

CASE STUDY: A STRATEGY OF EXTERNAL GROWTH (FRANCHISING) OF A SMALL WEB-BASED SPORTS BUSINESS IN THE U.S.A.

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1. Introduction

The case study shows how a service web based small firm can realize a rapid start up and a growth strategy utilizing franchising agreements and internet resources. The case also provides some evidences about the *relevance of the right identification of strategic formula for the success of the firm since the early stages of life cycle of the firm*. It results, for instance, that the business idea of the company we examine (afterwards called **XX**, for need of anonymity) has perceived a good competitive and social equilibrium (Coda, 1984) only after 2-3 years, following a trial and error strategic process. Moreover, it emerges that **XX** strategy is strongly based on the internet and technological networking, used both for competitive and social strategy, but also for fund raising actions, pointing out the strength of total relationship marketing strategies (Gummesson, 2001) or the stakeholder approach to create value (Grant, 2006). It is also important to underline that the success of the strategic formula we describe afterwards strictly depends on the growing importance of the Internet for advertising policies of many firms willing to obtain a rapid and clear return on communication and marketing investments. Furthermore, we point out *how the strength of network realized by franchising² contractual agreements can be strongly augmented by the power of the Net*. An estimated 64% of North Americans are

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² Data provided by the International Franchise Association, show that in year 2000, in the United States, more that 2000 companies in 75 industries managed approximately 400.000 franchisees. In turn, these franchises collectively managed nearly 8 million workers, or approximately 1 out of every 16 employed persons in the US economy. Business format franchising is unique because it is a long-term relationship characterized by an on-going, mutually beneficial partnership.

online and reachable through online advertising. Furthermore, in the United States about 12% of media consumption is on the Internet. Within the sports industry, the Internet offers a series of advantages that have led to its successful application and usage. As a pure vehicle of information, Internet has partially taken over market shares once belonging to specialized press, especially magazines, thanks to the possibility of cutting down on costs and providing a more dynamic and interactive source of news.

Franchising is one of the most utilized way followed by small firms, as franchisors (like in this case) or as franchisees in order to achieve a large number of objectives connected with strategies of external and "light" growth (Pencarelli, 1995).

As franchisors small firms can:

- grow with few resources, focusing the attention on limited and selected part of them;
- reduce the financial and operating risks connected to the business activity;
- accelerate the implementation of start up and growth strategies, both domestic and international, breaking local entry barriers;

As franchisees small firms can:

- enter rapidly in a sales, production or service system and network;
- face the limited experience and the limited internal end entrepreneurial resources;
- exploit brand image, know how and services support provided for by the network and the franchisor.

XX is a web-based sports Company that is trying to prove the success of its innovative social business model through its net of locally managed franchises connected by internet network.

The Company was started in 2003, but did not commence operations until 2004 when, after a series of merging and acquisition operations, the Company formulated a clearer business model and acquired the license and trademark to sell a new business concept and create a new business model, becoming a franchisor.

2. The market and the environment scenario: sport activities in the American schools and the Internet diffusion among businesses.

The company can be considered “*a purpose-driven, web-based High School, Youth Sports multi-media company, presented through its network of locally managed businesses*”. The combination of two key elements (sports and the Internet) characterizes the market the Company operates in.

Sports and economics in the United States. The power and potentiality of sports within the general economic environment is showing increasing level of importance worldwide. The monetary and financial impact that sports-related activities offer to the GDP is considerably massive and impressive, and is pushing national governments and institutions to pay more attention to the world of sports, both professionals and amateurs. A survey of the University of Cambridge (AA.VV., 2000) has underlined all effects that sports have on domestic economy. It clearly showed how sports activities can bring about benefits on employment and output level, household income and spending, infrastructure investments, related tourism activities; particularly interesting is the relation between sports and the role of public spending and funding, both on a national and local level. In the US sports world, economic analysis show how the “*big four*” professional sports leagues (basketball, football, baseball, and hockey) together are probably somewhere on the order of \$10 to \$15 billion in revenue (Bandler 2004). Economic figures show the important linkage of Professional Leagues with many powerful Corporations taking care of multiple aspects of the sports world: merchandise, media channels, advertisement, sponsors and sportswear. Considering that the four Leagues are the most popular within the United States, in terms of fans and of total revenue generated, but constitute only a fraction of the immense panorama of sports leagues, one can easily understand how big the sports business is. If you begin to add some of the other events outside the orbit of those four (golf, auto racing, college sports) then you are doubling the figure to somewhere in the neighborhood of \$30 billion. And the figures only refer to professional leagues, which are again a very small portion of the entire complex of teams and leagues related to the same sport. In fact, it is extremely interesting to discover and understand the non-professional US sports panorama, which represents the main source of inspiration for the business model analyzed in this paper. Sports events at any level of competition play a considerable role within local communities, both on a social and economic basis. Having a successful sport team playing in a community certainly drives certain types of investments and local government’s decisions (Miller, 2000). The American modern society, concerned with the problem of obesity, loneliness, depression, TV and PC dependency, has launched several campai-

gns in favor of the importance and necessity of sports as a regular and continuous activity in everyone's life, especially younger generations. For this reasons, schools have invested considerable amounts of money into Athletic and Physical Education Departments, in order to teach kids a healthier style of life; besides playing sports, they are also shown the positive consequences of different eating and living habits. Within this broad and complex panorama, schools represent the main characters, as they possess the educational tools and financial capabilities to turn these social issues into learning instruments. In the United States, every High School has an Athletic Department, headed by an Athletic Director who is responsible for all the teams playing for the School; s/he is the one making financial decisions, dealing with coaches, referring to the School Principal. The Athletic Directors often possess managerial capabilities and skills that allow them to govern the Sports Department according to fundamental economic schemes, paying attention to the level of expenses but constantly investing in equipment; they must keep the balance between the passion and excitement of sports and the cold reality of figures. A considerable flow of money comes from the tuition fees, which are usually very high in private schools, but the costs of sports teams are often overwhelming and necessitate further financial streams. The challenge that High Schools are facing nowadays, is a cut in Sports Programs due to limited school budgets; the immediate result is a lack of equipment and impossibility of an upgrade of training facilities, with negative impacts on every single team and its performance. For this reason, schools try to bring the communities together and promote fundraising events that often constitute an excellent opportunity to raise the money they need to keep on feeding their Sports Programs. Fundraising activity is part of the School life and is particularly valuable and appreciated in the United States; it grasps the attention of the entire community, registers the support of local businesses and highlights the positive social purpose of sports events.

2.1. The Internet and its advertising opportunities connected to sport activities.

Considered the fastest-growing vehicle of communication, the Internet has definitely taken over large shares of the media market, overcoming radio, television and newspapers. Within the sports industry, the Internet offers a series of advantages that have led to its successful application and usage. As a pure vehicle of information, the Internet has partially taken over market shares once belonging to specialized press, especially magazines, thanks to the possibility of cutting down on costs and providing a more dynamic and interactive source of news. There are thousands sports websites purely dedicated to the world of sports, globally (all sports) or specifically (just one discipline). The interactive nature of the Net and the

broad pool of options it can offer to web surfers is the key explanation of this phenomenon. Secondly, Americans tend to spend a long time in front of their PC surfing the Net, and this habit is strongly influencing their everyday life. Moreover, new communication devices that give access to the Internet any time (cell phones, blackberries, Internet wireless cards for PC, etc.) handle the chance to be online anytime and anywhere. By combining the usefulness and easiness of the Internet with the strong importance and attractiveness of sports, the result is a booming growth and popularity of web-based sports sites. From a marketing standpoint, web-based sports industry offers a series of possibilities that have been studied and exploited by marketing experts. Besides being an excellent vehicle of data, contained inside the data-base and run by sometimes sophisticated algorithms, some of the accessories can be used to understand the level of popularity of a website³, get immediate feedbacks⁴, influence web-surfers' actions⁵. The technology behind web sites and web actions is immense, and surfers do not realize they are being tracked; while they get entertained, every single move they make is stored and processed by specific software. The results that the IT office obtains is partially used for the upgrade of the website (pages not being viewed are either removed or changed, fresh and dynamic tools are experimented on a regular basis, web-surfers can sometimes customize their pages⁶) but mostly analyzed for commercial purposes. Tests, beta versions and feedbacks represent valuable indicators for the launch of a new product or marketing campaign; in this sense, the Internet is both the generating instrument and the vehicle of information and data. Together with data, information and other forms of communication, sports websites also offer a series of entertaining choices, which vary from digital pictures to streaming videos that can be often customized by the user: pictures can be turned into e-cards and sent online, videos can be downloaded and stored, games can be seen online. Recent trends show how valuable and profitable the sports photo and video market can be⁷, and the most interesting aspect is that the non-professional sports share plays a relevant

³ Statistic tools are especially designed and implemented to count the "hits" or "clicks" of a web page, this way the IT office can evaluate the effective popularity of the site and of its pages.

⁴ Sometimes the IT office studies the behavior of web-surfers by adding some special features or software components to the web site for a limited period of time, testing the responses and evaluating the feedbacks

⁵ The perfect example is constituted by Google Ads, which according to the web-pages visited or searched, show determined ad categories.

⁶ Many popular web sites offer a wide range of services: e-mail, blog, chat, personal space,...

⁷ Besides online advertising, the Company strongly relies on digital photo and video sales, which is currently the second-best revenue stream in terms of total income.

role⁸. Even though figures and trends related to all sports-related activities are impressive and consistent with investment, the most profitable revenue stream that benefits from the Internet boom is certainly the advertising trade, which considers sports websites a highly profitable pool of investment. 2004 marked the 10-year anniversary of web advertising; the Internet, virtually unheard of just over a decade ago, is today a vital daily part of most Americans' lives. The many forms of marketing and advertising it enables (permission email, key-word-targeted search engine advertising, floating animated page takeovers, interactivity on page, rich media ads, streaming audio and video, consumer-fuelled "viral marketing") have excited early adopters and mainstream marketers in ways that traditional advertising has not seen the likes of since the early days of color television (Borrell Associates, 2004).

As the year 2006 figures show, Internet ads are registering a continuous growth and highlighting certain trends (Buchwalter, 2003) which are relevant to the online ad industry:

A seller's market is emerging in online advertising. The first 10 years of online ad spending have been a rollercoaster ride, with a boom, a bust and a new resurgent boom. For the first time, the advertising industry is now experiencing a significant transformation of pricing dynamics, given changes in the supply and demand of ad inventory. At least for premium inventory categories such as auto, tech and business, what once seemed destined always to be a buyer's market is in fact turning into a seller's market.

Marketers are demanding more accountability. Companies are increasingly demanding greater accountability for the return they get on their advertising spending. This represents a double-edged sword for online media. Viewed one way, the Internet delivers fairly well on its promise of greater measurability compared to traditional media. Alternatively, the Internet industry has fought hard to avoid being pigeonholed as a direct-response medium because of its ability to measure performance so many ways. In the last few years, ad sellers have made great advances in demonstrating online media's value also as a brand vehicle with significant audience reach, and this is a great advantage for XX which is encouraging small local firms to invest on online ads, demonstrating them that this form of investment contribute to "build the brand". In the end, the Internet's accountability for measuring both brand and performance lift appears to be winning converts, as more mainstream ad dollars continue to shift rapidly online. As a possible consequence, marketers are putting more pressure on

⁸ College, High School and Youth Organization Teams receive a high level of attention and support by local communities, and the business they represent is consistent with the level of money they generate.

traditional media to likewise improve their metrics for accountability.

Consumers are demanding more control. Consumers, meanwhile, are reacting to their plethora of media choices and a growing volume of marketing messages by wresting the instruments of control from the corporations that have been accustomed to prescribing the media diet that consumers should consume. From Napster to pop-up blockers to blogs, individuals are turning the media model on its head, driven in large part by the same kind of technology tools that heralded the digital revolution in the first place. What the new media and marketing landscape will look like a few years from now is still unclear, but it is likely that the winners in both media and advertising will be those that adapt most effectively to the new consumer-centric model⁹.

2.2. The opportunities of on line advertising

Consumer-generated media will become increasingly attractive to advertisers. Podcasting, blogs and 'wiki' will continue to gain momentum and attract an increasing number of consumers, both content creators and content users. All indicators point to consumer generated media becoming a promising "ad spend" opportunity, particularly for advertisers looking to reach specific micro-communities. Interactive advertising service providers seeking to capitalize on these opportunities will need to provide scale in both global advertiser acquisition and service delivery, and in data complexity. New technologies will make ad delivery easier for publishers and advertisers, including filtering unsuitable content to protect advertisers from unwanted impressions. Better blog and audio / video search tools will increase traffic and dramatically improve relevance metrics. XX has clearly understood advantages and threats of online tools, and by basing its entire Portal structure on the concept of "user-generated" contents has paid even more attention to providing the most secure methods that can protect users and customers.

Technology and better data access will transform online advertising success to a math equation. In the future, online advertising will be driven by more strategic quantitative analysis across segmented audiences. Media companies will have greater access to more finely tuned targeting methods that segment out audiences based on the most important variables. The new statistics will help advertisers and publishers to identify and influence audiences more efficiently and effectively. The ultimate result will be new models of how to approach advertising, and new ways of reaching consumers.

As a further confirmation of the success and continuous expansion of the

⁹ See for example the virtual tour operators in the tourism industry (Pencarelli, 2003).

online advertising phenomenon, several scientific studies have carefully analyzed the economic return of Internet advertising strategies. A common argument against online marketing effectiveness is that sales and traffic would have increased anyway, and that other marketing efforts were responsible. There was no definitive evidence to disprove this until a Marketing Analysis Institute published a scientific analysis (Chandler-Pepelnjak, 2002) of the true effect of Online Advertising in December 2000. The study was based on the results of a well-branded online travel company and proved that Online Advertising does work. It showed that conversions, beyond those directly following clicks, represent significant value, which most advertisers are ignoring. For the research, they used anonymous cookies to compare the actions of a group of Internet users who saw ads against a control group of those who did not. The control group methodology allowed the Company to measure "what would have happened anyway". The results showed that the group who saw ads generated 10% more sales and traffic than the control group. Additionally, the study showed there is an "awareness conversion" effect that is many times greater than the direct-response conversions (conversions following click-throughs) that are attributed to most campaigns. Eighty percent of the overall sales increase resulted from customers who didn't click on any ads, but eventually converted on the advertiser's site. Any offline advertising would have affected both test and control groups equally¹⁰.

Empirical evidence suggests that the branding effect of Online Advertising is a function of frequency, regency and impact –as in traditional media. Advertisers need to consider how their online efforts can be used to bring customers back to their sites. Creative design and targeting is especially important. Technologies serving advertisers are now able to identify customers, even differentiating first-time users from loyal customers. As

¹⁰ With the purpose of demonstrating if Online Advertising affects brand awareness, three independent studies have shown conclusive evidence that banners make a difference in branding. Dynamic Logic, an online research company specializing in measuring Online Advertising effectiveness, found that online banner advertising raises brand awareness on average by 6%. This finding was based on more than 18,000 surveys and covered multiple product categories. They found even more dramatic results for Travelocity, a leading online provider of travel services. Travelocity's banner campaign significantly lifted aided brand awareness by 16%. (Aided brand awareness refers to the percentage of respondents who indicated that they are aware of Travelocity when presented with a list of travel service providers.) Similar to the IRI findings, Dynamic Logic's research showed that the more times a person saw the banners, the greater the impact on awareness. Among those who saw ads four or more times, the lift in awareness of Travelocity was 44%. According to the Internet Advertising Bureau, site sponsorships account for more than one quarter of the online ad market. An ongoing study by media consultant Next Century Media revealed that viewers of a sponsored site (with multiple placements) are more likely to consider a purchase of the sponsor's product. Research from Ipsos-ASI further found that the more heavily distributed a sponsor's message throughout a site, the more easily visitors remember the brand.

technology evolves, advertisers will have access to more tools for building individual relationships with every customer and prospect.

3. The potential market segment of XX

A recent survey has offered some basic figures: there are around 19,600 High Schools and 42,000 Youth League Organizations. Considering the number of kids playing for their High School (7,000,000) or playing in Sports Organizations (42,000,000), we can come up with impressive figures, which indicate that there are about 1,000,000 High School Teams (between 25 and 40 Teams per High School) and 2,500,000 Youth League Teams. The survey also reports on the number of Athletic Directors (18,700), High School coaches (2,500,000) and Youth League coaches (5,000,000)¹¹. The sports network, even though it only refers to young athletes (kids from 6 to 18 years), is impressively big. Sports categories are infinite: from the most popular team sports such as basketball, baseball, soccer, lacrosse, volleyball, hockey, football and softball, to individual sports such as swimming, wrestling, golf, track&field, tennis and diving. Boys and girls play sports with the same frequency and intensity, and there are no major differences between genders, except for football, solely for men, and baseball, whose feminine version is softball. Sports are an important characterization of every kid's life in the United States, as they bring about events (training activities, games, tournaments) which take place regularly and involve the entire family. Regardless if the Team is part of a Youth Organization or a High School, every sport has its own calendar which varies according to the State or the County. Championships and tournaments are vital part of every community and attract a considerable number of people: High School staff (coach, assistants and trainers), athletes' families, local business owners, sports fans, local organizations.

Thanks to its multi-level structure (Corporate, Franchisee, School/ Youth Organization, Team, Player) *the Portal is an easily understandable and flexible tool to market the territory*. According to this characterization, the Company has based its ads sale campaign on a multi-level configuration. Furthermore, additional sources of revenue have been specifically designed and implemented always with reference to the multi-level structure of the Portal, and this appears very valuable for a Company intending to reach micro-communities, as explained above. On the basis of the actual and potential target of users and visitors, the Company can target certain specific categories:

¹¹ Source: Market Data Retrieval and National Federation of High Schools

Players. The players are certainly the main characters of the Company's Portal, as all pictures, videos and articles are totally based on them, on their performances, actions and personalities. They play, entertain, train, suffer, win or lose and materially build up the excitement around their Team. At the same time, they are also potential targets, as they are young, sports lovers, usually web-surfers, with respect for sports rules and fair competition; they feel particularly close to new technology, confident with the Internet and the entire sports ads business (especially if linked with High Schools and Youth Sports Organizations) is planned around their needs and characteristics. They ask for visibility, seek opportunities in the field of professional sports leagues and love to be personally involved.

ADs and Youth Sports Administrators. Every Youth Sports Organization or High School Athletic Department is headed respectively by an Administrator or Director. Besides being the organizers and managers of all Teams within their competence, with obvious technical and organizational difficulties, they mainly strive to keep abreast with financial budgets. They are personally involved in sports life, believe in the educational values of competition but are sometimes overwhelmed with the work that needs to be done. Pretty confident with the Internet and its tools, they look for partners (either individuals, companies or other forms of organized activities) which could cooperate, with respect to the moral and educational values.

Coaches and their staff. Surely the most interesting target, coaches are always very passionate about their work. In the majority of cases, they do not pay attention to the relative economic benefit, as they spend all their energies and free time training their kids and keeping up with results and statistics. Due to the lack of time and resources, they continuously look for new forms of cooperation with sports websites, in order to share part of their duties with professional web companies. Precise, dedicated and enthusiastic, they are the ones who can benefit from the Company's partnership the most. Thanks to the easiness and comprehensiveness of the system, the immediate access to a vast pool of inter-related data, information and self-generating contents mechanism, they can considerably decrease the amount of time spent just organizing data and getting statistics, with more time to dedicate to the "real" work of strategies, tactics and training. Their age grouping may vary considerably, from College kids with experience in sports to former professional players, retired and willing to teach young sports kids. They are the real "partners" for the Company, as they are the ones registering Teams and getting the password to access their web page and keeping it up-to-date, fresh and interesting.

Businesses or potential investors. This category embraces a vast number of people, from local business owners with connections to High Schools or Youth Organizations (sponsors, fund raiser, partners) or interested in the sports industry, to every other individual or company either willing to advertise on the web site or to become part of the community (Franchisee, Partner, Investor). Considering the strong local commitment, the knowledge of the local territory and local people, any business activity would be interested in “getting inside the game”, obtaining financial benefits and helping the local community at the same time.

Sports fans. This target is extremely vast, potentially unlimited if considering the Internet and the sports web surfers. Kids of all ages, families, entire communities gather online to look for sports news, updates, results, articles, videos, pictures, comments, games, and the increase on the number of sports related chats, blogs and communities is the evident proof. But it is not just kids, as adults are very fond of sports too, and that brings up an additional potential target of people the Portal will also reach. They look for excitement, passion, involvement, interaction, customization and the Company needs to catch up with it.

4. The global offer system of XX

The Company provides a series of services related to sports teams, either belonging to High Schools or Youth Sports Organizations, through its Portal. *The potentiality of the Internet, combined with the enormous popularity of sports teams, especially on a local level, are the two basic elements that have led XX and its competitors to the creation of virtual pools of information which attract an impressive number of people.* The concept is, at least within the US territory, not completely new as other companies had already sought the huge potential of sports and started building up different business activities around it. What really distinguishes this Company from its main competitors is its structure, its mentality and its social commitment, which represent something never seen in this business field, and on top of which the new management plans to create the real success of the company. *We are in front of a really original business idea.*

The core activity and the service package are pretty easy, but they require a strong commitment and cooperation by the entire network. The Portal, in fact, is a source of information, provided in many different forms (reports, digital pictures, streaming videos), related to sports teams: game schedules, game results, rosters, photo galleries, team articles, league standings and much more. The company, through its IT office, sets the system up and handles the access codes to the different teams (either to the AD or

the coach) so that they are able to actually input all the information about their teams and regularly keep them up-to-date. Each team that registers with the Company is assigned a web page, accessible through a unique code and password, used by the team coach (or his/her assistant) to enter schedules, results, players, photos and articles. The registration of a team usually starts with the specific request of an AD or coach, who provides the needed information (organization name, competition level, division,...) through an online form available on the Portal.

The digitalization of all processes¹² has been recently made possible, and within a very short period of time positive results have come up and allowed the IT office to cut down on time losses. More specifically, the possibility of registering a team directly through an online form, whose link is placed in the home page, has considerably increased the demand of High Schools and Sports Organizations to join the system. In order to manage the rapid rise of requests, the IT office has worked on improving the existing database location and creating a stronger set of tools to have quicker access to the stored data. Every single team inside the system is properly placed in the division it plays in, so that within that division all information is interactively shared and the data input is automatically used by the system tools to provide League Standing, Team Standings and Players Standings. The coach or his/her assistants, when entering information (game results, game stats) automatically give impulse to an automatic calculation of points, according to the specific sport and to its rules, and the updating process of the Standings is real time. The teams joining the system belong either to High Schools, and so compete against each other according to the school sports calendar¹³ and also according to the rules of the geographical territory¹⁴, or to Sports Organizations¹⁵, and so play within their Organization. In both cases, they belong to a well organized sports structure, with formal

¹² The digitalization of many steps, which were during the old management conducted by telephone, is part of a broader process the company is facing and that has been designed by the new CIO within a general ERP system he is building up around the company's activity and relationships.

¹³ In the United States, sports seasons can vary according to the State they refer to. For example, basket is considered a winter sports for the State of Virginia and games take place between October and January, while it can be spring sport in another State, where games will actually take place from March to June.

¹⁴ Every High School in every State in the United States follows the rules of the County it belongs to for every activity the school provides, including sports. Within the County, every High School (and so every single High School team) is placed within a division (called "conference") that encompasses a certain number of Schools (usually around twelve schools) that in the majority of cases matches with the County itself; if the County is considerably big, it will have more than one division. The sports calendars are prepared on a conference level, and at the end of the season the winners of each conference will compete against each other in order to determine the State Champion.

¹⁵ The idea of having Sports Organization Teams within the Company's network has been a strategic move because it does not impact the mission and vision of the company, especially on a social level, and offers a wide range of revenue opportunities.

hierarchy and financial autonomy that makes them capable of dealing with the Company on every aspect: economically, socially, financially and educationally. This element represents one of the main reasons of success of the business concept and potentiality of the partnerships that the Company is establishing¹⁶.

The information and data that can be found in the web site is not just game schedules and results, but recently encompass a series of digital tools that appear particularly attractive to young generations. Specifically, besides digital photo galleries and scrapbooks, every single player listed within the system possesses an own Digital Athlete Profile, which is a combination of personal, academic and statistical information that shows all player's record, and which constitutes a powerful data base not only for a personal satisfaction and reward, but mostly for talent scouts (especially College scouts) who are constantly looking for athletes for their College teams¹⁷. Having a personal Digital Athlete Profile is also a powerful way for coaches to report on players and get to know opponents better. The relatively new feature that the site is offering refers to streaming videos, which are nowadays an important vehicle of communication for many web site (newspapers and magazines, television channels, entertainment, education), especially sports-based web sites. There is a whole world of excitement, passion, involvement, fervor, enthusiasm that accompanies the sports teams, and the video streaming tools offer all consumers the chance of a quick, easy and dynamic access to them. Besides static information (articles, game results, athlete stats) consumers can also have access to more dynamic pieces of data, getting more involved, feeling "*inside the game*", watching real game actions and getting entertained at the same time. The idea of combining the simple and pure information service that the company was initially providing with more exciting and interactive tools, has been the moment of real change and strong involvement of the new management, that has led to a different approach to consumers, to a complete

¹⁶ The direct involvement of High Schools and Sports Organizations on a financial level has been the decision the Company management has made after the redefinition of the social and economic role of the company within local communities.

¹⁷ Colleges often offer scholarships to the best High School athletes, and this is an excellent possibility for a student, because they will have the tuition paid for and in the meantime can continue playing their favorite sport. Colleges in the United States are very expensive and many kids would not have the chance to go to College if it were not for sports scholarship. A large percentage of US professional players (especially in basketball and baseball) come from College Teams. The popularity and excitement that College teams bring among college communities is another huge phenomenon in the United States, and this aspect has been also considered by the management, but because College teams did not present the characteristic of "locally-and-family based" level and could contrast the social characterization that the Company is branding right now and that constitutes the basis for its mission, that led to the decision of not having Colleges joining the net.

redefinition of the mission and vision of the company, to a total redesign of the brand and also to a different enthusiasm within the company itself¹⁸.

The fundamental idea and its implementation were based on the involvement of local communities, made up of different entities or players (High Schools, families, local businesses, fans and sports organizations) which constitute a source of richness and diversity at the same time. The vehicle of practical creation of such linkages is to be represented by the Portal, revolutionized in its contents, design, capability, accessibility and potential. Besides the technological innovation and the revenue-generating options, the Portal seems to basically represent the new face of the company, with a strong social commitment and the intention of playing a role never seen in the internet-based sports industry.

5. The structure of XX and its franchise network

The Company has started its operation under a franchise model that sees the Franchisor's headquarter in Columbia (MD) and the current network of franchises covering the northern-eastern regions of the United States (District of Columbia, Maryland, Virginia, New Jersey, Hawaii) for totally 12 franchises.

When the Company started its activity and the first territories were sold to Franchisees, the contracts were pretty simple and did not completely follow the frame of a standard Franchise Agreements¹⁹.

The strategic vision was not yet clear in the mind of entrepreneur and the Company worked by trial and error approach. For this reason, the evaluation of the territories assigned to each Franchisee was often inappropriate (sometimes underestimated, sometimes overestimated), and the number of Schools or Organizations the Franchisee had to deal with always resulted overwhelming. The attribution of territories was unprofessionally done both from a financial and from an organizational standpoint. In order to avoid these mistakes, the new model attributes relevant importance to the Franchise

¹⁸ The new idea and characterization of the company and its new social commitment have led to the creation of working teams made up of very young people, just graduated and with strong interests and participation in sports, who can better understand the needs of younger consumers (players and young fans) and most importantly can better help the company keep up with technology challenges and fast-changing youth interests.

¹⁹ In 1978, the Federal Trade Commission (FTC) adopted the FTC Rule, which became effective in 1979. This rule requires that all franchisors submit to all potential franchisees a document called the Uniform Franchise Offering Circular, or UFOC. The intent of the UFOC is to provide enough information so that the prospective franchisee can make an informed decision as to whether or not to purchase the offered franchise.

Agreement, which is redacted respecting UFOC standards and also encompasses training activities, financial benefits, franchise fees, responsibilities and duties, breach of the contract, eventual fines. The new Franchise Agreement format pays particular attention to the discipline of the anti-competition provisions, which is also strongly supported by a new NDA format, redacted by a professional legal team and aimed at anyone dealing with Company's business model and documents²⁰.

According to the Franchise Agreement, the franchised territory is evaluated on the basis of the number of High Schools and Youth Sports Organizations located in it; this way, the financial determination of the franchise fee is equal and fair, and each Franchisee knows exactly how wide the assigned territory is; the smaller the territory is (according to the number of Schools and Organizations) the easier it could be to establish solid and lasting relationships with all of them, get a deeper level of involvement in their activities and needs, manage the network of local communities. The average amount of money to be invested up-front by a potential franchisee is currently rated between \$ 60,000 and \$ 100,000.

6. The business model

The legal agreement is established on the basis of the UFOC rules and the Franchise activity follows the legal and economic pattern established both by the State of competence and the Agreement signed by the two parties²¹. The Franchisee has to take care of the establishment of relationships with Sports Organizations and Schools, of the sales activities for the web pages of his/her own competence, of the web pages enrichment for what concerns photos, videos, articles, game results, information. All these activities can be run personally or with the help of third parties²². The Franchisor collects a Franchise fee, and always holds the strategic decisions in terms of marketing, social characterization of the business activity, respect of certain standards. The franchise fee to be paid up-front is calculated on the basis of the number of schools/organization in the territory, according to the "economic value" that the Franchisor attributes to them.

²⁰ The new policy obliges everyone working for the Company as an employee, Franchisee, commercial partner or similar, to sign the NDA.

²¹ The US Franchise legislation follows a three-level structure, which sees the Federal Law establishing the legislative basis (including the UFOC), the State Law independently determining further requirements by statute and the State Relationship Law defining the "good cause" which allows the Franchisor to terminate the Franchise agreement.

²² Many Franchisees decide to outsource these activities and often get the help from kids playing for School Teams or Sports Organizations located in those territories.

The evaluation usually attributes an average amount of \$ 5,000 to \$ 8,000 to each Sports Organization and \$ 8,000 to \$ 10,000 to each High School. Moreover, the Franchisor tends to consider the economic potential of each territory globally, in terms of average income per person, students in every High School, featured sports, high-speed Internet coverage. In a medium-sized territory (for example Loudoun County, VA) encompassing 8 High Schools, whose population consists of mainly upper-classed people, with a very spread out Internet coverage and utilization, the franchise fee would certainly be rated around \$ 85,000.

In order for the new business concept to be fully competitive and profitable, the management has opted for a two-option model, according to the real capabilities of the territories to generate revenue and involve local communities.

The first option (*Independent Franchise*) is the format to be applied in case the Franchisee respects all required standards and has a solid and valuable business background. By choosing this option, the Franchisor only collects the initial franchise fee, without getting involved in the sales activity. The Franchisee still gets training and support by the Franchisor, as established by contract, but independently runs all sales activities, maximizing the revenue. As the Franchisor does not get involved in the sales activity nor receives any percentage/fee from the sales activity, of course it must carefully evaluate the potential that every territory can offer in terms of businesses willing to buy advertising space, number of players (teams) potentially joining the net, availability of sports infrastructures in the communities, Franchisee's business ability. The advertising campaign put in place by the Franchisee, even though independent, must always respect the terms and conditions provided for by the Franchisor, paying attention to the social characterization of the entire Company that in fact focuses on highlighting everything which is "good and clean in the sports world". Moreover, there is a "rate card" established by the Corporate Office which sets prices and dimensions of every advertising space; Franchisees are never allowed to set prices at a lower level than what has been fixed.

The second option (*Assisted Franchise*) is put in place whenever the Franchisee needs initial support by the Franchisor. This occurs when the franchised territory is characterized by a considerable cultural or geographic difference which could prevent the Franchise model from being economically successful. The Agreement in this case establishes a stronger support to the Franchisee, with a higher level of training and also an active participation by the Corporate Office into the franchise activity. More specifically, the Franchisor plans and designs the sales campaign in cooperation with the Franchisee, getting a percentage of the revenue generated. Such percentage is established on the basis of many economic and strategic elements (Franchisee's business ability, territorial features, actual/potential

number of High Schools and Youth Sports Organizations). So far, this option has been used only in the State of Hawaii, which currently has the two most active Franchises within the entire network. Both Franchisees in fact, considering proximity and cultural factors, have requested a more intensive level of attention and support, with positive mutual benefits. The idea behind the "Assisted Franchise" option is to help new Franchisees start-up their activity, gain confidence with the business model, establish solid relationship within the assigned territory and then turn their activity into an independent franchise. The strategy that the Corporate Office realizes seems particularly smart, as by assisting and actively supporting new Franchisees, the Franchisor also gets immediate and precious feedbacks on how to improve the model in many ways: strengthen social linkages with sports entities, improve business relationships and sustain educational purposes and events.

The Company has recently worked on a temporary "third option" ("Corporate") which sees a direct involvement of the Franchisor that either possesses a territory or momentarily runs all activities on it. In this case, the Franchisor gets the total percentage of the revenue and personally decides marketing and sales campaign. The option has been introduced in the model in order to smoothly run those activities which have either been dismissed²³ (franchised territories in Tennessee and Indiana) or bought back. This last option has been strongly considered by the Franchisor for some territories which were not keeping up with the potential economic value of the local communities and which needed a new strategy.

On the basis of this model, *the Franchisor always holds the strategic keys of the activity (web site configuration, marketing planning, brand strategy), gets a considerable amount of money both from the Franchise Fees and from the revenue percentages, and has the power to intervene in case certain economic and financial standards are not met.* On the other hand, Franchisees obtain a wide range of freedom and responsibilities, and can prove the success of the model on a local basis only thanks to their personal ability to establish relationships, get the community involved, properly organize all their activities and be financially remunerative with their sales campaign.

²³ The Franchisee has lost interest in the territories and is not running the activities properly or keeping the web site updated. This is the case of those territories franchised under the previous management and related to which a formal Franchise Agreement had never been signed.

7. Social network

The Company can prove its business model and show its mutual benefits only on the basis of a direct and active cooperation and integration by the entire network; no one can be excluded as the social characterization of this company in particular (and of all franchised activities in general) is strictly linked to every single participant of the social network.

The analysis can certainly start with Franchisees, independent business owners who contribute to the success/failure of the Company, as they are directly involved in the life of local communities, personally interacting with Schools, Sports Organizations and Clubs, families, business owners. They must know and feel the mission of the Company and operate according to it, respecting the social environments they work in, understanding their difficulties, catching the potential, getting more people involved. At the same time, they must also catch up with the Corporate innovations, benefiting from changes and experience, asking for advice and support, working transparently and effectively. Franchisees represent the Corporate, so they are relevant for the final outcome. As the number of Franchisees is expanding, it is fundamental for the Franchisor to keep up with their needs and manage their network efficiently.

In order for the franchise areas to be productive and active, they certainly need the cooperation of all people within their territory, this meaning all kids playing sports, or more specifically the organizations, clubs or teams they participate in. The hardest part of starting up a company like this, is in fact communicating people (schools directors, coaches, parents, business owners) what benefits they could get by joining the network. They have to be told the mission and purpose of the company, its social and moral commitment, its community involvement. Once they agree on the advantages they obtain, they are vital part of the Portal, as they continuously provide fresh and attractive contents to update their web pages with. Without their excitement, passion, direct cooperation and fantasy, the Company would not exist. For this reason, it is fundamental to keep the environment dynamic, attractive, interesting and entertaining; that is the only way for sports lovers to keep on cooperating and contributing to the positive cascade effects on everyone within the network.

Franchisees are fundamental for the Company, but they are not the only outside players to rely on. Besides them in fact, the Company is spending time and putting efforts on many projects which should contribute to spread and strengthen its name, activity and popularity. Firstly, former professional players who have decided to invest in the Company and become shareholders, are taking part in many local events, personally presenting the new business concept and activity, introducing the new tools and systems available to coaches, ADs, players and families. On the basis of their pro-

professional experience and by exploiting their personal fame, they represent a productive sponsorship for the Company, and many local schools and organizations greatly encourage and appreciate their presence during sports events. They know how to motivate kids, teach them the basic rules of fair competition and underline the importance of sacrifice and commitment toward the final outcome.

Given its "multi-media" characterization, the Company is also trying to expand its presence and get further support from other media sources besides the Internet. For this purpose, the management decided to start a cooperation with professional journalists and sports reporters which highlights the potential of the internship project as a way to introduce kids to the world of journalism. With the help of professional sports journalists, interns can gain a considerable experience by writing periodic articles while the personally experience their love and interest for sports by attending sports events.

Last but not least, the network can be considered complete only with the active participation and cooperation of High Schools and Sports Organizations; Athletic Directors, Coaches and Assistant Coaches, Players and their families practically use the tools available on the Portal and with their constant patience and commitment provide fresh contents on a regular basis. New articles, photos, videos, comments, reports and results are uploaded and modified continuously, contributing to keep the Portal interesting, dynamic, active. They are active players and audience at the same time, and this is also something that makes this Company and its business concept exciting.

8. Competitive system

The Company particularly focuses on youth sports, with specific attention to High Schools and Youth Associations and has been spreading out its business concept in the United States. For this reason, we can highlight three companies among the most direct and important competitors.

MaxPreps.com is owned and published by MaxPreps Inc. a Sacramento-area (CA) based company founded in 1993. They publish the most comprehensive sports information Web site in the world; featuring stats, stories and photos, starring High School athletes and their coaches. MaxPreps is the first company to have tracked High School football in every state. In addition, they offer football fans a national power ratings system for every team in the country. Also new to the site is the *High School Sports Search Engine*, a continuous scroll of High School sports content across the web, together with *Max Hammer*, a virtual sportswriter managed by a sophisticated computer program that "writes" game summaries and stat reports. Finally, they are also launching a new web channel for professional High

School sports commentators and experts in training, nutrition and recruiting. MaxPreps has created one of the largest online photo libraries dedicated to High School sports action photographs in the world. The *MaxPreps High School Weekly* television show returned in the New York, New Jersey and Connecticut markets in the fall of 2005 on the MSG Network. It marks the second consecutive year that MaxPreps has been the title sponsor for the show. Hosted by the Tri-State's leading prep sports expert, Mike Quick, *MaxPreps High School Weekly* will enrich high school sports in the nation's largest metropolitan area. *MaxPreps High School Weekly* airs four times a week for 31 weeks and reaches nearly 8.5 million homes.

HighSchoolSports.net is a subsidiary of Schedule Star, which started in 1964 in Midland Park, NJ. Today, HighSchoolSports.net is the nation's leader internet site devoted solely to covering High School sports. The company has over 6,500 schools subscribing to the Schedule Star software system that feeds HighSchoolSports.net. The overall goal is to raise the profile of each school's athletic program; the content for each school includes the most up to date and accurate schedules for all sports at all levels. The reason it is so accurate and up to date is because the data is supplied by the Athletic Director on a daily basis. Plus, users can get driving directions, review pictures, and scores and plans are in the works for expanding these areas as well as adding videos, news stories, rankings, brackets, sports specific athletic and fitness training, information on post high school choices and more.

eTeamz.com is a company founded in San Diego, California, that has spread its activity throughout the country, with branches located in the states of New York, New Jersey, Massachusetts, Maine and Colorado, as well as abroad, with offices in Canada and Australia. Its business concept is to develop smart technology solutions and innovative marketing services with the purpose of providing the world's best technology applications and marketing access to the community services and active lifestyle marketplace. They work with local and national non-profit organizations (YMCA and YWCA across North America; fitness, wellness, sports and health facilities; campus recreation programs; reunion planning organizations; scouting councils), government (local municipalities; city and county administration departments), recreation parks, public schools and universities, various sports organizations (teams, leagues, tournaments). They specifically provide customized technology solutions that increase productivity for customers and deliver greater access to services for communities. Furthermore, they allow these organizations to promote and carry on a series of fundraising campaigns through the utilization of their web site and relative dynamic on-line tools.

Starting with HighSchoolSports.net, the web site is not particularly interesting, and this certainly effects the advertisements. First of all, it does not contain any national-level advertisements, which means that the populari-

ty of this site might be good but certainly not excellent. The ads displayed are not particularly dynamic nor attractive and their object is not always linked to the sports world: there are sporting footwear and apparel companies as well as Universities trying to reach High School kids, but the total number of advertisement, together with their position throughout the website, is not accurate. Pages tend to be too long and do not display one single advertisement; this only means waste of space and money. Furthermore, the variety of advertisement is not great, as only a very limited number of Companies have decided to place their ads on this web site. Despite the huge and powerful database, the site does not impress investors too much, even though its business concept has been around for a relevant period of time now. Google ads can also be found on the main page and in some of the principal theme pages, and the particularity is that they are able to track the visitor's nationality and display advertisement coherently to that.

Moving on to eTeamz.com the situation seems to change a little. First of all, you can clearly see on the main page that the Company is part of Active Network, a marketing Company that specializes on marketing online solutions, and partnered with ESPN.com²⁴, one of the most popular sports sites in the United States, which covers both professional and college sports. The site is a bit more active for what concerns advertising potential; there you can find some national Companies such as T-mobile, very popular among kids, or Shutterfly, that realizes gadgets with your personal pictures. Other minor advertisements appear on secondary pages. The advertisements displayed contain a medium level of dynamism, as they rotate regularly but with a weak strategic approach; in fact, despite being displayed at the top of the pages, one of the best positions for online ads, they are often slow and do not get uploaded quickly, so the visitor sometimes does not even see them, as the page has already been scrolled down. This aspect is to be a little more carefully considered by the IT office, as the system must be efficient in order to produce a consistent return on advertisements.

MaxPreps is a totally different Company, with a clear, strong and solid advertising strategy and capability. Thanks to the high level of attraction and dynamism of its web site, the many high-tech tools offered, the interaction possibilities, the number of visitors keeps on increasing, and this represents the best scenario for Corporations to base their investments on. MaxPreps reaches the top level in terms of online advertisement innovation (Loos, 2003) and is able to perfectly match colors, action and interaction. The advertisements it displays are worth millions of dollars: Nike and Adidas, the world's top footwear and sports apparel Companies, have chosen

²⁴ Even though ESPN.com is strongly competitive as web-based sports Company, it can not be considered a direct competitor for DigitalSports, as its coverage only involve professional and college sports.

this web site and massively invested in technology. Their ads are displayed on the Home page and main pages throughout the site and are impressive as per their action: they are not simply dynamic or active advertisements, they are video clips themselves, with sound effects and color action. They are either placed at the top of the page (header) or at the side (both in a small format and in the skyscraper format), they are able to move up and down, enlarge and minimize, without being caught by pop-up blockers. This types of ads (Briggs,2001) do not only perfectly match the level of dynamism and interaction the web site is based on, but seriously contribute to improve it, making it look like even more attractive and interesting. These kinds of investments bring about mutual benefits (Briggs, Eichman, 1999) for all Companies involved, and the return is highly positive for everyone.

Besides design, technology and advertising potential, all three competitors differ from XX on three basic points:

- None of them is based on a franchise model, which helps the diffusion of business ideas limiting the risk of independently run activities, as explained at first paragraph;
- None of them has developed a social model which goes beyond economic figures and aims at distributing and sharing revenue to the local communities;
- None of them covers such a broad pool of sports, encompassing both team and individual sports (Max Preps mainly covers basketball, the other two competitors mostly focus on teams)
- For these main reasons the Company could reasonably overcome its weaknesses and move up to the competition ladder, relying on its strengths and keeping on sustaining technology and innovation.

9. Final remarks: strength, weakness and opportunities of strategic formula

So far, the business model of this young and dynamic Small Company has shown positive sides but also a certain level of deficiencies. Since its creation, *the Company has lacked a clear and solid vision in terms of market targeting and competition*. The starting-up idea was gradually changed due to financial difficulties and the market has not reacted as expected. The targeting strategy was probably not completely ready at the launch of the Portal and the financial returns have only slowly come up. The intention to focus on High Schools solely, which matched perfectly with the social and structural characterization of the Company, was then forced to shift to other forms of sports Organizations (Youth and Adult Sports Clubs),

which appeared of course more profitable but not so coherent with the social model. Specifically, Adult Sports Organizations seemed to strongly contrast with the market position the Company had been slowly conquering, while Youth Sports Clubs needed a different Portal structure to be properly placed into the Company's offering pool. The final decision was to take in Youth Sports, thanks to a radical redefinition of the entire web site structure, but definitely pull out Adult Sports. The case suggests that in small firms *the strategy is often an emerging strategy, rather than a planned strategy and, above all, that for a Small Company the entrepreneur visioning and the trial and error process in order to define the right business strategic goals are crucial* (Pencarelli, 2006).

Like any other "starting-ups", finance is probably the biggest worry. At the start of operation, the CEO had defined a conservative business plan which optimistically relied on advertising sales and franchise fees; on the basis of it, the management had then planned to aggressively invest on R&D, training and many social projects, with high positive returns on revenue. Despite the forecast, only few franchise agreements have been signed the first year and the corporate sales campaign has only obtained a few medium-level advertisement placements. The new business model was not sufficiently (or maybe not correctly) divulged, investors seemed confused and uncomfortable with it, the legal frames of the contracts were too tight and suffocating for potential Franchisees. On the basis of these responses, the CEO decided to completely modify the strategy, making it look more accessible, inventing new forms of joint participation (assisted Franchise) and relying on training and social commitment. Together with the radical changes on the structure itself (new IT staff and new legal franchise formats), the situation has started changing. Many people have decided to invest with the Company (directly through a Franchise or indirectly through ads/capital shares).

Social projects have been the real key to success and the network is intensively participating and cooperating. Franchise fees have been adjusted and every franchised territory fairly evaluated; some national-level ads are now starting to be displayed in the Portal. In addition, the Company has decided to promote its image and brand on a franchise gateway on the Net, offering potential investors a clear and broad view of the business activity. Changes and projects occurred in the last two years have always been approved by the shareholders; the social model in particular has gained the attention and support since its first presentation, convincing everyone that positive returns were going to be generated thanks to its implementation. Furthermore, the CEO has also recently obtained a great reward to his commitment and enthusiasm with an amazing financing operation, carried out by both shareholders and partners (some foundations also sit at the stakeholders' table). The money collected will be used to further impro-

ve the Portal structure and activate some of the social projects which were initially left behind.

The success of the business model created by this small Company, the number of people involved, the level of enthusiasm and participation certainly offers a positive example for many other businesses, and not just to the ones operating in the web-based trade. Although the medium and long term effects of the model still need to be tested, especially on the financial side, with the management striving to collect money to be invested in advertisement, many elements and ideas could be carefully analyzed by other companies. Paying attention to what constitutes the basis of the entire model, it is important to notice that part of the activity can not be so easily transferred or applied to other businesses, as it wholly depends on the social network the Company embraces. With reference to the social environment, very few nations in the world possess a school system like the United States, in terms of managerial and structural organization; they can play a relevant part in the economic game as they have the tools and skills to partner with Companies. Moreover, the level of participation and enthusiasm surrounding the sports world and the Company's ability to positively exploit it, contributes to multiply the benefits of taking part in a network. Both elements (school system and social net) are specific for this kind of business, so they can be hardly replicated by others.

However, moving on to a more general level of consideration, there are many suggestions to learn from, which can be productive and stimulating to a vast series of business activities. First of all the case shows how it is possible to realize a rapid start up and growth strategy using the power of the Net, exploiting the Internet as a source and vehicle of information, as a pool of choices and possibilities, as a new media tool with infinite variants. The flexibility it can offer, the customizability it allows, the ridiculous cost or effort it requires, combined with the continuous innovation and the growing level of interest within the international panorama, all of this offers every Company the opportunity to improve their business, increase their revenue, seek new possibilities and modify their strategies. If you also consider the development and success of franchising as a business model itself (Cottone 2007) and combine the two elements, every small business can compete with the rest of the world, proving that size does not matter if you are able to exploit flexibility, customization, real time communication, interaction, dynamism and networking. On the contrary, this might be the real strength of every small business around the world that could knee down big corporations²⁵.

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²⁵ With reference to the Italian situation, and with attention to franchising, recent statistics (Il Sole 24 Ore, 2007) show that:

- Start-up cost is lower than € 50.000 in 60% of cases and higher than € 200.000 in 4% of cases;
- Franchise fee is required only by 58% of Franchisors, and in 62% of cases the fee is lower than € 10.000;
- 60% of Franchisors impose royalty fees; in 45% of cases it is represented by a fixed amount (around € 4.000 a year), in 55% of cases it is a fraction of the annual income (about 4%);
- The majority of Contracts usually last for 5 to 6 years; only 3% of them last longer than 10 years.

With such figures and with an economy striving for flexibility and networking, small businesses are actually the most important players who can benefit from it and prove once again that they constitute the fundamentals of every nation's economy.