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SMALL AND MEDIUM ENTERPRISE COMPETITIVENESS:
INTERNATIONALIZATION STRATEGY

h₃ Hamburger Gourmet

International Implementation plan to Paris

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Index

Executive Summary	3
Business Description.....	4
Vision and Mission	6
Strategic Objectives	7
Industry Mapping	7
Value Chain (<i>h₃</i> own restaurants).....	10
Competitive Advantages	11
Methodology and Purpose of the work	11
Fast Food in Portugal: <i>h₃</i> Positioning.....	12
<i>h₃</i> Porter's Five Forces	13
TOWS Analysis	15
Internationalization Strategy	18
Fast Food in France	18
Mode of Entry	21
Implementation	25
Contingency Plan	26
Recommendations and Conclusion	27
References.....	28

Executive Summary

h₃ Company is a Fast Casual Restaurant in the fast food market specialised in fresh, quality gourmet hamburgers, sold at competitive prices and served on plates with cutleries to its customers in a short period of time (30 sec. on average). With a vast number of restaurants already opened, mainly targeting shopping mall food courts, it is known as a domestically case of success, having grown revenues more than 6,352% between its founded year 2007 and 2010. *h₃* is joining forces to expand internationally mainly through a franchising or joint-ventures with local partners.

France, mostly Paris was one of *h₃* CEOs choices to internationalize. Such factors as: Being one of the wealthiest economy in Europe, its amount of population (62 Million), its huge number of tourists per year (78.9 Million visitors in 2009), its cuisine culture, trends and French consumer similarities with Portugal, its geographic centrality in Europe and closeness to Portugal makes this country a potential candidate to embrace *h₃* business model and turning it a case of success beyond national borders. When it comes to franchising, not only has France many experience years in this field offering its know-how and massive support towards foreign franchisors business models to enter in the French market but also provides many French Master Franchisors options. Although similarities between both countries seem a win-win situation, *h₃* should be willing to change and adapt to unexpected changes or trends of the French fast food market.

Since *h₃* has already a well defined establish Master Franchisor contract with *VIPS Group* in the Spanish market and due to the similarities between French and Spanish laws, *h₃* mode of entry in the French Market should be through a similar French Master Franchisor contract. This way, *h₃* will benefit from local expertise know-how in this market and low entry risks.

Business Description

h₃ Hamburger Gourmet was founded by three Portuguese partners and friends, (*Miguel van Uden* former real estate business person at *Cushman and Wakefield*, *António Cunha Araújo* former lawyer and *Albano Homem de Melo* former president of *Young and Rubicam* and Creative Director of *BBDO*) with the idea of taking gourmet food into the fast food market, investing in a differentiated and quality product at competitive prices and served to its clients in a short period of time. Bringing such fresh quality food products into the fast food market, reminiscing a home-made cooked meal, served in such quick period of time called rapidly everyone's attention. Being early movers in the national market, helped *h₃* to efficiently plan its corporate culture ahead, gathering the right know-how and expanded exponentially, giving no time to copiers steal *h₃* concept. This “*new hamburgology*” (*h₃* patent represented in the WIPO¹) has been growing sustainably and it is already recognised as a case of success.

The idea came up after opening in 2004 their first restaurant, *Café 3*. This restaurant targeted consumers who enjoy gourmet food and were willing to pay more to enjoy a quality service and meal. Despite their recognition, its major consumers were only business people who worked nearby. Not only their sales were way lower than their expectations but also their business didn't excel from its competitors. Nonetheless, they noticed their costumers would usually choose their restaurant due to their famous quality gourmet hamburgers, served with fresh *Thai rice* and *crispy fries*. Eventually, they saw an opportunity to develop a new business model and change for the best. Gathering their available unique resources, know-how, experience, knowledge and by doing a partnership with *Café 3* Chef to continue collaborating with them, they entered

¹ World Intellectual Property Organization (*h₃* trademark- “not so fast food”, “new hamburgology”)

the fast food market, which has been growing along the times and has been achieving remarkable volume sales around the world², with a different concept from the competition. This market attracted the young partners because not only could they be specialized in their famous quality hamburgers, in a market that was growing, but also they could increase their target (young-adult business people) focusing mainly in food court's shopping malls. In order to compete with other restaurants which sell to h_3 target, they had to work as an assembly line production in order to be time and cost effective. After one year of planning, h_3 introduced eight different 200 grams, 100% veal hamburger menus with their famous *Thai rice* and *crispy fries* served on a plate with cutleries, home-made drinks and beverages and delicious gourmet desserts.

In July 2007 the first h_3 was opened in Dolce Vita Monumental Shopping mall. Achieving 341 thousand € in sales in 2007, they end up gaining 22 Million € by the end of 2010 which represents a growth at a *Compound Annual Growth Rate (CAGR)* of 301 % during these years³. Since their first restaurant, h_3 has already opened 43 restaurants worldwide, 2 h_3 street restaurants and employs more than 700 people. In the beginning, h_3 only wanted to open its own restaurants to better control its products but as soon as they started to expand domestically, it was harder for them to monitor and control all processes. Eventually, a one-chance-opportunity came up and h_3 made a contract with a small former franchisee of *Vitamins & Companhia* from Oporto, allowing this franchisee to expand and grow along with h_3 , sharing its know-how and based on a reliance relationship in the long term. A formal contract delivers all h_3 restaurants in the North (above Coimbra) to the responsibility of the Oporto Franchisee, not allowing it to sub-franchise. Madeira and Azores are from the responsibility of a Master Franchisor.

² Exhibit 1- Global Fast Food Market chart

³ Exhibit 2- h_3 Business Volume (€) and h_3 restaurants opening

h₃ had already established itself in Poland (Warsaw) and Brazil (São Paulo) opened 1 and 2 restaurants respectively, both with a *joint-venture* with Portuguese partners. In Spain (Madrid), *h₃* made a formal contract⁴ with *VIPS Group* which is responsible for franchising 10 *h₃* restaurants until the end of 2012.

h₃ hired a Distributor that is its unique Distributor for all *h₃* products in Portugal and Spain. This *Centre of Distribution (CD)* is responsible for checking the quality in all processes, purchasing from *h₃* suppliers, storing and delivering to each *h₃* restaurants (franchisees and own stores) according to its orders. Even though, *h₃* has its Quality Management Department which is responsible for approving suppliers, production method and final product to guarantee a constant quality and hygiene of its products, *Controlvet Company* was needed, which audits quality procedures inside each *h₃* restaurant, distribution processes and transports, being responsible for reporting to *h₃* Quality Management Department.

Instead of investing in external Marketing, due to the huge *h₃* client's word-of-mouth, *h₃* prefers to invest in its products to guarantee a quality meal. They only do Internal Communication towards their employees, such as: providing efficient standardized procedures manuals, organizing fun motivational parties to embrace the feeling of integration inside the company and investing on restaurant's layout. Formation/training is taking rigorously into account, being from the responsibility of *h₃* Chef on the "*h₃* Grill School".

Vision and Mission

Vision- *h₃* main goal is to be the best hamburger chain restaurant in the world. They intend to be present within 5 years in every continent.

⁴ Exhibit 3- VIPS Contract

Mission- h_3 combines to its core business, a meal of excellence taste, at low cost and served in a short period of time.

Strategic Objectives

		Objectives
Domestically	Lisbon	Open 4 or 5 h_3 s
	Oporto	Open 4 or 5 h_3 s and 1 h_3 street store
Internationally	Madrid	Open 10 h_3 s
	Warsaw	Open 3 or 4 h_3 s
	São Paulo	Open 2 to 4 h_3 s
Globally		Increase h_3 sales volume from 22 Million € (2010) up to 40 Million € (2011/2012)
		Lowering h_3 operation losses up to 10; 15 % (More efficient)
		More international brand recognition (word-of-mouth, opinion makers, h_3 invitations to first time client)

Industry Mapping⁵

Center of Distribution (CD): h_3 CD it is considered h_3 unique direct supplier and is always in contact with all h_3 restaurants. If an h_3 restaurant needs certain product or equipment, it has to report by email not only to the CD but also to h_3 headquarters. It is responsible for purchasing to h_3 indirect suppliers, storing and delivering the products or equipment required, having always quality and hygiene procedures and standards in all processes required by h_3 Department of Quality Management. h_3 has various indirect suppliers from the responsibility of the CD that are categorized by: **Exclusive**, **Important** and **Undifferentiated**. h_3 headquarters is in charge to choose which **Exclusive** suppliers (meat) they want its CD to buy from. Concerning **Important** suppliers (potatoes, rice), h_3 headquarters just informs the CD which type of product it should buy, being the CD responsible for choosing the supplier according the standards

⁵ Exhibit 4- Industry Mapping Figure

required by h_3 headquarters. Concerning **Undifferentiated** suppliers (salt, pepper, sugar, etc) the *CD* has total freedom to choose from whom they will buy.

Competitors⁶: There are 2 types of competitors: **Direct** and **Indirect** ones. The **Direct** ones respect to restaurants that serve in a short period of time, selling at similar prices as h_3 and are establish where h_3 restaurants are (food courts). h_3 main competitors are *McDonalds*, targeting not only h_3 target but mainly people under 22 years old, *Vitaminas & Company*, *Noori Sushi*, *Go Natural*, *Pans & Company* and *Joshua's sharma*. Concerning **Indirect** ones, these make reference to all restaurants operating outside shopping mall's food court with similar prices and quick time service as h_3 .

Substitutes⁷: Due to economic crisis, the tendency to save money is more present than ever. People can find other ways to eat instead of going to a restaurant, such as "eating at home" or "bringing their own meal from home".

Clients: h_3 has two different approaches towards its clients. On one hand, a **B2B** approach relationship between h_3 headquarters and its Master Franchisors or Franchisees. On the other hand, a **B2C** approach relationship between h_3 headquarters and h_3 own restaurants, where h_3 has direct contact with its final consumers⁸.

Shopping Center: To operate in shopping malls food court, h_3 needs to obey the requirements establish by the shopping center and pay a rent. In Portugal, investments in shopping malls it is estimated to increase meaning new locations to fast food companies can be establish (Uría Menéndez Proença de Carvalho, 2010).

Market Regulators: *Autoridade de Segurança Alimentar e Económica (ASAE)* regulates, controls and inspects the quality standards in the Portuguese market. h_3 needs to have all quality and hygienic requirements and certifications settle by *ASAE*.

⁶ Exhibit 5- h_3 Survey-Competitors

⁷Exhibit 6- h_3 Survey -Substitutes

⁸ Exhibit 7- h_3 Survey-Final Consumer

Municipal Councils are responsible for issuing licences to companies who wants to open a restaurant.

External Auditors: h_3 hired *Controlvet Group* which is responsible for providing its quality and hygienic control services in h_3 restaurants, distribution processes and transports and warn h_3 headquarters. Also, *Controlvet* sub-contracts a company that controls plagues. Another company was hired to predict clients satisfaction, having a program called “*Mystery client*” in which an undercover quality agent, who passes by a regular client, evaluates h_3 services and checks if the products meet the standard quality requirements.

Partners: h_3 three CEOs have decided to bring along into the new business its *Café 3 Chef*. After giving him a percentage of the firm and made him h_3 head Chef, his main role is to provide formation/training to new domestically and international h_3 grill employees, teaching how to grill a hamburger on the “*h3 Grill School*” program. He is also important to the business, transforming family recipes into industrial amounts. Exclusive supplier (meat) is also an important partner since not only provides h_3 business key product but also it has been growing with h_3 along the times, enhancing a reliable relationship between them. Thus, not only is the *CD* an important partner allowing h_3 to work as an assembly line, controlling better its products and becoming more standardized, but also all h_3 Franchisees and Master Franchisors (Oporto, Madeira, Azores, *VIPS*) which allows h_3 to expand quicker and gain rapidly brand recognition, having fewer risks and more control over the brand. Having Oporto Franchisee growing with h_3 and now *VIPS* partnership, permitted h_3 to get the know-how and experience needed. They have based their relationship in an informal and reliable way, where communication flows easily.

Value Chain (h_3 own restaurants)⁹

This Value Chain refers only to costs of h_3 office and the costs and revenues concerning h_3 own restaurants, not having into account the revenues related to h_3 franchisees due to the lack of information provided by h_3 headquarters.

h_3 Primary activities, **Inbound Logistics, Operations and Outbound Logistics** are all link to each other and are represented as **Assembling Line** which refers to all costs concerning the production of the final meal, having 31% of total costs, mainly due to the salaries of h_3 restaurant employees.

Marketing Sales/ Services have 5 % of h_3 total costs due to the lack of publicity invested.

Concerning h_3 Secondary activities, **Firm Infrastructure** concerns 25% of total costs, including management costs, consultancy, auditing, quality, legal and financial issues. Since h_3 office has fix costs and h_3 own restaurants supports h_3 office costs, in the long term, as time goes by and more h_3 restaurants are being open, the costs of the Management Services per restaurant tend to diminish.

Human Resources Management and Technology Development refers to 3 % of total costs. These two activities are linked since h_3 doesn't have a specific specialized department of R&D. One of the CEOs is in charge of the R&D (e.g: Albano Homem de Melo is the one who prepares and cooks different types of sauces to be made to mass production by h_3 Chef). Here are also included h_3 office employee's wages.

34 % of the total costs refer to **Procurement** which concerns to *CD* costs, h_3 own restaurants rents, h_3 office floor rent and equipment rent.

Therefore, h_3 own restaurants **Margin** is 4%, which can be underestimated.

⁹ Exhibit 9-Value Chain Figure

Competitive Advantages

In order to continue its successful path, h_3 should take into consideration some factors that are essential to its sustainability. The standardized design of operations allows h_3 not only to be time but cost efficient, reacting quickly to demand requests that goes from the *CD* to the employee's formation manual. Due to h_3 strong brand recognition and sales credibility it has the advantage of having easier access to suitable Partners, Distribution Channels and better position locations at shopping malls food courts where there is a higher concentration of people in that zone. h_3 menu is appealing because it's according to Portuguese eating habits. If h_3 continues to outperform in these factors, it should focus essentially in its competitive advantages which are: h_3 allows its clients to **create their own dish**, that goes from the type of sauce to various side dishes or from choosing either a rare, medium or even a well-done hamburger and the impression that h_3 is selling a **home-made cooked meal** to its clients that are not used to this type of meal in the fast food market served in such a short period of time (30 sec. on average).

Methodology and Purpose of the work

In order to conduct the analysis (focus only on shopping mall food courts), a questionnaire about the company was written to be delivered on the first interview with h_3 CEOs. Three more interviews were done, two with the "Country Manager" responsible for the Spanish Market and another with a Financial Associate to gather all relevant needed information. An online survey and another done on food court locations were also made to 368 h_3 costumers in order to find h_3 competitors, substitutes and target. Some limitations should be taken into account: The answers in food courts can be influenced by the surrounding environment and the eventual interviewer's pressure, while the survey online, only done to acquaintances, are not influenced or pressured to

answer in a limited time. Also, the survey was only done in Lisbon. Additionally, a considerable amount of time was spent on web research.

According to h_3 CEOs, France was one of the potential countries to expand in order to increase h_3 sales and create international brand recognition. To gather data from the French fast food market, I searched in Nova's online library and social-economic papers, I exchanged several e-mails with *Christophe Angleys*, Sales & Int'l Development Director of *Reed Exhibition* (world's leading event's organizer) and lawyer Gérard Picovschi to know the costs and the best way possible of entry mode. Although I will study the country as a whole, my focus will be in Paris, since Paris was ranked first in Europe in welcoming international business and support franchising, it is one of the wealthiest and more populated capitals in Europe and it is considered the most visited city in the world¹⁰. Despite the availability of shopping malls in Paris receiving between 3 Million to 44 Million people per year, which is the main core location for h_3 when entering in a new country, h_3 should not put aside adapting to different locations since eating in main streets or main squares is still a valuable traditional option for French consumers (International Franchise Association).

Fast Food in Portugal: h_3 Positioning

"The fast food market is defined as the sale of food and drinks for immediate consumption either on the premises or in designated eating areas shared with other foodservice operators, or for consumption elsewhere" (Datamonitor, 2010b).

Fast Food Market value makes reference to the food and drink spent by foodservices operators with the intend to supply, while market volume corresponds to the number of visits, per client to foodservice locations where food and drinks are sold.

¹⁰ Source: <http://en.wikipedia.org/wiki/Paris>

Fast food market is reaching a good performance, with current market value sales of 3%, rising to 715 Million € during 2010. In the same year fast food outlets increased to 2,805 outlets. This was mainly due to consumer's price sensitivity increase because of economic downturn, preferring those foodservices which offered a best value for money, obligating foodservices to react and offer discount actions.

Burger Category continues to be the most well performing one, reaching to 337 Million €. 100% home delivery/take-away had been an increasing optional way of eating regarding eating out, since people have busier life-styles, prefer to spend their free time at home and have the tendency to save more money. High levels of obesity in Portugal¹¹ induce Portuguese consumers to be more conscious about if what they eat it's healthy. In 2010, the major Fast Food Restaurants concept brands represented in this market were *McDonalds Corporation* (53.1 % market share) and *Burger King Inc* (5 %). *h₃* is already the 5th company with higher market share (4.9 %) since it was opened (2007). It is inserted in the *Quick Service Restaurant* segment (*QSR*)¹² as a Fast Casual Restaurants concept ("specializes in particular types of food like organic meals, natural meals, soups, pasta or traditional dishes, offering quick service at affordable prices in a more relaxing environment which are more lean to medium-high income and adult workers in their lunch break"). The leader in this concept is *Star food S.A* (6.9 %).

Fast Food is estimated to grow by 2% at a CAGR in constant value, expecting to reach 792 Million € in 2015 (Euromonitor International, 2011).

***h₃* Porter's Five Forces**

Threats of new entry: Concerning shopping mall's food court, the capital required to open a new restaurant isn't necessarily high (e.g. 220 thousand € per *h₃* on average) for

¹¹ Source: http://www.nationmaster.com/graph/hea_obe-health-obesity

¹² Exhibit 11- Global Fast Food Market- Market Segmentation

a new business in a market that is increasing but since we are living economic crisis times, this can be significantly high for new entries, due to the fact that interest rates are increasing and Banks are more rigid to lend credit. Hence, new entries have to have a strong credibility showing which advantages will they offer to shopping centers. Despite this, if they enter in the food court without any brand recognition it will be very hard to choose a favorable location. Being the fast food market in a mature stage offering a wide range of products, it becomes more difficult to create a unique, differentiate concept. Usually, players in this market compete in terms of price which means that new entrants have to be cost effective. Although costumers usually are loyalty to big brands, they have almost inexistence switching costs, changing easily to other brands if needed. Conclusion: **Medium/Low Risk**

Threats of Substitutions: Although h_3 substitutes, mainly “ready meals”¹³ and “food ingredients to cook home” tendency is increasing (Tormo, 2011) due to recession times, people that usually ate in fancy premium restaurants are choosing low cost restaurants in order to save. Conclusion: **Medium risk**

Buyers Bargaining Power: h_3 consumers are low price sensitive because h_3 brought a concept to the fast food market where its target is willing to pay more to enjoy a quality meal. Since each buyer usually orders a meal, which means buyer’s volume is low, a single buyer decisions to change will not jeopardize h_3 business. Although h_3 clients switching costs are very low, for some consumers changing from h_3 to *McDonalds* or *Pizza Hut* for instance can be out of the question in terms of food quality, increasing h_3 consumers dependency. Also, due to our survey we had concluded that the presence of substitutes is medium risk. Conclusion: **Low Power**

¹³ Ready meals- meal bought already cooked, usually not frozen, where the costumer just have to heat it before eating it.

Suppliers bargaining Power: h_3 is fully dependent and considers its unique supplier its CD, which is responsible for choosing h_3 Important and Undifferentiated suppliers, storing all h_3 products and delivering to each h_3 restaurants. Concerning the Exclusive supplier, when h_3 started to expand, its meat supplier made a substantial infrastructure investment just to keep up with h_3 orders, in order to continue its partnership. Despite this, if something between its major meat supplier goes wrong, h_3 revealed that they had an alternative supplier in a couple of days. Conclusion: **Medium/High Power**

Competitive Rivalry: h_3 competitors have strong brand recognition in the fast food market, selling to a very low switching cost customer, boosting competition in shopping malls food court, mainly due to the increase of demand for fast food market. In financial crisis, demand for low price meals increases, helping the fast food market to increase, relieving the competition between fast food restaurants. Thus, globalization is mixing up fast food concepts into the same market, which gives more optional choices to a low switching cost consumer. Conclusion: **Medium/High risk**

TOWS Analysis

h_3 has shown a perfect example of a company that, besides the financial crisis which we live in, have been having a remarkable and sustainable growth by sticking to its values, mission and strategic objectives. After done a SWOT¹⁴ analysis, I concluded a set of recommendations to increase h_3 competitive advantages and minimise its market risks.

Strategies using Strengths to maximize Opportunities

Working as an assembly line where every process is standardised, allows the settling of an efficient and clear contract, through a format franchising model.

¹⁴ Exhibit 8- SWOT Analysis

Providing fresh and quality ingredients gives the feeling of actually deliver healthy food, allowing h_3 to follow the increase demand for this new tendency (Fronterra, 2011).

Due to h_3 strong brand recognition in Portugal, it is easier to be present in more shopping mall Operators since they can attract people to shopping malls were they are located, increasing the access to Distribution Channels in times where investment in shopping malls it is estimated to increase.

The tendency for eating fast food market has been growing more and more along the time, and is expected to reach \$239.7 billion in 2014 globally (Datamonitor, 2010b). A well structure assembly line and a well define formation/training program, allows h_3 to expand by being time and cost effective.

h_3 should grab tight its relationship with its key partners, since the fast food market is increasing.

Recession times influence people to buy quality products for minimum prices. h_3 delivers a good price/quality relationship which has been more and more requested (Fronterra, 2011). Although h_3 should continue like this, it should be aware if they set the price under competitive prices, the feeling of quality and premium food will vanish.

Being its hamburgers linked to a gourmet meal, generally, people associated this type of food to healthy food, which has been a concern these days, obligating many countries to fight against this “obesity” tendency (BBC News, 2008) by requesting more healthy menus. h_3 may profit from this, reminding always that its patent is represented in the *WIPO* as a trade mark of “*not so fast food*” and a new way of eating hamburgers as “*new hamburgology*”.

Being already in the upper scale in the learning curve, it is easier to expand through a format franchising model.

Strategies using Strengths to minimize Threats

h_3 standardized processes enable it to be time and cost efficient allowing competing with major competitors in the market.

Being h_3 a standardized chain, it could give a service possibility to the client of take-away, since this tendency is increasing.

h_3 should have always in concern what its brand represents and find ways to promote its brand constantly because h_3 major competitors have already a well known brand recognition in the domestic and international market.

Strategies that take advantages of Opportunities to minimize Weaknesses

Although Shopping malls environment may not the best place to appreciate a meal, h_3 benefits from various reasons: from the concentration of people in only one place, the option to be near other restaurants/stores specialized in a certain product (e.g. coffee) and take advantage of shopping mall cleaning service. Therefore, h_3 should continue to invest in the shopping malls food court since it is estimated that this industry will increase allowing h_3 to expand its sales and its market share.

Franchising Model can be a good way to define formally the strategies and tactics of h_3 since the three CEO's base their relationship and decision making in an informal way.

Strategies that minimize Weaknesses to avoid Threats

In case a major plague, such as *cow-disease*, selling a mono-product can be a threat to the company. Therefore, h_3 should start thinking in new options to add to its menu, like, *Soya* or *Vegetarian* hamburgers.

h_3 Market Research is still poor and should be developed to grab future opportunities or avoid future threats that may arise, such as: the increasing of shopping malls, fast food consumption, trends toward selecting healthier food, the change from premium

restaurants to low cost ones, take-away food trend, competition tactics and strategies, VAT increase or the trend to eat home due to economic crisis.

Internationalization Strategy

Fast Food in France¹⁵

Market Analysis

France is the 2nd European Country with higher fast food market share representing 18.8% of all Europe. Despite the deceleration of the French fast food market due to difficult economic times and the mature stage of the market, during 2005-2009, it had total revenues sales of \$6.4 billion, respecting to a CAGR of 4.4% mainly due to the expansion and good performance of major chains in this market, such as *McDonald's*, *Autogrill S.p.a*, *Quick Restaurants* and *Yum!Brands Inc*. During the same period, fast food consumption volumes increased to a CAGR of 1.7% reaching in 2009 to 777.2 Million transactions. It is expected to rise to 879.4 Million transactions at a CAGR of 2.5% between 2009 and 2014. During this period the market is expected to grow at a CAGR of 4.5% reaching to \$8 billion in market value by the end of 2014. The fast food segment with the best performance was the *QSR* representing 68.3% of market value with total revenues of \$4.4 billion in 2009, while leisure locations (including Shopping Centers) represent 13.2% of the fast food market.(Datamonitor, 2010a).

Competitive Landscape

French fast food market dictates what is happening in the world, having a competitive landscape similar to the Global Overview¹⁶. Fast food operators (independent or chained) are characterized as competitors in this market, consumers as key buyers and food ingredient and workforce providers as suppliers (Datamonitor, 2010a)

¹⁵ Exhibit 10- France overview

¹⁶ Exhibit 11- Global Fast Food Market

Buyers Bargaining Power: Due to recession times, competitors must have competitive pricing strategies such as discount offerings or combination meals, in order to grab a more price sensitivity buyer, increasing buyer power overall. French demand has very low switching cost and it is highly sensitive to price changes, since fast food is not essential in their day's life, increasing buyer's power. Furthermore, due to high volume transactions, losing one customer to other segment does not jeopardize the business, lowering buyer's power. French busier life-styles, leads consumers to have less time to spend on their lunch break, being more dependent on chains that offers a quicker and more affordable meals. Large investments done by some competitors in brand recognition increase buyer's loyalty, reaching to a stage where it is more important where you eat than actually the food itself, lowering buyer's power. Therefore, Buyers Bargaining Power is known to be **moderated** (Datamonitor, 2010a).

Suppliers Bargaining Power: In order to fast food competitors keep the food costs down , it is important to have a reliable food supplier which supplies quality food in high volume business at low margin. Despite the high number of foodservices available in many food segments, the competition between suppliers is high with over 913 suppliers (the food world, 2011) and 6,500 distributors (Gira Foodservice,) in the French market, in a way moderating suppliers power. This market is labor intensive market, where salaries concerns a major operation cost (25% to 30%). France legislation towards salaries is fiercely, giving power to workers suppliers. By that, Suppliers Bargaining Power is known to be **moderated** (Datamonitor, 2010a).

Threats of new entries: Entering in the French market does not require a large capital because opening a single, independent fast food restaurant is within the means of many individuals in France. The huge support on the Franchise Model in France gives the

chance for entry companies to expand quickly with low entry costs giving the possibility to gain rapid brand recognition if the product meets customer's needs. Healthier trends are emerging and buyers are more price sensitivity, lowering loyalty to those companies that don't adapt their menu according customer needs, giving them the freedom to change from one player to a new entry one that fulfill their needs. High barriers in such a concentrated market are also present, like price wars done by major players. Strong brand awareness of major players can reduce buyer's low switching costs, giving them a feeling that there are losing something when choosing other competitor. Despite revenues growth rates are still growing respectably but at a slower pace due to the high concentration of the market, making this market less attractive, the fast food market is expected to grow over the coming years. Therefore, probability of new entries is **high** (Datamonitor, 2010a).

Threat of Substitutes: The main substitutes in this market are "ready meals" or "buying ingredients in food retail to cook home". Customers have the freedom to choose which are the most valuable products for them in a so diversified market were convenience and availability are the key drivers. Being fast food usually perceived as unhealthy food, substitute's products can also offer convenience, healthier options and value for the consumers but not always means that substitutes are available. While consumers more concerned about the calorie content are leaner to buy ingredients to cook home, there are some switching costs, such as the time spent on the kitchen. Therefore, Substitutes availability represents a **moderate** threat (Datamonitor, 2010a).

Competitive Rivalry: In a diversified market as fast food, rivalry tends to be fiercely. Although chained restaurants may benefit from low existing costs and the easiness to expand quickly mainly through franchising, independent chains may have the advantage

of having more staff or extended opening hours. Recession times and the change of customer trends¹⁷ to busier lifestyles and demand for affordable, quicker and healthier meals increases the competition between competitors offering competitive prices and healthier adaptation menus. Fast food VAT of only 7% (observatoire de la franchise, 2011) respecting fast food eateries (fast food chains) versus 19.6% concerning “gastronomic” restaurant (brasseries, bistros and cafés) helped the fast food price to decrease and demand to increase. Major Players in the *QSR* segment are *McDonalds*, *Quick Restaurants*, *Holder’s Group Paul*, *Yum! Brands*, *Le Duff Restauration* and *Agapes Restauration*. Therefore, Rivalry is known to be **strong** (Datamonitor, 2010a).

Mode of Entry

According to h_3 CEOs, h_3 wants to find a local partner with enough know-how and experience in the French fast food market that can represent h_3 brand as a Master Franchisor, just like h_3 did in Spain with *VIPS Group*. Therefore, I will focus my mode of entry analysis in *VIPS* Master Franchisor contract which is present in the Exhibit 3 of the appendix, since France and Spanish laws regulating franchising are very similar to each other (European Franchise Federation, 2010).

France is a leading player when it comes to franchising. It all started in 1930 gathering along the years the right know-how and experience in this field. France is considered the largest franchising market in Europe with total sales of 48 Billion €, more than 1470 franchisors settle and 58 Thousand franchisees in 2010 (Fédération Française de la Franchise, 2011). Despite being a maturity and highly competitive market, it’s also a very flexible and supportive market to national and international concepts which fits in

¹⁷ Exhibit 10- France overview (French trends)

market needs and conditions, giving them the chance to quickly expand due to the inexistence of government agencies regulating the selling and buying of franchises.

French Franchising Legal Framework

Despite the inexistence legal framework specialized in franchising in France, the general contractual franchise agreements aspects are governed by the Civil Law, Commercial Code and several rules are released by French courts based on European Law and Competitive Law. It should include the rights and obligations of the partners, types of service and products delivered, method of transition of know-how, payment terms, contract period, scope of exclusivity rights, financial and renewal conditions and termination and jurisdiction clause (APCE, 2011). Due to the lack of regulation, the *France Franchise Federation (FFF)* issued a code of ethics (*Le Code de déontologie européen*) that has been substituted by the one put out by the *European Franchise Federation*. This code is intended as a code of fair practice and goodwill of the users of the franchising in Europe. *FFF* members must comply with this code, but since membership is not mandatory in order to franchise in France, this code may not be applicable. Meanwhile, there is one important aspect that h_3 should be aware before handling the final franchise contract: the *Doubin law* concerns to the law regulating Disclosure of anyone who provides to another person a corporate name, trademark or signs to other person's business. The Disclosure Document known as *Document d'Informations Précontractuelles (DIP)*¹⁸ obligates the franchisor to provide a range of information, written in French, which it has to be delivered to the franchisee at least 20 days before signing the contract. Although this is not required between a Franchisor and

¹⁸ Exhibit 12-DIP contract information respecting the franchisor

Master Franchisor, it should be provided to the Master Franchisor, so it can provide to its sub-franchisees (Andrew P. Loewinger and Michael K. Lindsey Editors, 2006) .

Franchise Contract

Through the contract (based on *VIPS* contract), h_3 delivers to the Master franchisor the right to explore h_3 brand into the French market for 20 years, expecting that the Master Franchisor will open a specific number of h_3 restaurants settle by h_3 CEOs in a certain period of time. The Master Franchisor is allowed to have at least 60% of its own restaurants and 40% sub-franchisees. An up-front fee and monthly royalties (5% to 10%) should be pay to h_3 by the Master Franchisor. Concerning Price Position, the Master Franchisor should suggest which prices to put on h_3 menu, being h_3 headquarters responsible for approving those prices. The Products menu should be the same as it is in Portugal and if menu adaptations to the market are required the French Master Franchisor should always have the acceptance of h_3 headquarters. Concerning Placement, investments on shopping malls food court as also street stores should be made. Thus, a “ h_3 Country Manager”, fluent at French, will be responsible for the relationship between h_3 headquarters and the French Master Franchisor, being always in contact and often going to h_3 restaurants in Paris. The first two restaurants layout, space and brand image are from the responsibility of h_3 headquarters, being the next ones open from the responsibility of the Master Franchisor. The same applies for the training, which it's provided by h_3 Chef in Portugal for the first two restaurants, giving the responsibility to the Master Franchisor for the next ones open. Finally, h_3 marketing campaigns are from the responsibility of h_3 for the first two restaurants open. After that, h_3 is responsible for approving the Master Franchisor marketing Campaign suggestion.

It has at least to do two marketing campaigns per year. The Master Franchisor is in charge of paying all contract costs.

Expansion of *h3* to the Parisian Market

Franchise Expo Paris is an international franchise show belonging to the *FFF* and organized by *Reed Exhibitions* (world's leading event organizer) during 4 days in every March in Paris. *Franchise Expo Paris* has been since 1981 the world's leading and most diversified exhibition, gathering nationally and internationally, 450 franchisors and more than 32,000 investors in 2010. It invites local entrepreneurs, franchise consultants, local lawyers, franchise experts and investors to change know-how in many planned events and workshops such as *The Master Franchising School* held in English, where expertise answer questions about franchising and Master Franchising relationships in the French Market and *Master Franchising Dates* program where franchisors exhibiting their brands can have a face-to-face meeting with Master Franchisors, enforcing the creation of a successful partnership (Franchise Paris, 2011).

After changing several e-mails¹⁹ with *Christophe Angleys*, Sales & Int'l Development Director of *Reed Exhibition*, he advised *h3* to exhibit in the *Franchise Expo Paris*, as the best way to find an ideal partner in the Parisian Market. The conditions to enter in this show are: For those without any franchise in France yet, should sign an agreement document²⁰ mentioning that they are aware of the legal aspects of franchising in France and the company's commitment to the *Doubin law* and an application form with all the company information required, exhibitor type and way of payment, both provided by the *Franchise Expo Paris* committee. According to *Christophe Angleys*, the costs of an exhibitor/stand goes from 5,868 € to 7,893€. It is recommended also that after finding

¹⁹ Exhibit 13- *Christophe Angleys*, Sales & Int'l Development Director of *Reed Exhibition e-mails*

²⁰ Exhibit 11- Franchise Expo Paris Agreement

the right partner, h_3 contracts a French local lawyer to review if the *DIP* and franchise contract are according to the French law. Plenty contacts of local lawyers are in the *Franchise Expo Paris* and the *FFF* website, where h_3 can meet them. Hence, *Christophe Angleys* recommended *Jean-Baptiste Gouache (Gouache Avocats)*. To know this costs, I talked with *G rard Picovschi*, CEO of *Picovschi company lawyers* that said that to review the whole *DIP* and franchise contract and adapt it to the French Laws requirements takes an average of 10 hours for a total of 400   per hour until the contract could be delivered.

Implementation

Afterwards selecting the mode of entry, the implementation plan should concern a maximum of 2 years, starting in September 2012. I will use the 4 M's (Men, Money, Minute and Memo) which are a set of initiatives with associated timelines to monitor the company's performance.

Men- Since we are dealing with a Master Franchisor contract, the potential Master Franchisor will cover all the costs concerned the recruitment of h_3 employees to the French market. h_3 company is only responsible for promoting an h_3 headquarter employee to be the French " h_3 Country Manager".

Money: Concerning the French " h_3 Country Manager", it will involve a raise of a former h_3 headquarter employee who speaks fluently French. Also h_3 will have to pay travel and hotel costs for him to go to Paris when needed. Furthermore, h_3 will have to pay the exhibitor/stand costs (5,868   to 7,893 ) to enter in the *Franchise Expo Paris*. After finding the right partner, a local lawyer specialized in franchising will be recommended to review the franchise contract. The costs are 400   per hour, so, since it takes on average 10 hours to review the *DIP* and contract it will be 4,000   (400 *10h).

Minute: Time line and Dependency of each activity:

	Activity	Duration	Dependency
1	Contract the country manager	2 month	-
2	Translate all manuals	2 month	-
3	Acknowledge on French Legislation	2 months	Act. 1
4	Register in the Franchise Expo Paris	2-3 months	Act. 1, 3
5	Exhibiting in Franchise Expo Paris	4 days	Act. 4
6	Find ideal partner and negotiate franchise agreement	4-6 months	Act. 5
7	Contract Franchise French lawyer	1-2 month	Act. 6
8	Restaurant design and construction	4-5 months	Act. 7
9	Employees training	1-2 months	Act. 2, 7

Memo:

Strategic Theme	Objectives	Measurement	Target	Initiative
Financial	-Increase sales revenue and nr. of restaurants	-Sales Revenue -Sales Volume -royalties (%)	- Cover costs in the 1 st year -Grow 50 % in revenues in the end of the 2 nd year	-Partnership with French Master Franchisor
Customer	-Increase international brand recognition	-Nr of orders per month -customer satisfaction	-Brand awareness	-Marketing campaigns -Questioner to potential costumers
Internal	-Train French employees -Translate training manual and web site to French	-Nr of orders per hour -nr of web site visits	-Train all employees in 1-2 months	-Translate manuals before training -Train before restaurant is constructed - Translate website before restaurants opening
Learning	- Adapt to the French Market - Predict Demand needs	-Customer satisfaction	-Increase nr. of orders per day	-Adaptation to h_3 menu -Market Research

Contingency Plan

If h_3 doesn't find the ideal partner in the Franchise Expo Paris, my advice is that h_3 contracts a consulting company specialized in franchising. The *FFF* website provides many contacts where h_3 , even not being a member, can easily obtain. Other alternative can be that the French " h_3 Country Manager" stays in Paris for 6 months researching

potential partners in the French market (I had already referred some candidates) where information is easily accessed.

Recommendations and Conclusion

The partners that, in my opinion, best fits h_3 requirements are *Agapes Restauration* that is specialized in the Fast Casual Restaurants and Fast Food Restaurants and due to their joint-venture with *Quick Restaurants SA* specialized in hamburgers having 17.2% market share in 2010 and *Le Duff Restauration* due to its 3.9% market share and specialized in the Fast Casual Restaurant too. Other relevant players are *Groupe FLO* and *Groupe Bertrand* which also specialized in the Fast Food Restaurant and Fast Casual Restaurant. Other important issues h_3 should be aware is the adaptation if necessary of h_3 menu²¹, making reference to its “*h₃ French*” with foie gras, “*h₃ Cheese*” with cheese offering beer and wine combine in its menu. These products are very appreciated and typical in the French cuisine²². Also h_3 should make reference to “*h₃ tuga*” since in Paris there are over 1 Million Portuguese immigrants²³ that know what “Tuga” means for. “*h₃ Super Bread*” can be a good menu to make reference, since eating while on-the-go and take-away segment are increasing²⁴. Thus, h_3 should translate h_3 web site and training manuals to French. Finally, h_3 shouldn't invest only in shopping malls food court, but also in street restaurants.

Being h_3 a concept that is trendy and is according to Parisians consumers needs, I conclude h_3 should enter in the Parisian market due to its culture and trends similarity to Portugal and its strong support toward foreign franchising and availability of well known Master Franchisors in the fast food market.

²¹ Exhibit 15- h_3 Menu

²² Exhibit 10- French Overview-French consumer and anti-American food culture

²³ Exhibit10- France Overview- Economy, Demography and Country Infrastructure

²⁴ Exhibit 10-France Overview- French Trends

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