The Role and Capabilities of a Local Master Weight Management Franchisee

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Abstract

For the expansion of international Weight Management franchisor, the local master franchisee not only exactly provides a platform to combine the organizational knowledge and local market knowledge but also takes more responsibilities of gaining sustainable competitive advantages from its network in new market. Therefore this paper presents a case study exploring transferring, detecting, and exploring capabilities of a local master franchisee to exploit and enhance the international franchisor's dynamic capabilities in international operations.

Keywords: Weight management, Market entry, Capabilities, Franchise

1. Introduction

International business encounters greater uncertainty generated by volatility in the international business environment than what they had ever met before. In order to cope with volatility and to survive and succeed in today's turbulent international environment, firms must always keep flexible both on its organizational strategy and its operation (Buckley & Casson, 1998). That is why some firms still struggle or fail when they attempt international diversification. There may be three reasons for this. First, some of existing knowledge is sometimes not suitable for a specific market. Some of the original knowledge has to be modified for the new market, in order to allow it to be fully transferred and exploited abroad. Secondly, in today's extremely competitive environment, many new entrants enter the market by imitating existing firms. How to compete with imitators is an important issue when trying to enter a new market. Thirdly, the subsidiary in different countries has different local network relationships which in turn build up different network resources. Depending on the familiarity about the market, the subsidiary can promote the products or service efficiently. This begs the question for MNC how to use subsidiaries to collect the market information rather than selling the products or service only.

In today's global economy, firms entering or already involved in foreign markets tend to follow different models of internationalization to reduce the risks associated with globalization and sustain their competitive advantage (Baena, 2009).The international franchising system is an arrangement where a firm (the international franchisor), with a comparative advantage in resources or competence grants a package of supporting services to another firm or individual (the local franchisee) to start production and/or a service of a product in a specified location. Master franchising is one of the most important additions to the franchising landscape (Kaufmann & Kim, 1995). Thus, the local master franchisees depend on the specific advantages that are accumulated and transferred by the international franchisor, such as knowledge and know-how regarding the management system, services and the products. In order to cater to customer needs and adapt to local market environments, the international franchisor usually empower master franchisee the responsibility and right of local market development. That is, the local master franchisees manages the local environment and daily operations in an effort to gain profits to meet the contribution requirements of the international franchisor (Combs, Ketchen, & Hoover, 2004).Therefore, the roles of local master franchisee will get more and more tremendous at the internationalization processes of franchise system.

Due to the fact that local master franchisees not only provide a platform to combine the organizational knowledge and market knowledge but also take more responsibilities of gaining sustainable competitive advantages from its network in new market, we submit that a local master franchisee needs three dimensions of capabilities to gain sustainable competitive advantages in its local market. An in-depth case study of a weight management company was used to illustrate what kinds of capabilities that a local master franchisee has can gain a sustainable competitive advantage when entering a new market (Taiwan market).

The weight management industry (Note1) provides a very good research context because the increased worldwide prevalence of obesity and being overweight has raised public concern in the past decade. Due to the fact that being overweight causes a major health risk, discussions and activities regarding weight loss have become an important issue in today's more health conscious population. The demand for products/services to lose weight has increased rapidly, and many firms providing products or services for weight management have gone global. However, the low entry barrier and the rapid growth of this market have resulted in many newcomers entering the market by imitating existing firms. Most newcomers fail quickly, and only a few gain a sustained competitive advantage in this fiercely competitive market. Therefore, an in-depth case study of a local weight management franchisee was used to illustrate how a local master franchisee (Taiwan market) who has capabilities can gain a sustainable competitive advantage when entering a new market.

2. Literature Review

Considering the increasing importance and benefits of rapid internationalization, many companies pursue international franchising approaches. A firm with different unique resources and capabilities can leverage these resources across different national markets (Kotabe, Srinivasan, & Aulakh, 2002), and create a superior performance. However, unfamiliarity with foreign markets, different cultures, and often entirely different environments can result in huge learning costs, which translates into a lower financial performance.

In order to run a successful operation in a foreign country the local master franchisee must be able to access the unique knowledge of the parent firm. Szulanski (1996) asserts that the ability to transfer "best practice" among the globally dispersed subsidiaries of multinational companies is crucial for organizational learning, competitive advantage, and corporate performance. Nevertheless, when an international franchisor enters a host country the franchisor must overcome its uncertainty and learn about the conditions in the host country and modify its knowledge to the local market conditions (Baena, 2009). For an international franchisor moving into another country, determining location and selecting managers is one of their most important decisions. Considering the changing nature of the overseas market and the diverse economic systems, it is impossible for international franchisors to apply the same system of local franchisee selection and management to all foreign markets. In other words, an international franchisor must modify its existing management system or develop a new management system that is suitable for local operations.

After entering a new market, there may be problems with local competition as well as imitation since the skills and techniques of running a chain-store could be readily imitated. Many new players may enter the market by imitating existing firms. Hence the incumbent firm should seek ways to render imitations ineffective. The level of competition and the imitation puts pressure on the international franchisor to assist the local franchisee with building imitation barriers in the host market. Many researches have discussed the imitation issue. Dierickx and Cool (1989) suggest that a firm's assets may be substituted or imitated depending on how easily it is imitated. Lippman and Rumelt (1982) argued that a competitive advantage can be sustained only if it continues to exist after efforts to duplicate that advantage have ceased. Resources of a firm may be difficult to imitate by competitors for three reasons (Barney, 1986). First: unique historical conditions, meaning that timing and space are main contributors to the special ability of a firm, making it difficult to duplicate this condition again. Second: causal ambiguity, meaning that it is hard to what makes the firm so successful. And the third reason is social complexity, such as a firm's reputation and culture (Lippman & Rumelt, 1982). It is not easy for a firm to systematically create and manage any of these 3 factors.

Ghoshal and Bartlett (1991) explained that network relationships can be separated into internal and external networks. An internal network includes the relationships with headquarter and other subsidiaries (Ghoshal & Bartlett, 1991); while external network includes the relationships with local competitors, customers, local governments, academic circles and others (Uzzi, 1997). All firms in a market are considered to be embedded in one or more networks through linkages with their designers, suppliers, subcontractors, customers, and others (Chen & Chen, 1998). Gaining extensive access to market information and opportunities by a firm requires both time and money. This is the reason why there is a gap between productive or perceived possibilities and productive opportunities (Ghoshal & Moran, 1996). Therefore, network resources are an imitation barrier or an isolating mechanism to the local franchisee. In other words, well-formed networks are enabling small and specialized firms to co-operate across an array of industrial settings.

Previous researches mostly focused on the discussion of parent firms' firm-specific advantages that enables to expand global operation successfully (Hymer, 1976; Dunning, 1988). Foreign units were often believed to rely on parent firms' know how and information when operating in host markets. However, in recent years the study has started to emphasize the role of foreign units as sources of firm-specific advantages (Gupta & Govindarajan, 1994; Birkinshaw, Hood, & Jonsson, 1998) or "centers of excellence" (Moore & Birkinshaw, 1998). One popular definition of dynamic capabilities cited in lots of literatures is "dynamic capabilities are what enable a firm to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece, Pisano, & Shuen, 1997). In brief, dynamic capabilities of foreign units is regarded as appropriately adapting, integrating, and reconfiguring internal and external MNC's skills, resources, and functional competencies toward changing local environment (Teece & Pisano, 1994). Thus, we tried to explore the capabilities of local master franchisee and hope to shed a new light on the relationship between a foreign unit's (local master franchisee) dynamic capabilities and the multinational corporation's (MNC, thereafter) international expansion from a foreign unit's perspective.

3. Method and Data

3.1 Method

Yin (1994) suggests that most qualitative research is based on single cases, since single cases can be very vivid and illuminating, especially if they are chosen to be critical, extreme or unique. Moreover, while Eisenhardt (1989) suggests that four to ten cases usually work well for a qualitative study, Dyer and Wilkins (1991) propose that the rigorous study of a single case can guide researchers to see new theoretical insights and question old ones. Therefore, in this research we conducted a rigorous study of a single case rather than build a construct based on multiple cases. In this research, the company "SHAPE" (a disguised name) in the personal weight and health management industry was chosen as the single case to be studied.

3.2 Data Collection and Data Analysis

According to Gillham (2000), there are different sub-methods of data collection, including interviews, observations, documents and record analysis, work samples, and others. In case studies these different steps are important in terms of data reliability. Spiggle (1994) indicated that with an in-depth interview, one can explore new ideas and concepts, and then create new frameworks to obtain clearer information and a deeper understanding of the issue being researched. In-depth interviews also help researchers to examine their research from different angles, by listening to the interviewee's response or expression, so that researchers will not be so limited by their own thinking (Wallendorf & Belk, 1989). Therefore, this research conducted in-depth interviews in order to get an in-depth look in the case of the company SHAPE's local master franchisee in Taiwan.

There are both primary and secondary data in this research. The primary data contain the in-depth interviews with the senior manager of SHAPE in Taiwan, the manager of one franchisee club, and with the employees working in that specific SHAPE club. In total, 10 interviews were conducted with 5 individuals. The interviews were open ended, and lasted from 1 to 3 hours (see Table 1). Further details are shown in Table 1. In addition, some parts that required additional verification or answers were handled by phone or e-mail. The secondary data consisted of magazines, news, theses of graduate students, information from websites, and a data base related to the case firm and the fitness industry. The data for SHAPE in Taiwan was mostly provided by Shape Taiwan (disguised name), which was set up to handle the whole Taiwan market.

Insert Table 1 here

The data analysis in this study was conducted using the following steps. First, the data were grouped into several categories. The researchers carefully read all the interview material, relevant files and e-mail information, and then classified the information from the interview into themes. The main purpose of this step was to effectively organize huge amounts of data before moving toward an in-depth analysis. The second step was to use a “chain of evidence”, as argued by Yin (1994), to set up an event listing that involved insights into what led to what and when (Miles & Huberman,1994). This step provides us with a chain of events. The final step was pattern-matching (Yin, 1994). In this step, all data were cross-checked to examine if each strategy was supported by adequate evidence.

4. Case Findings

Consistent with the analysis of the data, the existing literatures were compared with the case findings as presented below.

4.1 The SHAPE

SHAPE was the first foreign gymnasium for women to enter the fitness market in Taiwan (Note2), in 2007. “SHAPE”, the largest international fitness franchisor in the world with 10,000 locations worldwide, is one of the most successful companies in the rapidly expanding fitness industry. The company targets female customers aged around 35-65 and has become successful within a short period of time. Their success stories as well as the strategies that survive in this fierce competition and how they defeat the imitators inspire this paper to get an in-depth understanding of the issues involved in entering a foreign market.

SHAPE’s knowledge about weight management for women is defined and measured as the ability to manage the weight of women; namely how to operate weight loss facilities dedicated to providing affordable, one-stop exercises as well as nutritional information. It also includes knowledge of the management system for selecting franchisees and related training. SHAPE relies much on word-of-mouth marketing, since it drives their cost leadership strategy. The low cost strategy of SHAPE allows its clubs to open rapidly, become exposed in the market, and quickly build up the brand name of SHAPE. The following Table 2 shows how SHAPE differentiates itself from other large-sized gyms, and its competitive advantages.

Insert Table 2 here

Enjoying great success in America and Europe, SHAPE moved into Japan and from there to the rest of Asia. Shape Japan Co., Ltd. the local master franchisee in Japan, was responsible for developing the SHAPE brand within Japan market, and later in Taiwan market. From Figure 1, we can see the SHAPE’s franchising system is “Subfranchising” (Kaufmann & Kim, 1995). In Subfranchising the franchisor (SHAPE Headquarters) grants the master franchisee, also call subfranchisor (Shape Japan), the right to grant franchises to third-party owner operators, called subfranchisees (Shape Taiwan) within a specified territory (Taiwan). Observing SHAP Japan in Taiwan, Shape Japan decided to establish the subsidiary Shape Taiwan rather contract relationship, in order to administer the brand in Taiwan market and for passing down any know-how to future Taiwanese SHAPE franchises. Hence, Shape Taiwan also can be seen as an area developer which is the local master franchisee in Shape Japan franchising system (Kaufmann and Kim, 1995). It is granted the right and accepts the obligation from franchisor (Shape Japan) to open a specified number of outlets within an exclusive territory. From Figure 1, we can see a local master franchisee (Shape Taiwan; subfranchisee) not only provides a platform to combine the organizational knowledge and market knowledge but also has more chances of gaining new resource or knowledge from its network in local market.

Insert Figure 1 here

4.2 Capability transferring

Being the first to bring low-cost gyms to Taiwan, SHAPES Taiwan applied the know-how from the existing SHAPES clubs in the world, to build their competitive advantage in the Taiwanese market. SHAPES Taiwan first priced membership fees at NTD 1380 per month, while other traditional and fully equipped gyms charged an average of NTD 2500 per month. The experience from SHAPES gyms worldwide has provided SHAPES Taiwan with a well-organized cost structure. De Carolis and Deeds (1999) argue that firm-specific knowledge that generates an advantage in the home country can also be exploited in overseas markets. Receiving knowledge from home base can be a source of competitive advantage because it cannot be bought and requires time and effort to develop.

Shape Japan established Shape Taiwan for exploring the Taiwanese market. This placed Shape Taiwan in charge of publicizing the SHAPES brand and for passing down the know-how of the business to Taiwanese SHAPE franchisees. However, Shape Taiwan encountered difficulties in leveraging the networking effect. In Japan, Shape Japan popularized their SHAPE clubs to local small and medium-sized enterprises, so most of their franchisees were entrepreneurs with managerial experience. On the other hand, in Taiwan, Shape Taiwan did not find any local small or medium-sized enterprises willing to franchise the business. As a result, most of its franchisees are individuals who have no experience of running a business. The network for an enterprise is large. Networking makes it quick and easy for an enterprise to spread the news that it has opened a new SHAPE club and to gain customers, since the network has been around for a while. On the other hand, the network for an individual is small and may be limited to individual relationships. So it is not so easy to spread the news in the hope of attracting new customers, that you have opened a new SHAPE club if you are an individual without an extensive network.

Therefore, Shape Taiwan decided to cooperate with an area partner, and started their SHAPE business from Taipei city. The costs of searching for a good transaction partner to achieve higher local linkage would be reduced. Therefore, Shape Taiwan shared their authority to use the brand name “SHAPE” with a Taipei area partner, and the area partner pays royalties to Shape Taiwan. The target of these two partners is to open as many SHAPE clubs in Taipei city as possible. The Taipei-area partner is in charge of gathering market information and finding new franchisees and establishing 2 model clubs in Taipei city, to show ways of managing a SHAPE gym to all new franchisees. This also helps to spread the SHAPE brand name in Taiwan. Furthermore, Shape Taiwan will follow SHAPE managerial system, holding a “SHAPE Camp” every two months to train individual franchisees. The Taipei-area partner regularly visits franchisees and provides them with detailed suggestions and guidance. In return, Shape Taiwan pays a commission to the area partner. The cooperation with the Taipei-area partner ensures that Shape Taiwan becomes much more quickly adaptive into the Taiwanese market, thereby reducing their risk and their cost of finding new franchisees in Taiwan. Watson (2008) also stated that the recruitment of suitable franchisees is vital to franchise successfully. Accordingly, the abilities of a local master franchisee to modify management system from parent firm adapting to local conditions have influence on fresh information or knowledge which parent firms exploit.

To sum up, when a Japanese firm brings an American brand into the Taiwanese market, then there are many challenges waiting for it. From case study, it is evident that SHAPES Taiwan had to revise the original model to make it work in Taiwan.

4.3 Capability detecting

Once the model is proven to be successful and has been learned, serious competitors who are aware of cost effectiveness may appear. And different from the earlier type of imitators in the previous stage, these new imitators may have the necessary skills before entering the market. So these serious players may also become serious competitors using different strategies. Except pricing strategy, they may use the strategy of speed and simply cut the fees, or they may offer better incentives to make SHAPE’s franchisees or managerial employees deflect.

Gupta and Govindarajan (1991) treated a multinational operation as a network of transactions. It includes three key dimensions: capital flows, product flows, and knowledge flows. The local master franchisee is able to overcome these inferiorities by utilizing knowledge from the home country if it detected extensively. In some countries, the SHAPE model is being imitated by newcomers. It shows that once the model is proven to be successful and has been learned, serious competitors who are aware of cost effectiveness may appear. So these serious players may also seriously compete with different strategies. That is, the local master franchisee has to identify and detect the actions of competitors, and try to seek better ways to render imitations ineffective in cross-border network.

After collecting information from other country and Taiwan market, Shape Taiwan find the competitors may use the deep pocket strategy, preparing lots of capital to operate gyms copied from the SHAPE idea, and try to attract customers from SHAPE. While the market demand is increasing, and the consumers in this market are considered to have no brand loyalty, a serious imitator could penetrate the market by cutting price in order to gain market shares at the expense of profit margin. However, Shape Taiwan is prepared for waging a price war. First, it has made a cautious effort to increase the scope of its franchise operations in Taiwan. Second, the cost structure of the SHAPES gym has been developed over a long time and has been revised again and again to fit the demand. Consequently a newcomer trying to imitate the business would not have the ability to organizing the same cost structure. Finally, it not only harvests the cream of the lady’s gym market by first mover action in Taiwan, but also enjoys the economy of scale. That is to say, if the imitator is a global player, SHAPE can engage the competitor on a global scale since SHAPE is the largest fitness franchisor in the world with more than 10,000 locations worldwide. Now SHAPE’s purchasing power of facilities, interior designing is relatively larger since all of the SHAPE clubs in the world would bargain together, and all of equipments within the SHAPE gyms have registered patents. The economy of scale for running SHAPE gyms has been gained and these SHAPE gyms work together to attain cost effectiveness. If the newcomer launches a price war in Taiwan, Shape Taiwan can either have a better cost position or share these benefits with the franchisee system owners which can even defeat the newcomers in the long run.

4.4 Capability exploring

Nowadays, more and more evidences reveal the fact that foreign units are not merely a recipient of parent firms’ technology transfers. Foreign units combine their local experience and knowledge inflows from parent firms to develop innovations for use in the local markets. And these new knowledge or innovations can also be diffused to other markets in the MNC network. This ability then may not only make local firms more competitive in the local market, but also could create some external network resources for MNC in international expansion. Accordingly, the local master franchisees should develop their capabilities, on the one hand, through internal available resources and, on the other hand, through the knowledge absorption from external sources such as competitors, industrial associations, suppliers, customers, and formal and informal meetings (Cohen & Levinthal, 1990).

SHAPES Taiwan provides its franchisees with the latest information about operating a SHAPES gym. Knowledge and new management methods come from the SHAPES gyms worldwide and are shared in "SHAPES Camp", in which all Taiwanese franchisees gather together every two weeks. This mechanism not only ensures that all the gyms run their gyms in the most effective way but also make these gyms perceive the value that SHAPE provide(Harmon & Griffiths, 2008) The quality of the franchise relationship will be developed by a close relationship with effective communication characterized by trust and commitment (White, 2010; Watson & Johnson, 2010) Moreover, receiving information and suggestions from local franchisees the local master franchisee is able to adjust the unique knowledge of the parent firm while applying it to the host country. A competitive advantage can be achieved by synergies created from cross-border creation, accumulation, application, and sharing of knowledge (Bartlett & Ghoshal, 1989; Gupta & Govindarajan, 1991; Kogut & Zander, 1993). Local master franchisee with high levels of motivation and the capacity to explore should be more open to gain experience from different situation.

5. Discussion

The entry into a new market is an important issue. Nevertheless, in recent studies on the process of entering a new market the main focus has always been on the selection of the entry mode (Contractor and Kundu, 1998; Erramilli, 1991；1992) and the outcome (Woodcock, Beamish & Makino, 1994; Pan, Li & Tse, 1999; Zhao & Luo, 2002) of the process, with little attention being given to the capabilities of subsidiaries for new market entry.

Derived from a capabilities perspective, Luo (2000) identified three dimensions of dynamic capabilities in international operations: capabilities possession, capabilities deployment, and capabilities upgrading. Although the cooperation between international franchisor and local master franchisee is usually limited by the cooperative mode of contract and agreement, each foreign unit is embedded in the international franchising network, and it is necessary to contact with other units when running operations. Usually parent firms would teach their local franchisee how to react to other rivals for the concern of opportunism. From local master franchisees' perspective, they may also dedicate considerable investments or knowledge sharing for international franchisor in the cooperative relationship in order to avoid the cost of terminating the contract relationship. Hence, knowledge might be developed jointly and shared worldwide. Accordingly, this study tries to investigate the relationship between three dimensions of a local master franchisee's dynamic capabilities and an international franchisor's dynamic capabilities during a new market entry (See Figure 2).

5.1 Local master franchisees' capability detecting for capability possession

The local master franchisee has to realize that the identification on local competitors' actions is important. By detecting their competitors' imitation actions, they can understand which competence international franchisor exploit in expansion posses is easily imitated or substituted. Besides, identifying and detecting the attribute of competence and actions of their competitors provides the information for international franchisor to seek ways to render imitations ineffective in cross-border network. Such ability of detecting is critical to help international franchisor gaining competitive advantages and determining firm–level strategies to exploit such advantages which is regard to capability possession that Luo (2000) stated. Bartlett and Ghoshal (1989) also argued that the new winners are the companies that must be sensitive to market or technological trends no matter where they occur, creatively responsive to worldwide opportunities and threats, and able to exploit their new ideas and products globally in a rapid and efficient manner.

5.2 Local master franchisees' capability transferring for capability deployment

Luo (2000) stated that capabilities deployment is crucial to mitigating the disadvantages of foreignness and preempting emerging opportunities. The foreign units in new local market should have the abilities of transferring to help efficiently exploiting the creation of knowledge and innovation capabilities that are related to the distinctive resource possessed by parent firm (Tsai, 2001). Without such ability, the value of international franchisor's distinctive resources can not mitigate the disadvantage of relative unfamiliarity with a foreign market. Szulanski (1996) also asserted that the ability to transfer "best practice" especially intangible assets, such as know how and information (Delios & Beamish, 2001) among the globally dispersed subsidiaries of multinational companies is crucial for organizational learning, competitive advantage, and corporate performance. International franchisor can use its global network to facilitate resource leverage, knowledge transfer, and innovation development which help foreign units sustain competitiveness in local market (Bartlett & Ghoshal, 1989).

5.3Local master franchisees' capability exploring for capability upgrading

In general, the level of competition and the imitation puts pressure on the international franchisor to assist the local franchisee by building imitation barriers in the host market. All firms in a market are considered to be embedded in one or more networks through linkages with their designers, suppliers, subcontractors, customers, and others (Chen & Chen, 1998). But, gaining extensive access to market information and opportunities by a firm takes time and money. Therefore, an important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown (Peteraf, 1993; Lippman & Rumelt, 1982, That is, if the resource in question is knowledge-based or socially complex, causal ambiguity is more likely to occur as these types of resources are more likely to be idiosyncratic to the firm in which it resides (Peteraf, 1993; Mahoney & Pandian, 1992; Barney, 1991). Therefore, network resources can be seen as an imitation barrier or an isolating mechanism (Rumelt, 1984) to the local master franchisee.

After entering a new market, problems may arise when local players try to imitate the skills and techniques of a chain-store operation. In particular, those experienced international franchisor may still face different challenges from countries to countries. The way to solve this disadvantage is: learning by doing in the local markets (Hymer, 1976; Dunning, 1988).Through international operations, international franchisor is able to enhance its ability to exploit knowledge that comes from its international experience in every local market. Recent studies indicate that MNC subsidiaries also have contributions to firm-specific assets (Gupta & Govindarajan, 1994; Birkinshaw, Hood, & Jonsson, 1998). It can be shown that the foreign unit plays not only a knowledge-exploiting role, but a knowledge explorative one. Weaven and Frazer (2007) also found that franchisors encourage franchisee subsystem development as it affords strategic, operational and performance advantages in their study with 23 franchisors interview. International franchisor can upgrade its capabilities by creating distributed innovations, with different national units using local resources to create innovative products, processes, and administrative practices that can be used locally as well as in other national markets in which the international franchisor operates.

Insert Figure 2 here

6. Conclusion

The uncertainty of local market and the level of competition and the imitation puts pressure on the international franchisor to assist the local franchisee aligning with local environment and building imitation barriers in the host market. From SHAPE case, the low cost strategy which was transferred from parent firm excluded imitators without well-organized cost structure from the market, and the thin profit market set by the SHAPE Taiwan would make the market become not attractive to new players. That is SHAPE Taiwan brought in know-how gathered from existing SHAPE clubs in the world into new market. Besides, SHAPE Taiwan also created value for parent firms based on the combination of local market knowledge and resources. The experience from local market can upgrade an international franchisor's experience to respond to the complexity, diversity and dynamism global market in the future. In other words, a local master franchisee, SHAPE Taiwan, exactly provides a platform to transfer and dissimilate the organizational knowledge and play an important role in gathering local market information of competition which in turn helped international franchisor responding to the potential imitative behaviors.

Since there are few studies discussing the key successful factors in the weight management industry, this study tried to explore the key capabilities of a local master weight franchisee that plays an important role of gaining sustained competitive advantage when facing the challenge of fierce competition in new market. Based on the case of SHAPES, this study found out three capabilities including capability transferring, capability detecting and capability exploring of a local master weight management in competing needed in the new market. Also, this study proposed that there is a relationship between three dimensions of a local master franchisee's dynamic capabilities and an international franchisor's dynamic capabilities during a new market entry.

7. Managerial implications

This paper provided information about the weight management industry, and analyzed the current market situation, so firms within the industry may learn from this paper and know how to deal with these issues. In addition, based on carrying out our analysis of the data and our exploration of the literature concurrently, we stated that a local master franchisee needs three comparable dimensions of capabilities including (transferring, detecting, and exploring) to exploit and even enhance the international franchisor's dynamic capabilities in international operations. Finally, this research established how the case company introduced their model into the market, and how it created a new market share. We defined the network of the local franchisees including their relationship with the parent firm (international franchisor) and their local customers as imitation barriers or isolating mechanisms. We assume that the formation of a network has attributes of historical conditions, causal ambiguity and social complexity.

8. Limitation and future research

The context in this study is the Taiwanese market. However, most players, including the case company treat the mainland China market as the main proving grounds of Asia. So, it would be useful to conduct researches on how firms compete in the markets of mainland China.

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Notes

Note 1. Definition and Scope of Weight Management Industry

With a broad definition, competition in weight reducing market ranges from the categories of food, books, consulters, and drugs, to even operations. Structure of the market is fragmented, and the market is participated by several different industries. This is a typical representation of Porter's concept: "firms from different industries competing in the same target market." The variety of products and services coming from different industries also make the competition fiercer. Factors involved within the competition therefore occur in several aspects. So, for making the discussion and analysis more carefully, in this paper, researcher follows the definition of NAICS (North American Industry Classification System), narrowing the weight management industry as engaged in providing non-medical services to assist clients in attaining or maintaining a desired weight. The sale of weight reduction products, such as food supplements, may be an integral component of the program. These services typically include individual or group counseling, menu and exercise planning, and weight and body measurement monitoring. As to the scope discussed in the paper, would include two parts of the weight management: "weight loss" and "weight control."

Note 2. Taiwan Weight Management Industry Background

Following the definition in this research, the weight management industry is engaged in providing non-medical services to assist clients in attaining or maintaining a desired weight. And the growing healthy sense and the problem of obesity increase gradually the demand towards the industry. In Taiwan, there are plenty of firms within the industry and most of them come from foreign countries with strong brand power. However, the entry barrier is comparatively low, and the market is riddled with substitutes, so the competition is always fierce in the industry. And this fragmented market may be created for several reasons. First, since with a general perspective, the entry barrier of the industry is low, there always exist new entrants. And most firms in the industry are small-medium sized because they have to provide differential products or services for attracting customers. So firms usually could not attain economies of scale or the effects of learning curve.

Table 1. List of interviews

Repeated interviewees	***Business units***
Store Manager (5 times)	SHAPE 1st franchisee club-Fuxing Branch
Senior Trainer (2 times)	SHAPE 1st franchisee club-Fuxing Branch
Unique interviewee	**Business units**
President	Shape Taiwan Headquarters
General manager	Shape Taiwan Headquarters
Manager	Shape Taiwan Headquarters

Table 2. Comparison between SHAPE and other large-sized gyms

	SHAPE	Other large-sized gyms
Target market	Women who have no habit of exercising	People who have habit of exercising
Gender of members	Only women	Both men and women
Sporty type	■ Circuit exercises. ■ Exercise together.	■ Individual exercises. ■ Exercise alone.
Place	Where just near company or homes.	Big city, near important traffic stations.
Time needed	30 minutes	2-3 hours averagely.
Appointment	No appointment	With appointment or fixed class schedule.
Equipment	Oil pressure machines suitable for women	Steal slice machines suitable for men
Trainer	Free trainers with members during the whole program.	Additional fee for asking a trainer guiding for each program.
Fees	NTD 1,280/1,380/1,600 per month. Three transparent fees for three different contracts.	■ NTD 2,500~ per month in average. ■ Invisible fees with different programs.
Other charges	No additional charge, never raising the price.	■ Additional charges exist. ■ Fluctuant prices.

Table 3. Comparison of Japan and Taiwan markets

	Japan	Taiwan
People who use the gym(2005)	Around 3% of total population.	Around 2.2% of total population.
Treating "health" as an important issue	Great attention to the issue.	Increasing attention to the issue.
Average condition of women with middle-age	BMI / Overweight / Obesity (BMI $\geq$ 25 kg/m²) : 18.1%	BMI / Overweight / Obesity (BMI $\geq$ 25 kg/m²) : 24.3%
Franchisees	Small and medium-sized enterprises encountering bottleneck.	Individuals with no experience of running business.

From the table, we could see that compared to Japan, there are fewer people using gyms in Taiwan. But at the same time, women with middle-age in Taiwan are actually fatter than those in Japan. The company therefore treated this phenomenon as its chance, viewing Taiwan as a potential market. However, after the company entered Taiwan, it has soon discovered that the big difference of its franchisees in these two markets.

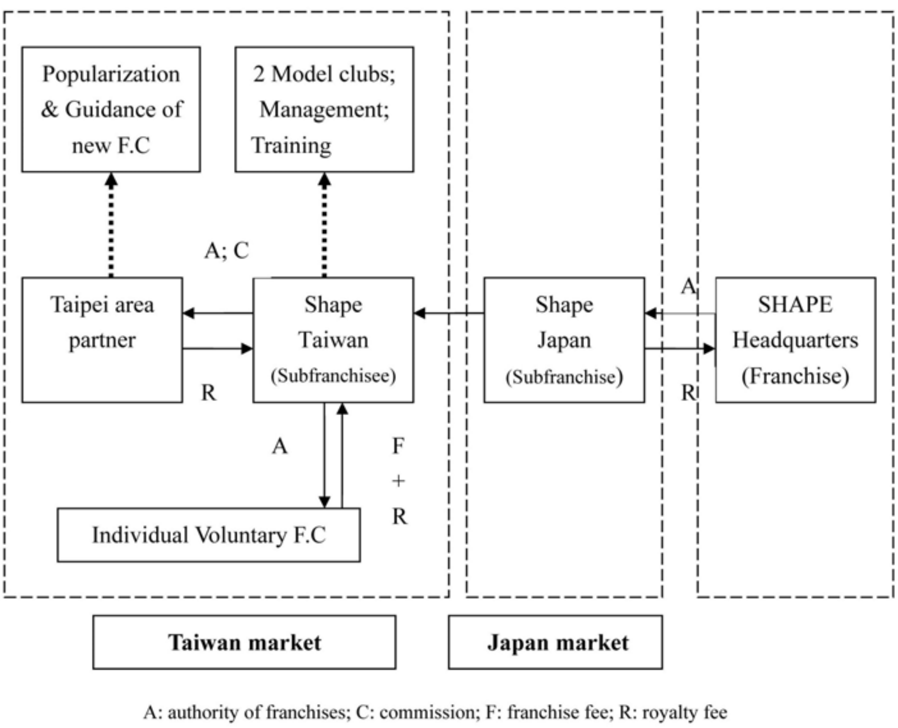

Figure 1. Cooperation model of SHAPE, SHAPE Japan, and SHAPE Taiwan

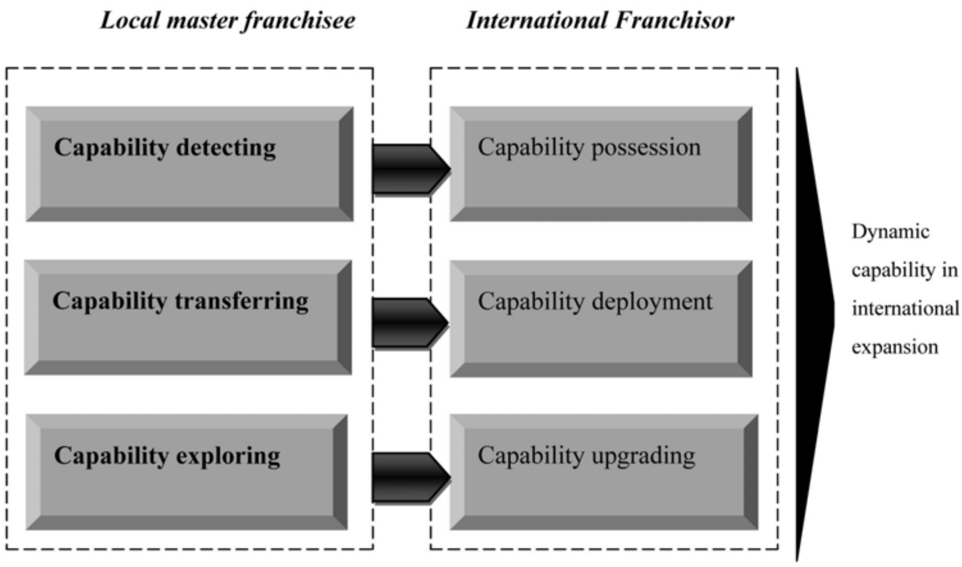

Figure 2. The relationship between local master franchisee and an international franchisor