	.551
	V7	-.149	.316	.348	.149	.717	.551	1.000

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

Table 6.11

Variables Entered/Removed [a,b,c,d]

		Wilks' Lambda							
						Exact F			
Step	Entered	Statistic	df1	df2	df3	Statistic	df1	df2	Sig.
1	V3	.566	1	1	73.000	56.029	1	73.000	.000
2	V1	.491	2	1	73.000	37.275	2	72.000	.000
3	V7	.464	3	1	73.000	27.326	3	71.000	.000
4	V2	.427	4	1	73.000	23.519	4	70.000	.000

At each step, the variable that minimizes the overall Wilks' Lambda is entered.

a. Maximum number of steps is 14.

b. Maximum significance of F to enter is .05.

c. Minimum significance of F to remove is .10.

d. F level, tolerance, or VIN insufficient for further computation.

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

Table 6.12

Variables in the Analysis

Step		Tolerance	Sig. of F to Remove	Wilks' Lambda
1	V3	1.000	.000	
2	V3	.958	.000	.903
	V1	.958	.001	.566
3	V3	.855	.000	.903
	V1	.951	.004	.521
	V7	.872	.045	.491
4	V3	.855	.000	.778
	V1	.945	.004	.482
	V7	.798	.011	.468
	V2	.894	.016	.464

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

Table 6.13

Discriminant Analysis Results

	Discriminant Loadings*	Standardized discriminant function coefficients
V1	.283	.461
V2	.308	.397
V3	.756	.960
V4	.179**	NI
V5	.048**	NI
V6	.120**	NI
V7	-.050	-.442
Eigenvalue	1.344	
Canonical correlation	.757	
Wilks' lambda	.427	
Chi-square	60.481	
Degree of freedom	4	
Significance	.000	
Group Centroids		
Late mover	-.960	
Early mover	1.363	

* Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions.
** This variable not used in the analysis.

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

With discriminant analysis, the hit-ratio is often employed as a more accurate measure of how well the discriminant functions classify the statistical units (Morrison, 1974). Table 6.14 illustrates an example of the classification hit-ratio results for the two types of timing of entry. The higher the number of grouped cases that are correctly classified, the more accurate the model is at predicting early and late movers. The model accurately predicted approximately 86% of the late movers and 90% of the early movers, for an overall hit ratio of approximately 88%. If random guessing produces a 50 percent correct classification, then the model is 38% more reliable at classifying a specific co-branding business as having moved early or late.

Even though the reported classification accuracies are quite high, the researcher compared the results with an a priori chance of classifying individuals correctly without the discriminant function. One method for evaluating the significance of the classification results involves making a comparison to a classification rate based on chance. Since both groups were not of equal size, a proportional chance criterion formula was utilized. It is calculated by squaring and summing the proportions for each group.

$C_{PRO} = P^2 + (1\text{-}P)^2 = (A/B)^2 + (1\text{-}A/B)^2$

P = the proportion of individuals in group 1

1-P = the proportion of individuals in group 2

A = number of correctly classified individuals in group 1

B = total number of samples

For illustrative purposes, the proportional chance for members of late movers to be assigned to the correct group was performed. By substituting the appropriate values in the formula, we obtain:

$C_{PRO} = (.51)^2 + (1 - .51)^2$

$C_{PRO} = .26 + .24$

$C_{PRO} = 50\%$

Since the late mover classification accuracy of 86.4% is substantially higher than the proportional chance criteria of 50 percent, the researcher considers this function to be a valid predictor of timing of entry.

Press's Q statistic is another comparison technique between the discriminatory power of the classification matrix and a chance model. The press's Q statistic is utilized as follows:

$$\text{Press's } Q = [N - (n * K)]^2 / N(K-1)$$

Where

N = Total sample size

n = Number of observations correctly classified

K = Number of groups

By substituting the appropriate values in the formula we obtain:

$$\text{Press's } Q = [75 - (66 * 2)]^2 / 75(2 - 1) = 43.32$$

By comparing the critical value (6.63 at .01 significant level) the discriminant analysis predictions were significantly better than chance.

Developing the discriminant function on one group and then testing it on another can validate the discriminant function. With large sample sizes, one sub-sample (the analysis sub-sample) was used to generate the discriminant function, while the other sub-sample (the hold-out sub-sample) was used to test the predictive ability of the discriminant model. Since the sample size of this study was not big enough to practice the hold-out method, we use the leave-one-out classification method. The overall hit ratio by using the leave-one-out classification method was 87%.

Table 6.14

Classification [b,c]

			Predicted Membersh		
		TIMING OF	Late	Early	Tota
Origin	Coun	Late	38	6	44
		Early	3	28	31
	%	Late	86.4	13.6	100.0
		Early	9.7	90.3	100.0
Cross- [a]	Coun	Late	37	7	44
		Early	3	28	31
	%	Late	84.1	15.9	100.0
		Early	9.7	90.3	100.0

a. Cross validation is done only for those cases in the analysis. In cross validation, each case is classified by the functions derived from all cases case. (Leave-one-out method is used)

b. 88.0% of original grouped cases correctly

c. 86.7% of cross-validated grouped cases correctly

6.6.2. Logistic Regression

The logistic regression fits linear logistic regression models for binary response data using the maximum likelihood method. The dependent variable of the model takes the value of 1 for the early mover and 0 for the late mover. Based on the general rule of 10 participants per variable (Lussier & Coughlin, 1998), the 75-sample size did not violate the logistic regression rules. Also, two assumptions must be accomplished to get a better prediction by using logistic regression. The assumptions are (1) multivariate normality of the independent variables, and (2) equal variance-covariance matrices in the two groups. Both assumption tests were performed prior to running the discriminant analysis, and indicated both assumptions were not violated. To test hypothesis 2-5, that the relationship between two types of mover and emphasis on market share expansion (V1), emphasis on competitive actions (V2), franchising experience (V3), prior financial capability (V4), brand fit (V5), product fit (V6), and prior sales performance (V7), logistic regression was run two ways. It was first run with all 7 variables using the enter method, and then the forward stepwise method at the .1 levels.

The results of logistic regression for the co-branding investment model are provided in Table 6.15 - Table 6.18. The first test for the overall significance of the model is the goodness of fit of the model. One of the widely used methods is the -2 log likelihood, which compares the 7 variable model to a proposed model in which all cases would be correctly classified. The -2 log likelihood (LL) is 44.193. The large -2LL statistic indicates that the model does not differ significantly from the "perfect model". The Hosmer and Lemeshow test is newly added to the SPSS 10.0, which tests the goodness of fit of the proposed model. The Chi-square in the Hosmer and Lemeshow test is used to test the level to which the fitted model differs from the "perfect" model. The model Chi-square tests the null hypothesis that the model does not differ significantly from the perfect model. The model is not significant ($p > .05$). In other words, the model fits well. Table 6.18 presents the classification summary of the logistic regression model. This table shows that 4 of the 44 late movers were misclassified as early movers, and 6 of the 31 early movers were misclassified as late movers. A correct classification rate of

87% is substantially higher than the proportional chance criteria of 50 percent. The researcher considers this function a valid predictor of timing of entry. Thus, the model classified the firms into respective groups of movers reasonably well.

The results of the individual hypotheses test are summarized on Table 6.19. In terms of individual hypotheses (H2-H5), support was found for four relationships. H2a states that an emphasis on market share expansion is positively related to the timing of the co-branding investment. The coefficient relating to market share supports this prediction. The coefficient ($b = 1.137$, $p < .05$), though in the expected positive direction, is statistically significant. This suggests that as emphasis on market share expansion increases, firms are more likely to adopt co-branding earlier than others. H2b states that an emphasis on competitive actions is positively related to the timing of the co-branding investment. The coefficient relating to competitive action supports this prediction. The coefficient ($b = .753$, $p < .1$), though in the expected positive direction, is statistically significant. This suggests that as emphasis on competitive action increases, firms are more likely to adopt co-branding earlier than others.

H3a indicates that the franchising experience is positively related to the timing of the co-branding investment. The coefficient relating to franchising experience supports this prediction. The coefficient ($b = .364$, $p < .01$), though in the expected positive direction, is statistically significant. This suggests that the longer the franchising experience, the more likely are firms to adopt co-branding earlier than others. H3b states that the degree of previous financial capability is positively related to the timing of the co-branding investment. The coefficient does not support this prediction. The coefficient ($b = .109$, $p > .1$), though in the expected positive direction, is not statistically significant.

H4a states that finding a brand that is perceived to have a better fit with an existing brand is positively related to the timing of the co-branding investment. The coefficient relating to brand fit does not support this prediction. The coefficient ($b = 1.153$, $p >.1$), though in the expected positive direction, is not statistically significant. In addition, H4b states that finding a product that is perceived to have a better fit with an existing product is positively related to the timing of the co-branding investment. The coefficient does not support this prediction. The coefficient ($b = -0.587$, $p >.1$), though in the expected negative direction, is not statistically significant.

H5 states that the degree of previous performance satisfaction is negatively related to the timing of the co-branding investment. The coefficient relating to prior sales performance supports this prediction. The coefficient ($b = -1.202$, $p < .05$) is statistically significant, although it is in the expected negative direction. This suggests that at a lower degree of prior sales performance satisfaction, firms are more likely to adopt co-branding earlier than others.

Table 6.15

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	60.880	.420	.566
2	52.240	.483	.651
3	49.140	.504	.679
4	44.193	.536	.721

Table 6.16

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	15.443	7	.031
2	32.558	7	.000
3	14.770	7	.039
4	10.665	7	.154

Table 6.17

Summary of Logistic Regression Analysis Predicting Timing of Entry

Variable	B	SE	Odd ratio	Wald statistic
V1	.753	.387	2.124	3.796***
V2	.364	.099	1.438	13.586*
V3	1.137	.446	3.119	6.511**
V4	.109	.336	1.115	.106
V5	1.153	.864	3.168	1.780
V6	-.587	.724	.556	.657
V7	-1.202	.530	.301	5.147**

*$p < .01$. ** $p < .05$. *** $p < .1$.

V1	Emphasis on Market Share Expansion
V2	Emphasis on Competitive Action
V3	Franchising Experience
V4	Prior Financial Capability
V5	Brand Fit
V6	Product Fit
V7	Prior Sales Performance

Table 6.18

Classification Table[a]

Observed		Predicted: TIMING OF ENTRY: Late Mover	Predicted: TIMING OF ENTRY: Early Mover	Predicted: Percentage Correct
TIMING OF ENTRY	Late Mover	40	4	90.9
	Early Mover	6	25	80.6
Overall Percentage				86.7

a. The cut value is .500

Table 6.19

Summary of Hypotheses Tests

	Hypotheses	Results
H1.	There are group difference between early movers and late movers within the co-branding investment model.	Supported
H2a.	An emphasis on market share expansion is positively related to the timing of the co-branding investment.	Supported
H2b.	An emphasis on competitive actions is positively related to the timing of the co-branding investment.	Supported
H3a.	The franchising experience is positively related to the timing of the co-branding investment.	Supported
H3b.	The degree of previous financial capability is positively related to the timing of the co-branding investment.	Not Supported
H4a.	Finding a brand that is perceived to have a better fit with an existing brand is positively related to the timing of the co-branding investment.	Not Supported
H4b.	Finding a product that is perceived to have a better fit with an existing product is positively related to the timing of the co-branding investment.	Not Supported
H5.	The degree of previous performance satisfaction is negatively related to the timing of the co-branding investment.	Supported

CHAPTER 7

DISCUSSION AND CONCLUSIONS

The hospitality industry in general is facing severe challenges in today's intensely competitive environment. The restaurant industry, specifically, can be characterized as both a mature operating environment, and a volatile, uncertain and complex environment (Denoble & Olsen, 1986; Crawford-Welch, 1990). There can be little doubt that the level of competition in the industry in the 1990s is rising to heights never before experienced by restaurant owners and operators. These challenges include deregulation, new and innovative methods for purchasing and paying, the proliferation of new products, the multiplication of distribution channels, the explosion of couponing, the slippage of network advertising efficiency, and the appearance of new types of business. To survive, companies need to know what customers want. Our study clearly indicated that most of the respondents mentioned their strategy was practiced based on the customers' need, not competitor's actions. Understanding the changes in customer preferences is one of the most important things for restaurant companies to consider. This understanding could lead to launching new strategic planning as well as tactical planning.

Co-branding is one of new strategies adopted by the hospitality industry. Co-branding is a form of partnership whereby two established brand names combine in order to bring added value, economies of scale, and customer recognition to each product. This strategy has emerged recently as a very popular type of business strategy among franchisees and franchisors. Both the franchisor and franchisee have pursued co-branding strategies to penetrate these new markets, again taking advantage of the trend toward convenience stores, grocery store chains, and gas stations, all wanting to provide their patrons with an enhanced customer experience and offer a more comprehensive and integrated solution to their consumer needs. Co-branding appears to benefit both consumers and owners alike. For customers, co-branding provides more variety. It may be particularly convenient for families or co-workers who dine out, but cannot agree on what type of food they want (Benezra, 1994).

For restaurateurs, the benefits of co-branding are many. One advantage is that it increases store traffic by balancing day-parts. It is typical to see co-brand partnerships in which one brand does a strong lunch business, while the other has higher sales during the dinner day-part. It also enables restaurateurs to secure prime locations that they otherwise would not have been able to achieve, and to reduce their operating costs. Another potential benefit of co-branding is that it may enable retailers that are relatively unknown to gain credibility by pairing up with a well-established brand. Finally, co-branding allows companies to achieve synergies in their advertising efforts (Benezra, 1994; McDowell, 1994).

The risks of co-branding are parallel with its advantages. First, it is possible for a consumer's negative feelings (or neutral ones, in the case of an unknown brand) toward one brand to be transferred to a brand with which it is paired (Levin et at., 1996). Also, a brand may lose its identity if it uses several co-brand locations, especially if some of these co-brand arrangements are with different brands. Such is the case with Arby's, which has a dual brand partnership with Green Burrito, Long John Silvers, and Roast Town. This potential danger mirrors a concern by some researchers that brands which introduce several different brand extensions run the risk of "overextention," or confusing consumers about what the brands stands for (Buday, 1989; Ries & Trout, 1986).

This study revealed a number of trends related to the co-branding strategy. First, most people just do not want to spend too much time in the kitchen, as shown by the dramatic growth in spending on food away from home. These changes are mainly caused by socio-demographic changes and an increase in disposable income, which lead to the establishment of more foodservice stores. Since the restaurant industry is already saturated in terms of the lack of new restaurant sites, co-branding has been an alternative way of establishing a business used by the franchisor and franchisee.

Second, today's franchisor must have an initial and ongoing commitment to being creative and competitive. Market conditions and technology that affect franchising are changing constantly, and the franchisee of the new millennium expects the franchisor to change at the same pace. The more creative and aggressive franchisors are always searching for new locations where captive markets may be present – such as airports, hotels, hospitals, highway roadside travel plazas, universities, sports arenas, or military bases – where trends toward outsourcing, the demand for branded products and services, and the desire to enhance the captive customer's experience have all opened up new doors and opportunities for franchising (Khan, 1991 & 1999). The above format is very popular, and is known as the nontraditional site.

Third, this study is the first investment model regarding co-branding strategy. Although the boundary of this study is limited to the hospitality industry, it may be used for other industries and other strategic planning. For franchisors, this investment model may give them information regarding who has more chance to become a co-branding franchisee, and then the franchisor may consult the potential co-branding franchisee. For franchisees, even though there are business opportunities, they may check the investment requirements first to aid them in their decision-making. This investment model is not limited only to co-branding, but also has applications for other investment planning.

Fourth, the statistical results of this study indicate that there are some relationships among implicit and explicit requirements and the timing of co-branding entry, especially the finding that restaurateurs who have a strong market share emphasis and long franchising experience are more willing to invest in co-branding. Also restaurateurs who are not satisfied with prior sales performance are more likely to invest in the co-branding concept. We also discovered that investors in co-branding, no matter whether early or late movers, are usually satisfied with the performance of their co-branded stores. This study clearly shows that co-branding investment activities are widely practiced among franchisees, no matter whether they have little or more experience, or are big corporations or small, local companies. The disciplined insight of this study, given the uncertainty present in all markets, may allow restaurateurs to think more clearly and realistically about investing in co-branding, and may lead them to invest in this strategy. We assume that there are still significant opportunities locally as well as nationally.

With the advent of increased national and global competition, consumers now have an enormous array of foodservice providers from whom they can purchase goods and services. Faced with choices among restaurants, customers are no longer a captive audience. If one company does not provide satisfaction, customers simply choose another company. Thus, the long-term well-being of a corporation depends to a large extent on how quickly it can respond to changes in the desires of customers. Co-branding offers an innovative response to this changing climate.

LIMITATIONS AND FUTURE RESEARCH

This research is limited in several respects. First, our sample selection criteria limited the research because the sample selection depended solely on the Axiom Biz database in the Virginia Tech library system. We attempted to contact franchisors, mailing companies, yellow pages, and the Securities and Retail Franchising Division of the Virginia state government. However, it was very difficult to collect the addresses of co-branded stores. For this reason, our mailing lists and sample sizes were relatively small. Future research using a larger sample can test whether the same results will be achieved. Second, although we built a discriminant model from the sample, we did not receive enough responses to represent the population. The small sample size might make the discriminant results more tentative. Third, our study was based on the respondent's perceptions, which do not provide numerical guidelines for variables distinguishing early movers from late movers. Judgment should be used when applying the model. Forth, since this study introduced the first co-branding investment model, the results of this model cannot be directly compared to other models. Therefore, further studies associated with the co-branding strategy are needed to provide additional reliability and validity. This study is based on a wide variety of co-branded franchisees as classified by Axiom Biz database. Researchers may also want to test the model on a more narrowly focused segment for future research. Last, the survey is directed at franchisees only. Franchisors and franchisees have differing perceptions of many business topics (e.g., Kinch & Hayes, 1986; Knight, 1986; Oxenfeldt & Kelly, 1968-1969), so care must be taken in making inferences about how well these survey results reflect the attitudes of franchisors. To summarize, this study presents a valid and reliable co-branding business prediction model for the hospitality industry. Entrepreneurs, those who plan to invest in co-branding, those who provide capital for co-branding project, suppliers, and public policy-makers can benefit from the use of the model.