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Report

SMALL AND MEDIUM ENTERPRISE COMPETITIVENESS:
INTERNATIONALIZATION STRATEGY

Internationalization Process of *h3* to the UK market

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Executive Summary

Casual Fast Food is a concept within the fast food market in which consumers, who eat on the run, demand for healthier options and superior outlets' environment. Usually, customers order at the counter, the ingredients are fresh, and the meals are served in real plates (Franchise Help. 2011). *h3* has successfully positioned in this segment benefiting from the growth Casual Fast Food has been experiencing in Portugal.

In 2011 the company began to internationalize firstly to Poland, then Spain and finally Brazil. *h3* asked us the analysis of countries with high expenditure of fast food per capita such as: US, UK, Germany, France and Brazil. Those countries are potential markets to

enter and/or expand in the future.

Throughout my work project I developed an internationalization plan of *h3* into the UK market. By internationalizing through a franchising model, *h3* not only is able to enter in different markets at the same time, experiencing a fast expansion and increasing its brand recognition, but also it reduces the risk of failure in competitive markets.

Key words: *h3*, UK, fast food, franchising.

Business Description

Three friends, Miguel van Uden (worked in real estate sector), António Cunha Araújo (has a degree in Law) and Albano Homem de Melo (graduated in Law and worked for *Young and Rubicam*), (Exhibit 1) looked at the restaurant industry and acknowledged that there was a market gap; if people wanted to eat with quality, fast and cheap they would be provided a lower range of choice. *h3–Hamburger Gourmet* appeared in July 2007 to fill this market gap with its first restaurant in the *Dolce Vita Monumental* shopping mall. *h3* is a mono-product restaurant that combines the best of the fast food industry; the speed, with high quality and fresh ingredients at a fairly low price.

Before *h3*, the three partners had a previous experience in this field, which was crucial to understand the market dynamics and acquire know-how. In May 2004, they launched a restaurant, *Café3*, located in the heart of Lisbon, *Av. da Liberdade*. The *Café3* concept was designed to serve gourmet food betting in excellent ingredients, in exchange of a higher price paid by its clients. They thought that by targeting a medium/ high income people that usually worked nearby, they would achieve their revenues aspirations. However, that was not the case; although being profitable, they realized they were not fulfilling their revenue expectations. As a result, in 2007 the partners decided to launch a new concept of a fast

food restaurant that serves the menu that was chosen the most in *Café3*: menu *Hambúrguer gourmet*, accompanied with *Thai* rice and potatoes crisps. The freshness of the products, such as: the sauces that cannot be found in other old-fashion fast food chains, the 100% Portuguese calves burger, the fries and *foie gras*, induce customers to position *h3* as fresh and healthy. They had to adapt *Café3* to a new business model; “fast food restaurant assembly line”, mainly located in shopping malls without table service. To become time efficient, they created manuals to employees that standardized and systematized all the procedures in the production chain, which allowed an easier monitoring. Additionally, as said before, they decided to serve a mono-product, hamburger, and higher variety of menus at affordable prices when comparing to *Café3*, so that they could be cost efficient and highly specialized. Finally, it was created *Escola de grelha*, a training program for the employees who are in charge of grilling the hamburgers. The *Café3*'s chef, Vitor Lourenço, who is now a minority shareholder of *h3*, coordinates it.

Concerning the *h3* target, it began to be focused on business young people who appreciate high quality meals in a short period of time. Now they realize that their target is broader than that. There are regions in Portugal that the consumer-type are families.

Regarding the restaurant name, they decided to name it *h3-Hambúrguer Gourmet*. The 3 is the number of founders in both businesses (Exhibit 2). The slogan *Not so fast Food* pretends to convey the idea that although *h3* serves the dishes in a short period of time, the customer is supposed to take his time to taste and savor the meal properly because the main objective of *h3* is to serve a pleasant meal to each client. Last year, the trademarks *Not so fast Food* and *New Hamburgology* were registered in the *WIPO* (*World Intellectual Property Organization*). *New Hamburgology* was registered instead of *Hambúrguer*

Gourmet because the trio reckoned the gourmet concept is being excessively used in the food industry. This demonstrates that innovation, creativity, and seeking constantly for ways of differentiation are important factors in the *h3* culture.

Throughout the last five years the group has experienced a sustainable and fast expansion not only in the domestic, but also in foreign markets. In Portugal, because *h3* experienced a fast growth, the group was not being able to take advantage of all the market opportunities. Therefore they franchised it to people they fully trusted and who are considered key partners. João Ventura is responsible for the expansion of *h3* in the North region of Portugal (above Coimbra), and there is another franchisee who is responsible for the Madeira e Azores expansion. The rest of the outlets are fully owned by the group. Besides that, *h3* internationalized to Madrid, where *Grupo VIPS*¹ has the exclusivity to use the *h3* brand in Spain and Andorra; to Warsaw and São Paulo, where they created joint ventures established with Portuguese entrepreneurs, since the brand is not recognized overseas, yet. Meanwhile, the partners decided to outsource part of the production process: purchase, storage and distribution of the raw materials. It was hired an external and independent firm, the Distribution Centre, so that *h3* could become more efficient and concentrate on its core business: production and standardization of procedures. Doing so, *h3* would no longer need to deal with several suppliers, but only with one. Also, by outsourcing the storing function, the firm was able to reduce costs (Exhibit 3).

In five years *h3* went from two stores in the centre of Lisbon to 43 stores (39 stores in Portugal: 37 in shopping malls and two high street outlets²; one in Madrid, two in São

¹ Major franchisor group representing 17 different brands in the Spanish restaurant industry (Grupo VIPS).

² The owned stores and street restaurants are used as testing sites for new ideas and products.

Paulo and one in Warsaw). The revenues have been experiencing a tremendous growth; from 0.341 million in 2007 to 22 million euros in 2010 (Exhibit 5).

Vision and Mission

The *h3* vision is to be the best hamburger chain in the world. Therefore, the firm is planning to be present in all continents within five years. And its mission is to serve a meal of excellent taste at a low cost in a short period of time.

Table I - Strategic objectives for 2012

Domestic Market	Foreign Market	Globally
<ul style="list-style-type: none"> • To opening 4 to 5 stores in the area of Lisbon. • To opening 4 to 5 stores in the area of Oporto. • To opening a street store in Oporto. 	<ul style="list-style-type: none"> • To opening 10 stores in Spain. • To opening 3 to 4 stores in Poland. • To opening 2 to 4 stores in São Paulo. 	<ul style="list-style-type: none"> • Achieve a global sales volume of 40 million euros. • Decrease operational losses by 10% to 15%. • Increase the brand awareness mainly in foreign markets.

Source: *h3*, 2011

Methodology

To approach the Work Project of my master program I attended workshops offered by the Internationalization Work Project field lab in which were presented useful frameworks.

The internal analysis of *h3* in Portugal was mainly based on interviews made to *h3* partners; Miguel van Uden and Albano Homem de Melo; the Spain country-manager, Nuno van Uden and to Sofia Ribeiro Telles, who works in the financial department. Furthermore, the access to market researches from *Euromonitor International* provided us an overview of the Portuguese fast food market. Still, the market positioning and segmentation of *h3* was not clear, we decided to do a survey to the *h3* consumers so that we could understand who were the *h3*'s main rivals and substitutes.

Once the internal scanning was understood, the external analysis was developed based on

web research. The UK market research was important to comprehend the UK industry structure, the demand trends and the importance of the different players in the market. The books provided by our advisors and web papers were useful to determine the best strategies *h3* can pursue when entering in foreign countries.

Industry Mapping (Exhibit 6)

Supplier/Distribution Centre - Nowadays, *h3* has one single supplier, the Distribution Centre. According to the contract the latter is responsible to purchase all the raw materials, check and manage the quality of the products and its respective suppliers, store them and manage the stock and finally distribute them to the stores (Exhibit 3).

Competitors - *h3* faces two types of competition; direct rivals, which are all the restaurants that have the same location (food courts), similar price and service as *h3*; and indirect rivals, which are all the other outlets that are inserted in the restaurant industry.

Substitutes - The financial crisis is the main factor that has been driving consumers to change their consumption habits. People are opting for homemade and ready-to-eat meals.

Shopping malls - Because the majority of *h3* stores are located in shopping malls they have to obey to its rules, such as, schedules and cleaning services that are pre-defined and payment of a rent.

Market regulators - In order to open a store, *h3* had to ask a license to the local Council where the new *h3* restaurant is being launched. However, the entity that oversees if everything is according to the law is *Autoridade de Segurança Alimentar e Económica (ASAE)*, who also imposes and supervises standards of quality and hygiene.

External Auditors - *h3* is constantly concerned with keeping standards of hygiene and quality of the ingredients high and according to the European Union laws. Whenever *h3*

introduces a new product or the Distribution Centre has a new supplier, the *h3* quality management team has to approve the factory working conditions, all the activities in the production process and the final product. From then on, the firm outsources the auditing of quality and hygiene to external and independent groups (Exhibit 4).

Partners - The Chef has a key role in the business, not only he is responsible to adapt traditional family recipes into mass production meals, but also, he is the headman of the *Escola de Grelha*.

Customers (franchisee, own stores) and final customer - *h3* faced an extremely fast expansion and it was not able to take advantage of all the market opportunities. Consequently, the owners decided to franchise the stores to people that nowadays are considered key partners; the Oporto franchisee, João Ventura, who has experience in the restaurant industry because it was one of *Vitaminas & Companhia's*³ franchisee; the Madeira and Azores Franchisee and *Grupo VIPS*. These are business-to-business situations (B2B). The partners fully own all the other outlets in Portugal. The relationship between the owned stores and the final consumer is a business to consumer (B2C).

Value Chain⁴ (Exhibit 7)

We did not have access to information about the franchised stores, consequently, the revenues are the only own stores' revenues, which support the own outlets' costs and the administration offices' costs. The margin of 4% is subestimated when comparing to *h3's* growth. It is important to highlight that this margin does not take into account the royalties the franchisees have to pay to *h3* brand.

³ A chained fast food provider that serves mainly salads and is one of *h3's* competitors.

⁴ Data provided from the annual report of 2010.

Concerning the primary activities, assembly line is referent to the cost of the meal production in the outlets; it includes the outlets employees' wages, stores' utilities, goods' waste, repair and maintenance of the equipment. This block represents 31% of the total revenues' cost and it is a core competence of this business. However, *h3* is making efforts to reduce this percentage, mainly by decreasing the waste of goods and employees' wages by decreasing the number of employees per store and allocating some of the hired workers into new outlets, in order to avoid firing employees. The Marketing and Sales and Service department is in charge not only of the *h3* publicity, but also of the royalties' payment due to the use of the *h3* brand. Despite there are no significant investments in advertising and as in Portugal, *h3* relays mainly on word of mouth, this activity accounts for 5%.

Regarding secondary activities, the Firm Infrastructure, which weights 25%, takes into account the management costs, consulting and auditing, legal affairs and quality management. The Procurement activity represents 34% of the total cost and is not only executed by the Distribution Centre, but it also refers to the stores and administration offices rental and rental of office equipment. It concerns the purchase of all the raw materials, the quality management of the products and its respective suppliers, the goods' storage and the stocks' management, and finally the distribution of the products to the stores. As *h3* grows it is able to negotiate better prices with the Distribution Centre and get quantity discounts, consequently reducing this cost. Due to the fact that the administration offices are paid with the stores revenues, *h3* benefits from economies of scale. This is, the more stores *h3* opens, the lower the cost percentage is, once the administration costs are mainly fixed costs. Finally, both the Human Resources Management and Technology Development costs, which are related with the office employees' wages and compensation,

and the development of new products, respectively, are combined together once there is not a specific department in *h3* for Technology Development, accounting for 3%.

Competitive Advantages

Prior to analyse the Competitive Advantages it is important to refer four aspects that are indispensable for the sustainability and survivor of a fast food chain in the market. Those conditions have to be taken into account when expanding to foreign markets, which are: (1) in a sector in which firms compete on low prices and serving fast meals is mandatory, the chains have to be cost and time efficient. To do that, it is required the standardization all the procedures and processes of the production chain, by creating manuals to employees that specify what they have to do in every situation; (2) the chains have to build brand recognition, which will ease the access to distribution channels and will allow better partnerships; (3) the chain has to be located in strategic places where there is a high affluence of potential costumers; (4) the chain's menus have to take into account the food trends and costumes of the population where the restaurant is inserted.

h3 has developed attributes that give the firm an edge over its competitors and an ability to generate greater value for its consumers⁵. *h3* offers customized meals once its customers are able to create their own dish (An hamburger medium or well-done with rice or potatoes crisps or both). However, what truly distinguishes *h3* from its competitors is the fact that it offers homemade meals that are not supposed to belong the mass-market or even to be served in a short period of time.

Fast Food Market Definition

The fast food market includes all the food and beverages that are sold and purchased for

⁵ http://www.investopedia.com/terms/c/competitive_advantage.asp#ixzz1bAPLV800 (Accessed 29, November)

immediate consumption. The industry's restaurants have very carefully designed menus with a focus on being able to cook the food quickly and easily (Exhibit 8). There are mainly four categories within the fast food market; Quick Service Restaurants (QSRs), Takeaways, Mobile and Street Vendors and Leisure Locations (Exhibit 9). *h3* is inserted in the QSR segment, which are outlets that serve full meals, but they do not offer table service, where consumers aim fast and balanced price-quality meals (Datamonitor, 2010a). The majority of shopping malls provide visitors a common space known as a food court. A food court provides mall's visitors with an array of eateries, which operate side-by-side to each other, with a centralized communal dining area to accommodate customers. The food court is very competitive, however, each individual outlet benefit from a type of synergy, as customers of one outlet seek outside dishes, desserts or beverages from another. Furthermore, because of the numerous food stores placed in the food court, there is a high affluence of potential consumers, which, once again, benefit all sellers. Although many shopping malls have full-service restaurants elsewhere, table service is not offered by the outlets located in a food court. Besides that, a group of people can have meal together even if each one choses a different restaurant (Wise Geek. 2011).

Fast Food in Portugal

Market Analysis

The depressed economy and the high unemployment rate deteriorate consumer confidence and turned buyers more price sensitivity. As a result, Portuguese consumers not only reduced the frequency of eating out, but also downgraded from expensive food outlet brands to cheaper ones. The amendments on consumer behavior forced food operators to introduce price discounts and promotions and to offer tailored products so that clients, who

now actively seek for value for money and quality, could be satisfied. Although this strategy is meant to induce customer traffic into the outlets, it provoked a decline in terms of sales per outlet and spending per transaction⁶. Moreover, to overcome the sales decline, chains have been relying strongly on franchising, which enables them to maintain a fast development and to adapt to new consumer demand without having to pursue on a high investment. The gloomy economy has greater impact on independent operators than in chained outlets, which reflects the importance of economies of scale and the power of recognized brands (Euromonitor International. 2011a). In fact, in 2010, in Portugal, the value sales of fast food grew by 3%, mainly motivated by the opening of new outlets, whereas the number of independent outlets declined and the value of its sales was reduced. In 2010, independent operators owned 69% of all outlets, however, it only represents 38% of the fast food market share. Whereas, chained operators, with 31% of total fast food outlets, controlled 62% of overall value sales. Moreover, the Fast Casual Dining segment has been experiencing a good receptivity, value's sales have increased 3%, partly because of their casual atmosphere, modern *décor*, affordable prices and healthy food offerings. Finally, for the period ranging from 2010 to 2015, value sales of the fast food market are predicted to growth by a CAGR of 2%⁷ (Euromonitor International. 2011j).

Competitive Assessment

Barriers to entry - In the fast food market a new entrant will face some difficulties, but it will not be deterred, when competing against the incumbent firms. First, due to the mature stage of the industry, which is characterized by incorporating several firms with different

⁶ TelePizza implemented an advertising campaign focused on discounting, "Buy two get one free pizza".

⁷ In times of uncertainty, people tend to rely on brands they already know. (Euromonitor International. 2011a)

sizes (fragmented market), and by providing different products (product differentiation). Second, food players have been mainly competing on price. Third, firms make efforts to create brand awareness and increase switching costs to reduce competition, once buyers are not usually loyal. Furthermore, the fact of a brand being recognized in the market facilitates its access to the distribution channels. Inside shopping malls, firms without brand recognition are located in the most “hidden areas” of the food court. Additionally, a new concept of hamburger is unlikely to be let in, in the food court, because clients already have enough choice within this type of menus. Likewise, as *h3* gained reputation among the food operators it became easier to enter in shopping malls. The barriers to entry are generally medium, however, it is important to bear in mind that due to the financial situation of Portugal the interest rates of a loan are high and bank are hampering the access to capital, (the average cost per store is around 200 thousand euros). Thereby, the barriers to entrance could be high to entrepreneurs that do not have the capital required.

Threats of substitution - A substitute product is a product from another industry that offers similar benefits to the consumer.⁸ Thereby, substitutes are all the means people dispose to have a meal without taking a product from the restaurant industry. As a result, having a homemade or a ready-to-eat meal, that people can eat where they wish to, are considered substitutes of *h3*. (Exhibit 11 Question 4) Once, the financial crisis has been increasingly affecting the Portuguese consumers’ purchasing power (Jornal de Notícia. 2009), the threats of substitution are considered medium.

Buyers bargaining power - Even though buyers are provided a vast range of choices

⁸ <http://www.wicifo.com/Wiki/Default.aspx?Page=Threat%20of%20Substitutes%20%20one%20of%20Porters%20Five%20Forces&NS=&AspxAutoDetectCookieSupport=1> (Accessed November 29, 2011)

when they intend to have a meal in a shopping mall and there are no switching costs, each one does not influence significantly each restaurant individually. This is justified because there are lots of buyers and each one purchase a low volume each time, a single meal. Furthermore, *h3* is inserted in a segment of the fast food, Casual Fast Food, in which buyers are lower price sensitive when compared to other fast food segments, although all the fast food buyers are considered price sensitive. This segment is characterized by a good price/quality trade-off. To sum up, the buyers bargaining power is low.

Supplier bargaining power - *h3* is highly dependent on the Distribution Centre once it is responsible to supply all the products of all *h3* stores. If the Distributor Centre fails, all the stores will be affected. Thus, the supplier has a high bargaining power (Exhibit 10).

Competitive rivalry - Although *h3* is inserted in the restaurant industry, not all the restaurants are considered direct rivals. The firms that compete directly with *h3* are those that have the same location (food courts), similar price and service. The indirect competition corresponds to all the other restaurants in the industry. Taking this into account, on one hand, the fast food industry is growing and the products offered in the market are differentiated, that could be translated into a lower internal rivalry. However, buyers do not face switching costs and *h3* compete against wide range of competitors that are well expanded and have been building a strong reputation near potential clients. As a result, the competitive rivalry is high. Examples of direct competitors are: *Vitaminas & Companhia* and *Noori Sushi*. However, the main competitor, according to all age groups of the inquiry made to *h3* clients, is *McDonald's* (Exhibit 11 Question 5).

***h3* in Portugal**

h3 has been increasing its value share in Portugal as a result of the opening of new outlets.

In 2010, *h3* had a 3% value share ranking seventh, which means it made into the top ten consumer foodservice players. Within hamburger segment, *h3* ranked fourth with a value share of 7%. The word of mouth surrounding this new concept has been attracting new consumers, which was key to the acceptance of *h3*. Besides, the chain has been respecting Portuguese habits, such as; burgers are served on plates rather than in buns; and it belongs to the Casual Fast Food category, which has been growing importance (Exhibit 20) (Euromonitor International. 2011b).

TOWS (Exhibit 12)

Strategies that use Strengths to maximize Opportunities

h3 offers a good price/quality relationship, which is exactly what people are looking for in this economical crisis, once Portuguese are shifting to cheaper restaurants⁹.

By selecting fresh and excellent ingredients, *h3* is able to keep up with the society trends towards healthy food (Negócios e Franchising. 2009). Moreover, people perceive the trademark, *New Hamburgology* and *Not so Fast Food*, as a concept of healthy hamburgers, which is beneficial to *h3* because it follows the market tendencies. The fact that *h3* has been able to build a strong and reputable brand makes it easier to enter in new shopping malls.

The fast food market is characterized by serving meals in a short period of time. The employees' training program allows *h3* to be more time efficient following the tendency of fast food consumption growth (Tormo. 2011).

Strategies that use Strengths to minimize Threats

⁹ <http://www.infofranchising.pt/noticias/mostrar/confian-assa-dos-consumidores-afectada-pela-recess-albo> (Accessed November 2, 2011)

Once *h3* offers a mono-product it benefits from the fact that the process standardization is eased. Doing so, the firm becomes more cost and time efficient, which is essential in this competitive sector. Furthermore, *h3* could add a takeaway service¹⁰, a trend that has been growing, without harming its efficiency levels. In this industry *h3* competes against reputable and well-expanded firms. Thus, *h3* has to keep building a strong brand.

Strategies that minimize Weaknesses by taking advantage of Opportunities

In general, the food courts do not have an inviting and pleasant environment. However, not only the firm benefits from a high affluence of clients, but it also can reduce costs (the rental space is cheaper than buying it). As the number of shopping malls in Portugal is expected to increase in the following years (AICEP. 2010), *h3* should keep betting in this type of location in order not to lose market share. Market research is a useful tool to help the firm to acknowledge the markets opportunities and position itself accordingly.

The corporate team members are really close to each other and sometimes do not formalize and define tactics and strategies. However, by applying business to a franchising model, in which it is required a detailed business plan, the firm could overcome this potential risk.

Strategies that minimize Weaknesses to avoid Threats

As *h3* provides a mono-product, the firm is more exposed to an epidemic risk, such as, mad cow diseases. As a result, *h3* could offer, for instance, tofu or soya or tuna or even vegetable hamburgers. However, this menu change can confuse the perception of the *h3* concept and be harmful. As a result, *h3* should do market research, which would provide knowledge of the market trends and shifts in the clients' consumption so that the firm could be able to adapt its strategies in order to avoid threats.

¹⁰ <http://www.igd.com/index.asp?id=1&fid=2&sid=2&cid=630> (Accessed October 15, 2011)

***h3* in Portugal Summary**

After the analysis of *h3* in Portugal, it is possible to conclude, as stated above, that the business is highly standardized, a requirement to apply the franchise model. Expansion through franchising is an adequate strategy, since all outlets should be clones of each other, the quality and practices monitoring is eased. Thus, *h3* is prepared to internationalize.

Fast Food in the United Kingdom

Market Analysis

Until 2007, the United Kingdom (UK) fast food market was a plateau, afterwards, it experienced a slow annualized growth rates. As said in the Fast Food Market Definition, this tendency is expected to continue over the next years.

The UK fast food industry grew at a CAGR of 4.3% for the period covering 2005-2009, representing total revenue of \$7.8 billion in 2009. The CAGR of the market consumption volumes increased 1.2% achieving a total of 2.7 billion transactions. Forecasts for the end of 2014 denote market's volume to increase to 2.9 billion transactions, which represents a CAGR of 1% for the period from 2009 to 2014. The QSRs stands out from the other segments because it was the market's most lucrative in 2009, with 71.5% of the market's overall value. The market's performance is predicted to suffer a small slowdown, with a CAGR of 4% for the five-year period, 2009-2014, which is expected to lead the market to a value of \$9.5 billion by the end of 2014 (Datamonitor. 2010b).

Regarding location, literature reveals that whenever a new fast food outlet intends to enter in the market, it takes into account three factors; (1) the larger the population in an area, the more likely a chain wants to be placed there; (2) companies tend to open outlets in neighboring areas where its outlets already had a strong and positive impact, which

indicates the presence of economies of scale and the effect of local experience and knowledge; (3) locating near main competitors seems to be of overriding importance in order to watch and learn from its rivals (Food Navigator. 2004).

Demand Trends

Over the years, consumers' trend toward selecting food has been changing. Gradually, buyers have become more demanding and expect more quality and enhanced experiences. The growth of internet access has enabled consumers to compare prices, restaurants and read reviews; which turned consumers more informed and more critical about their food experience and more conscious about what they eat. To overcome the fact that consumers have more power, food operators must put the consumers at the heart of their business plan and become consumer-centric. Increasingly, people select fresher and perishable food. Eating healthy is now an established trend not only at home, but also when eating out. Given that, food providers have to increase the provision of nutritional information available. However, consumers are not willing to compromise on taste in order to eat healthy. Thus, new products will succeed if exceeding consumers' taste expectations.

On one hand, the economy recession has turned consumers more price sensitive and attached to promotions and discounts. On the other hand, despite the financial crisis, there is a long-term trend towards more responsible consumerism. This is, buyers put pressure on food providers to use environmentally friendly store design and more recyclable material and reduce product packaging whenever possible. On top of that, consumers want to be aware of the food origin and if the operators' purchasing process was according to ethical standards. Once consumers wish authentic experiences, fresh and better lasting food, provenance and locally sourced food is an important factor that has to be communicated.

Finally, consumers' lack of time leads to an increase demand for grab and go food. Consequently, food outlets must provide convenient food, in convenient locations with convenient packaging (Allegra Strategies. 2009). Another alternative for chains to attract crowds, mainly during dining time, is through home delivery service, which seems to be a trend that is catching on. UK operators are investing and using technology to facilitate customers' takeaway orders online (Euromonitor International. 2011c).

Competitive Assessment

Unlike one could think, the fast food market is not recession resistant, thereby its players have to find strategies to overcome the downturn periods in order to boost growth such as offering cheaper products to stimulate consumers to eat out.

The lower purchasing power of UK's consumers due to the financial crisis has strengthened **buyers' power**. In other words, fast food chains pursue with competitive pricing strategies because they do not want to loose their clients, who become more price sensitive¹¹ and usually do not choose the same fast food chain everyday once consumers do not face switching costs. Furthermore, because fast food is not a commodity (in a strictly sense), there is a relatively high price elasticity of demand. And as clients are busier than ever and have lower incomes to spend, quick food adds more value than other simple source of food. Finally, to turn customers more loyal, chains have been investing in brand awareness. A single client has a small impact on an outlet due to the low volume purchased, a single meal. As a result, the buyer bargaining power is medium.

Once food is the main input in this market, it is crucial to establish upstream networks, which will allow chains to buy large volumes of quality goods and keeping food costs low.

¹¹ For example, players have started offering discounts and combos to raise revenue.

In the UK, the **supplier** market is quite concentrate having Brakes and 3663 (Exhibit 17) as the main suppliers/distributors. The suppliers' power is strengthened because fast food firms are not their only clients but they may also have customers in other segments of the food industry. The supplier power is assessed to be moderate/high.

Despite, the inexistence of switching costs, which allows customers to change their usual restaurant to a new one and the fact that, in the UK, the capital outlay required to enter in the market is within the means of many individuals, **market entrants** face several other barriers. If a new chain enters into a more concentrated segment, incumbent firms may retaliate by launching a price war. However, brand recognition plays an important role on clients' decision making. This is, brand is the main source of driving clients to become loyal and mitigate the low switching costs. There is a strong likelihood of new entrants.

The economic malaise has been driving customers towards **substitute products**, such as purchasing ready-to-eat meals or preparing homemade meals. Substitute goods have to be convenient and available and offer price/quality trade-off on a scale that matches the fast food industry. Overall, substitutes present a moderate threat.

The fast food market is fragmented and **highly competitive** due to the fact that, as stated above, customers do not face switching cost and, consequently, can switch from one player to another quite regularly. Because of the small amount of initial capital, the low exit barriers and fixed costs, chains do not need to achieve a certain scale in order to be profitable, which increases the likelihood of new entrants. Thus, chains compete via food quality, price war, which has become predominant as a result of a fragile economic environment. The franchise model is a popular strategy in which firms expand capacity and raise brand awareness. Overall, the rivalry is strong (Exhibit13) (Datamonitor. 2010b).

Mode of entry

Fast food chains have been increasing their market participation and corporate image and reducing the cost of expansion into new markets by running their stores as franchises. Thus, *h3* should enter in the UK market through a franchising model¹²(Exhibit 14). However, I would advise *h3* to consider the possibility to look at Regional Franchise Master partners rather than one for the whole country, as it will take longer to find such a candidate. Unless they are absolutely the right people then there is a risk in committing the whole of the UK to them only later to find that they have not the ability to properly develop it. As far as I am concerned, *h3* has two ways to find the UK Master Franchisor: (1) once it is not easy to find the suitable partner, *h3* should contact *Franchise Development Services Ltd (FDS)*¹³, a consulting firm specialized in franchising. *FDS* can provide a comprehensive range of services and help *h3* in every aspect of the franchising as well as finding a Master Franchisor for the UK market through a credible database (Exhibit 15). However, the majority of the partners suggested by *FDS* may not have market experience. (2) Another way is researching business groups involved in the food industry. I found three relevant restaurant companies: *Mitchells & Butler*, *Clapham House Group* and *Whitbread* (Exhibit 16), all of them have varied portfolios and experience in UK food franchising. Those groups were selected among several others because, in case of a partnership, they somehow might provide benefits to *h3*. In other words, by joining one of them, *h3* could benefit from their established supply chains, their networks of suppliers, scope, scale economies and knowledge about the industry. Nonetheless, it is possible that these groups

¹² Pret a Manger has steadily been growing through an own stores plan. Subway's franchise model has enabled it to grow faster than Pret a Manger and increase its market plan. (Euromonitor International. 2011d)

¹³ <http://www.fdsfranchise.com/>

are not interested in adding *h3* to their portfolio.

Since *h3* does not have brand awareness in the UK, the Master Franchisor might have to be a Portuguese entrepreneur. Thus, I researched renowned foodservice suppliers/distributors: *3663* and *Brakes*; and an accredited meat supplier: *ABP UK*¹⁴ (Exhibit 17).

Regarding the location of the stores, *h3* should enter firstly in London and then spread throughout the South of England, where population has higher incomes and the Casual Fast Food is more popular among consumers (Euromonitor International. 2009). Specifically in London, *h3* could benefit from being located near business centres as City and Canary Wharf where there is a high affluence of people during the week at lunch time, following the expansion strategy it was set in Lisbon. In those regions the majority of the food operators have street restaurants with small eating areas, selling mainly takeaway meals. These streets work similarly to food courts. The expansion of *h3* within a certain region should be locating new stores in neighboring areas from older ones, which is beneficial in terms of economies of scale (Food Navigator. 2004).

According to the analysis of the UK market, I reckon it is essential for the *h3* stores to provide a takeaway service and home delivery once these trends are catching on. As other fast food chains in the UK, *h3* could partnership with Apple and launch an iPhone app which enables clients to look for *h3* outlets, browse menus and order online.

Once *h3* prepares fresh food every day at the end of each day it could donate all the food leftovers to charities. Besides, *h3* could implement a Social Responsibility plan, for instance, use environmentally friendly and recyclable packaging and reduce waste

¹⁴ The websites for 3663, Brakes and ABP UK, respectively www.3663.co.uk/, www.brake.co.uk/ and www.aibp.ie.

whenever possible, which will help the firm to improve its brand image in the community. Due to the fact that consumers are increasingly concerned about what they eat, *h3* could display calorific value information of their products and the origin of the raw materials. Concerning the menus, *h3* does not need to do major adaptations, once it suits the eating habits of Londoners and English people. However, the chain could add a spicy sauce since hot food is common in their daily diet, furthermore, London has a big Indian community¹⁵. Finally, the firm should up-date the website according to the amendments mentioned above. Information about the story and history of the company will give the brand a strong sense of authenticity that is an important selling point among global consumers.

Franchising Contract

To celebrate the contract between *h3* and the UK Master franchisor, *h3* should take into account the experience it gained when entered in the Spanish market (Exhibit 18). Likewise in other European countries, in the UK before establishing a detailed franchise agreement, the parties must sign a code of ethics. It is from both players major interest to impose clauses to preserve and protect information and systems related to the franchise operation and establish a non-competitive conduct in which vital information is exchanged between them (British Franchise Association. 2011).

Implementation Plan

In the following pages, I will offer a plan aiming to help *h3* to prioritize tasks and define objectives and timelines. The plan will last around two years starting in January of 2013. To do that I am going to use the 4 M's approach (Men, Money, Minute and Memo).

Men - *h3* has to promote a country manager who will be in charge of the negotiation of the

¹⁵ http://news.bbc.co.uk/2/shared/spl/hi/uk/05/born_abroad/countries/html/overview.stm (Accessed October 12, 2011)

h3 internationalization into the UK market and to recruit the Master franchisor partner.

Money - Firstly, *h3* should pay a wage to the newest country manager according to the challenge he is asked to. The country manager will have to travel to the UK in order to get to know the market, the travel costs will be around 150£ to 500£. The accommodation and living expenses will fluctuate according to the number of days and the hotels chosen.

To find the UK Master franchisor, *h3* should contact a franchising consulting firm, FDS, who has a considerable database of potential franchise. Once *h3* is advertising using those media then FDS will offer email blast campaigns to that database for a simple low cost set up fee of £125 per database and then £25 per enquiry generated. To enter in that database the costs are in Exhibit 19, and depend on the type and duration of the advertise. FDS is well connected and is able to recommend lawyers, which will cost around £500. Celebrating and managing a good contract is vital to take advantage to all the opportunities and defining the strategy of the business.

It is important to highlight that *h3* does not have to incur in training costs, which are paid by the Master Franchisor. Besides that, the firm will receive royalties, entry fees and a payment from brand usage.

Minute - In order to *h3* to pursue an effective strategy while entering in the UK market, it is important to know when the activities should be executed.

Table II - Minute

	Activity	Duration	Dependency
1	Promote the Country Manager	1 month	-
2	Contact the <i>FDS</i> .	1 – 2 months	Act. 1
3	Select the UK Master franchisor	2 – 6 months	Act. 1, 2
4	Contract a specialized lawyer in Franchising	2 – 3 months	Act. 3
5	Celebration of the contract	1 – 2 months	Act. 3, 4
6	Outlets' construction	4 – 6 months	Act. 5

7	Employees' training program	2 months	Act. 5
8	Marketing plan	2 months	Act. 5

Source: Primary data

Memo

Table III - Memo

	Objectives	Measurement	Target	Initiative
Financial	<ul style="list-style-type: none"> • Increase the number of outlets • Increase revenues 	<ul style="list-style-type: none"> • Sales' revenues • Sales' volume • Royalties • Fees per open store 	<ol style="list-style-type: none"> 1. Achieve positive results in the 1st year. 2. 50% revenues growth in the end of the 2nd year. 	<ul style="list-style-type: none"> • Partnership with a Master Franchisor. • FDS recruitment service.
Customer	<ul style="list-style-type: none"> • Being recognized in the UK by its quality and innovation. 	<ul style="list-style-type: none"> • Market research. • Number of annual visitors 	<ol style="list-style-type: none"> 1. 50% awareness of the final customer in the 1st year. 	<ul style="list-style-type: none"> • Marketing strategy. • Up-dated website with information for the customer.
Internal	<ul style="list-style-type: none"> • Recruit workers • Extend partnerships • Up-date the website • Time effectiveness 	<ul style="list-style-type: none"> • Performance evaluation according to <i>h3</i>' objectives. • Number of meals served per hour 	<ol style="list-style-type: none"> 1. Train the store's employees within 2 months. 	<ul style="list-style-type: none"> • Training and Recruiting programs • Translate Manuals • Application for the Ipod and Ipad • Takeaway and home delivery
Learning	<ul style="list-style-type: none"> • Anticipate the clients' needs and habits and adapt the menus accordingly. 	<ul style="list-style-type: none"> • Customer Satisfaction 	<ol style="list-style-type: none"> 1. Increase customer loyalty and satisfaction. 	<ul style="list-style-type: none"> • Possible menu adaptation (e.g. spicy sauce) • Market Research

Source: Primary data

After two years of experience, *h3* has to evaluate its business and, if necessary, do some amendments to the original plan in order to turn its strategy more effective.

Conclusions and Recommendations

Even though the UK market is expected to face a small growth in the following years, it is saturated, diversified and expensive, as far as I am concerned, *h3* should enter in the UK fast food market. It is important to take into account that what will benefit *h3* the most is

the cultural diversity of UK. In a society in which people are not attached to a specific type of cuisine, but instead, people are used to try new and different combinations of ingredients every once in a while, the *h3* concept and its business model have a great probability of acceptance and success. Furthermore, London is a city with plenty of tourists and business people that are coming and going, which might be a stepping stone to expand to other countries, to be renowned elsewhere and to increase brand recognition. By living one month in London I had the opportunity to acknowledge that although London is a city with plenty of fast food offer, I did not see a concept similar to what *h3* offers, which supports my opinion that there is room for the firm.

Regarding the expansion programs, the partnerships must be settled carefully by choosing a suitable person/group once each regional Master Franchisor is essential in determining the feasibility of the implementation plan and the entry strategies (location, menu adaptation, takeaway and home delivery service, social responsibility plan, calorific disclosure, web-page up-date).

It is crucial to bear in mind that, over the years healthy food choices and environmentally friendly practices have become important drivers to influence clients' choice over a particular brand and help to retain loyal customers and also that lifestyles have become increasingly busy. These new trends, in the context of economic downturn, lead consumers to choose value for money and convenient food options. Consequently, *h3* should keep acting according to these new trends.

Finally, in order to adjust its strategies effectively, to continue to be able to take advantage of the market opportunities, to avoid market threats, and to acknowledge the market trends and the consumption shifts, *h3* should bet in market research.

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A Work Project, presented as part of the requirements for the Award of a Masters Degree
in Management from the NOVA – School of Business and Economics.

Appendix

SMALL AND MEDIUM ENTERPRISE COMPETITIVENESS:

INTERNATIONALIZATION STRATEGY

Internationalization Process of *h3* to the UK market

Maria Ana Ferrão de Castelo Branco Lima

Number 605

A Project carried out on the Management course, under the supervision of:

Professors Sónia Dahab and Filipe Castro Soeiro

6th January 2012

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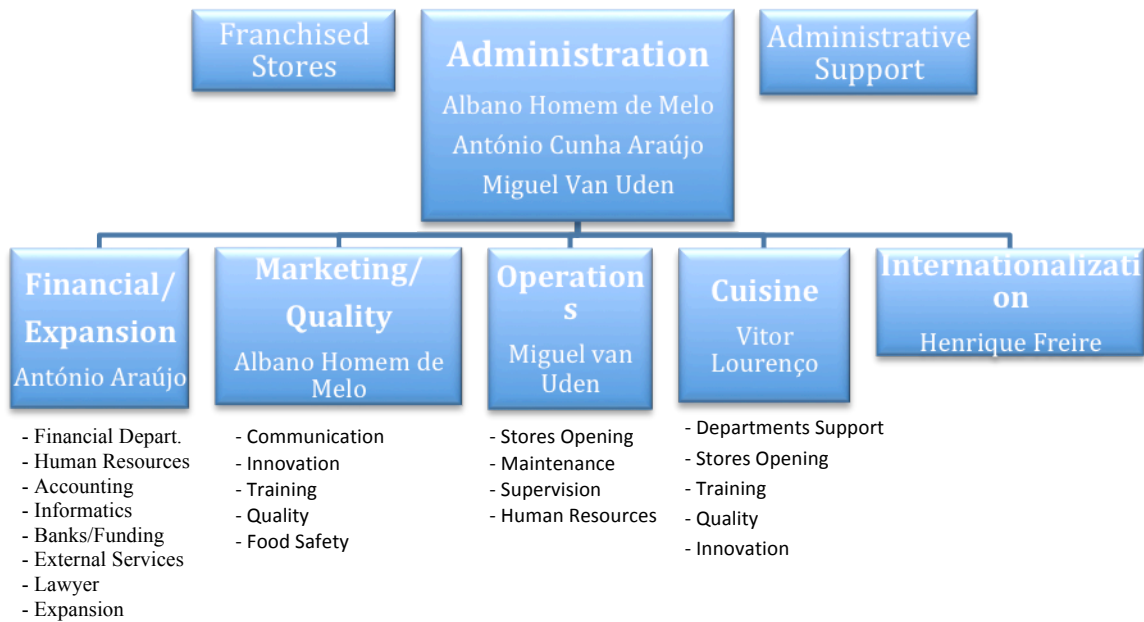
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Exhibit 1. *h3* Organizational Structure



Source: *h3*, 2011.

Exhibit 2. Marketing of *h3*

In the beginning, the trio considered to call the firm as *hc3*, which stands for *Hambúrguer do Café3*. However, the recognition of *Café3* would not be significant to attract clients to the new business.

Regarding the colors that were chosen to the logo: blue, white and bordeaux, play an important role in the way the group communicates with the public. The restaurant stands out from its competitors in the food courts and captures the attention of the public because these three colors are not common in the fast food industry. The most chosen are red, yellow and green. Besides that, the color blue is usually used to suggest the sense of fresh and healthiness.



Source: *h3*, 2011.

Exhibit 3. Distribution Centre

Each outlet has the autonomy to formalize a request to the distributor ordering the quantities of each product. At the same time, the *h3* headquarters receives the stores requests in order to monitor and quickly control the requests if, for instance, the products quantities are strange.

The *h3* production chain combines three types of products. The exclusive products, such as the hamburger meat, the lemonade juice and the sauces, have to be bought to a specific supplier determined by *h3*. This is because *h3* made a deal and has a special price, in the case of the lemonade juice; or, because the suppliers were previous partners that have been assuring the quality of the products, in the case of the meat and sauce suppliers. It is the job of the distributor to choose the suppliers of important products, however, *h3* has to accept them. Examples of important products are: the potatoes and the rice. Finally, there are the undifferentiated products, which are chosen by the distributor. Salt, pepper and sugar are examples of ingredients that enter in this category of products. Here, *h3* has no intervention in the selection process. The group reckons that in order to have its customers

satisfied, it is important keep high standards of quality and hygiene imposed by *Autoridade de Segurança Alimentar e Económica (ASAE)*. To do that *h3* monitors closely all its suppliers of exclusive and important products.

Exhibit 4. External Auditors

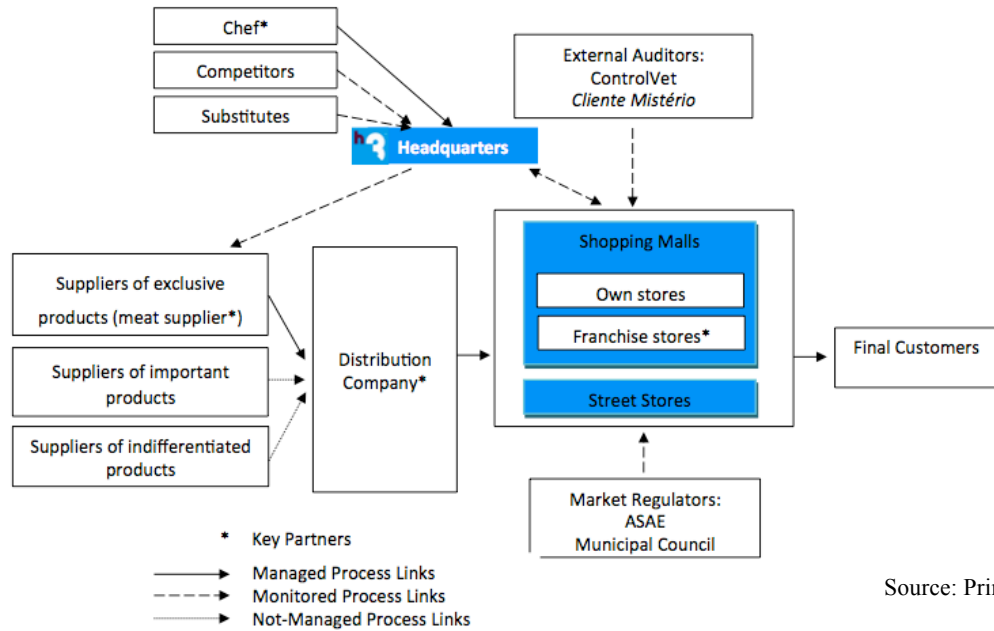
Controlvet is in charge of managing the quality of the stores and distribution channels. In addition, *Controlvet* subcontracts another company to fight against plagues, which is mandatory in the Portuguese legislation. Other independent company audits the equipment. *Cliente mistério* is an independent firm that is in charge of providing consistent feedback to *h3*, as it was a regular customer. These firms have to send their feedback to *h3* headquarters.

Exhibit 5. Evolution of *h3*

Source: *h3*, 2011.

	Number of Employees	Number of stores in Portugal		Number of Store in foreign countries	Total number of stores	Total Revenue (in thousand €)
		Own Stores	Franchised Stores			
2007	40	2	0	0	2	341
2008	140	6	2	0	8	3,027
2009	400	17	4	0	21	10,987
2010	600	22	11	0	33	22,000
2011	700	27	12	4	43	n.a.

Exhibit 6. Industry Mapping



Source: Primary data

Managed Process Links – links that are managed by the focal company.

Monitored Process Links – links that are not critical to the focal company but are important to be integrated in the supply chain.

Non-Managed Process Links – links that the focal company delegates totally.

Exhibit 7. Value Chain

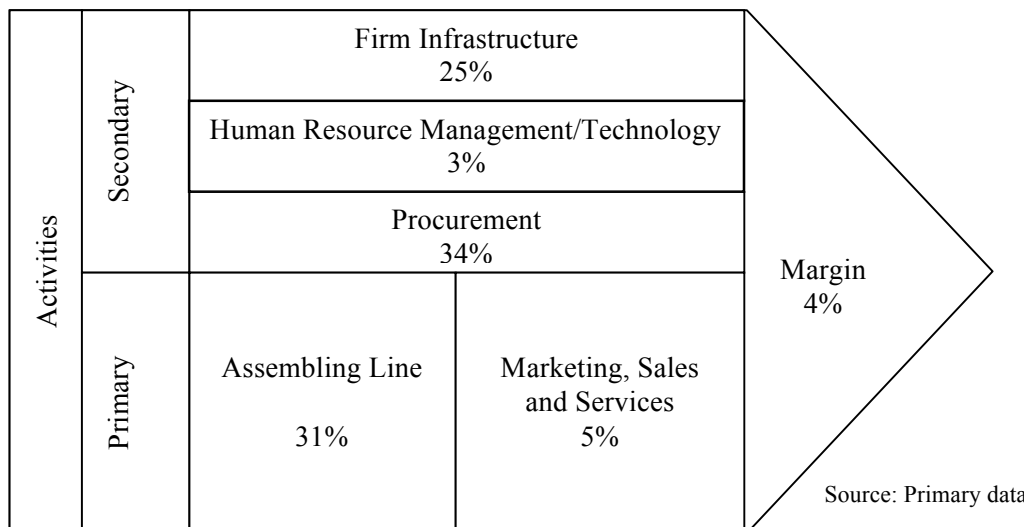


Exhibit 8. Global Market Definition

The growth rate of the global fast food sector has been declining over the last years due to the financial crisis. In 2009 the market experienced 3.1% growth, which represents a value of \$201.1 billion. The compound annual growth rate of the market for the four-year period 2005-2009 was 4.8%. Despite of the fact that the industry is expected to achieve \$239,7 billion for the period spanning 2009-2014, its compound annual growth is forecasted to be around 3,6%. Still, the fast food market is considered a robust and solid industry.

Although America market share in the global fast food market has been decreasing over the last years, in 2006 it accounted for around 63%, it is still the global leader accounting for 47.4%. Asia-Pacific comes next accounting for 35.6% and then Europe with 17% of market share.

There are some segments of the sector that are concentrated, for instance, *McDonald's* and *Burger King* compete on almost a duopoly in providing hamburger's meal; nevertheless, the market in general is characterized by being fragmented with big and well expanded chains as well as small and independent companies. (Datamonitor. 2010a.)

Exhibit 9. Definition of the Fast Food Categories

Takeaways are establishments that provide freshly prepared food for immediate consumption and where consumers take the food off to consume.

Mobile & Street Vendors are either individual stalls or vans that offer a limited range of freshly prepared food as well as beverages.

Leisure Locations are locations serving food and drinks for immediate consumption

within leisure areas (such as Cinemas, Theatres, Racecourses etc.) that the leisure operator owns and operates itself (Datamonitor. 2010a) .

Exhibit 10. Meat Supplier

The importance of the meat supplier needs to be highlighted once the hamburger is a key product in the production process. As *h3* was expanding they realized that its supplier soon would no be able to provide the volume of meat their stores needed. As a result, *h3* and the meat supplier created a partnership. The agreement established that the producer had to make an investment in its plant in order to increase the production and the firm would help him during the whole process. Although *h3* depends on only one supplier of meat, with this specific investment the supplier had lowered its bargaining power, (medium). Besides, nowadays *h3* have found a substitute for this supplier, but the switching costs will be high.

Exhibit 11. Survey

My group and I made a survey to 368 people aiming to determine the *h3*'s competitors and substitutes. Some of the questionnaires were made face-to-face, and the rest were made online. Even though the number of respondents is large, the questionnaires have some limitations, which means that the sample selected was not random: (1) majority of the respondents live in Lisbon; (2) majority of the respondents are friends of at least one of the inquirers; (3) the aging group is quite low; (4) when answering question 5 the respondents might have been influenced by the restaurant options available on that shopping mall, in case it was a face-to-face questionnaire, or by the options available in the survey online;

(5) the face-to-face questionnaires were only made during the lunch time; (6) the questions of the survey suggested a purchase during the lunch time during the week.

1.Age	
≤ 22 Years	39.9%
23-39 Years	53.5%
≥ 40 Years	6.5%

2.Gender	
Female	51.6%
Male	48.4%

3.Do you go to a Shopping mall just to go to <i>h3</i> ?	
Yes	52.2%
No	47.8%

4.During the week, where do you usually lunch?	
Full-service Restaurant	17.1%
Fast-food Restaurant	23.6%
Lunch at home	51.9%
Bring lunch from home	16.0%
Other	10.3%

Other: Canteen, Supermarket.

5.If today you could not go to <i>h3</i> , which restaurant would you choose?	
Vitaminas & Companhia	29.1%
Sushi Corner	6.8%
Noori Sushi	25.8%
Go Natural	19.8%
Fresc Co	1.1%
Il Mercato di Pasta	6.8%
Quasi Pronti	13.9%
McDonald's	48.4%
Burger King	10.9%
Burger Ranch	1.9%
Pizza Hut	15.5%
Maison des Crêpes	2.2%

Pans & Company	18.2%
Casa das Sandes	11.7%
Loja das Sopas	13.0%
Prego Gourmet	9.0%
Chimarrão	10.1%
Beefs	2.4%
Páteo	3.0%
Ò Kilo	4.6%
Só peso	6.0%
Wok	3.8%
Wok to Walk	12.0%
Joshua's Shoarma	20.1%
Other	4.1%

Source: Survey Research, 2011.

Exhibit 12. SWOT Analysis

1. Strengths	2. Weakness
<p>1.1 The specialization in a Mono-product facilitates the standardization of the production process, which becomes easy to monitor the collaborators and it is more cost and time effective.</p> <p>1.2 Excelling and fresh ingredients.</p> <p>1.3 Organizational structure and communication.</p> <p>1.4 Branding and Creativity.</p> <p>1.5 Employees' formation and training program.</p> <p>1.6 Partnerships— Oporto, Madeira and <i>VIPs</i> franchisees, meat supplier, Chef, Distributor Centre.</p> <p>1.7 Good price/quality relationship.</p> <p>1.8 Trademarks registered in WIPO: <i>New Hamburgology</i> and <i>Not so fast Food</i>.</p> <p>1.9 Learning curve enabled <i>h3</i> to be one step ahead of potential entrants.</p> <p>1.10 The customer can create his own dish.</p>	<p>2.1. The menus are extremely similar to each other due to the fact that there is no variety of meat type.</p> <p>2.2. Environment where the restaurant is inserted, shopping malls, is not a pleasant place and there is no table service.</p> <p>2.3. Having the corporate team members really close to each other can jeopardize <i>h3</i> once they sometimes do not define and formalize all the company tactics and strategies.</p> <p>2.4. Lack of concern about market research and new trends.</p> <p>2.5. The specialization in a Mono-product.</p>
3. Opportunities	4. Threats
<p>3.1 In Portugal, the number of Shopping malls (AICEP. 2010) is expected to increase.</p> <p>3.2 The Fast Food consumption (Tormo. 2011) is increasing</p> <p>3.3 Consumers tendency of selecting healthy food (Negócios e Franchising. 2009)</p> <p>3.4 The economical crisis¹⁶: people have tighter budgets.</p> <p>3.5 The franchising is a successful model that is being applied to the fast food</p>	<p>4.1. Fragmentation and Mature stage of the fast food market.</p> <p>4.2. In European countries there is a consumers tendency of selecting food to go or take away¹⁷.</p> <p>4.3. Potential epidemics such as: cow disease.</p> <p>4.4. Rivals are well-expanded international companies</p> <p>4.5. Rivals offer more options of menus and additional products and services.</p> <p>4.6. 10% increase in VAT¹⁸.</p>

¹⁶ <http://www.infofranchising.pt/noticias/mostrar/confian-assa-dos-consumidores-afectada-pela-recess-albo> (Accessed November 2, 2011)

¹⁷ <http://www.igd.com/index.asp?id=1&fid=2&sid=2&cid=630> (Accessed October 15, 2011)

industry	4.7. The economical crisis ³ : people have tighter budgets.
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Source: Primary data

Exhibit 13. Leading Chained Consumer Foodservice in the UK

Brand	Global Brand Owner	Number of Units in 2010
McDonald's	Several owners	717.0
Costa Coffee	Whitbread Plc.	1,195.0
Greggs	Greggs Plc.	1,487.0
Burger King	Several owners	512.0
Pizza Express	Gondola Holdings Plc.	380.0
Domino's Pizza	Domino's Pizza Group Ltd	616
Subway	Several owners	1,420.0

Source: Adapted from Euromonitor International 2011c.

Company	Shares in 2010 (%)
McDonald's Corp	12.0
Mitchells & Butler	8.6
Yum! Brands Inc.	7.7
Whitbread Plc.	3.7
Greggs Plc.	3.6
Burger King Holdings Inc.	3.1
Gondola Holdings Plc.	2.6
Domino's Pizza Inc.	2.5
Pret a Manger Europe Ltd	1.4
Tesco Plc.	1.4
Nando's Group Holdings Ltd	1.0
EAT	0.7
Wagamama Ltd	0.3

Source: Adapted from Euromonitor International 2011c.

¹⁸ http://sol.sapo.pt/inicio/Economia/Interior.aspx?content_id=30918 (Accessed November 7, 2011)

Exhibit 14. Mode of Entry

By contrasting with its competitors, *h3* corporate members believed that franchising was not an option once they assumed that it would jeopardize the meal's quality. Nonetheless, in 2008 *h3* was experiencing a fast expansion in Lisbon and the team was not able to effectively take advantage of the market opportunities. Consequently, in order to expand into the North region of Portugal (above Coimbra), the trio decided to franchise the brand to João Ventura, who, at that time, was already exploring the *Vitaminas & Companhia* in that area. In 2009 and 2010 the firm grew fast and João Ventura became a key element of the decision process. Because the production process is standardized and the availability of manuals to employees systematizing the activities, the product quality has not been damaged, as the trio suspected.

Franchising is a business model, which allows the franchisor (the owner) of a product or service to obtain distribution through affiliated dealers or franchisees, by permitting the latter the right to use a trademark, which is a crucial asset of the franchisees' business, for a specific period of time in a determined region, and in exchange of a payment¹⁹. The agreement lays out the rights and obligations for both franchisor and franchisee, so that both parties know what is expected of them, which turns the relationship easier (Holmes, David E. 2003.).

Exhibit 15. Franchise Development Services

Franchise Development Services was established to offer a complete franchise consultancy service to prospective franchisors. It publishes the *The Franchise Magazine* and *The UK*

¹⁹ <http://www.entrepreneur.com/encyclopedia/term/82150.html>

Franchise Directory, which are magazines about the subject, and has its own database of candidates.

The FDS programme includes the following tasks:

- Writing the Franchise Action Plan, which timetables the various actions that need to be taken to complete the development of the franchise.
- Securing corporate brand images and intellectual property rights.
- Ascertaining the true market value of the franchise package.
- Setting out a detailed franchise business plan.
- Adjusting and improving operational procedures.
- Writing operations manuals.
- Designing a map of exclusive territories to be offered.
- Developing an initial training programme capable of fully preparing a franchisee for the launch of the business.
- Setting out ongoing support structures such as a franchisee telephone helpline, intranet facility, marketing support (e.g. personalized internet sites), etc.
- Designing financial support packages to assist franchisees in meeting the investment requirement, and tailoring insurance packages.
- Developing administrative systems to monitor franchisees' progress.
- Devising financial projections.
- Briefing a lawyer and writing the Franchise Agreement.

FDS also offers franchisors:

- A promotional campaign in FDS publications and websites to generate leads and enquiries.

- Analysis of each enquiry to ensure they meet the franchisors' profile.
- Initiate a drip feed email campaign.
- Educate the candidate on the business and the franchisee role.
- Initial introduction & fact finding calls with candidates to learn more about them.
- In-depth telephone interview to qualify the candidate.
- Thorough review of candidate to assess suitability for the franchise.
- Facilitate meetings with suitable candidates and the franchisors.
- Follow up calls and post meeting feedback. (fdsfranchise)

Exhibit 16. Examples of UK Master franchisors' profile

Whitbread Plc. Profile

Brands: *Premier Inn* (Hotel), *Beefeater Grill* (Full-service Restaurant), *Table Table* (Pub Restaurant), *Brewers Fayre* (Pub Restaurant), *Taybarns* (Eatery) and *Costa Coffee* (Coffee shop).

In 2010, *Whitbread* is the sixth-ranked player in consumer foodservice in the UK with 1% share of value sales.

Table IV - *Whitbread Plc.* Competitive position 2010

Product type	Value share	Rank
Consumer foodservice	1.2%	6
Cafés/bars	4.6%	4

Source: Euromonitor International. 2011i.

Mitchells & Butlers Profile

Brands: *Harvester*, *Sizzling Pub Co.*, *Toby Carvery*, *Crown Carveries*, *Ember Inns*, *All Bar One*, *Browns Restaurants*, *O'Neill's*, *Miller & Carter*, *Vintage Inns*, *Metro*

Professionals, Nicholson's, Premium Country Dining Group, Alex, Village Pub & One, Innkeeper's Lodge

Mitchells & Butlers remains the second-ranked player in consumer foodservice in NBO terms with a 3% value share in 2010.

The company had some issues with management stability.

Mitchells & Butlers has adopted a new structure of three channels, based on affluence levels: Value; City & Country; and Suburban. In the Value channel, price is key and the average spend per head on food is £4.76. The main area of competition is dining. Price points and service are vital to delivering profit. The City & Country channel competes with pubs and restaurants where food quality and service are key, with the average food spend per head maintained at £9.94. Lastly, the Suburban channel has more premium positioning.

Table V - *Mitchells & Butlers* Competitive position 2010

Product type	Value share	Rank
Consumer foodservice	2.8%	2
Full-service restaurants	3.4%	1
Cafés/bars	6.6%	2

Source: Euromonitor International. 2011h.

Clapham House Group Profile

Brands: *Gourmet Kitchen Burguer* (GBK, the original gourmet burger restaurant, offers a range of delicious, sophisticated burgers), *The Real Greek* (offers healthy Greek cuisine, with seven restaurants across London serving meze and their much loved freshly char-grilled souvlaki.)

Both full-service restaurants.

Vision: With over thirty years of proven expertise David Page and Paul Campbell set out

to identify and acquire a small number of exciting, young restaurant concepts with outstanding growth potential. The aim: to add an extra dimension to the UK eating out scene, and to provide rewards for investors (Clapham House).

Exhibit 17. Examples of UK Suppliers and/or distributors

Brakes Group

The Brakes Group is one of the leading foodservice suppliers and distributors in the UK. It also operates in Ireland, France and Sweden. The group is committed to provide its customers with superior service, products and foodservice solutions, constantly looking at ways to expand their offerings. The products they provide are: chilled, frozen products, grocery, cleaning and packaging supplies, prepared dishes and full kitchen equipment. Brakes serves thousands of customers across Europe everyday benefiting from deep knowledge and understanding of the different business sectors they supply, from independent pubs, restaurants and hotels, well-known high street brands, through to hospitals and schools. Brakes Group is committed to trading fairly, ensuring a responsible and sustainable sourcing to all procurement decisions and an Ethical Sourcing Code of Practice that must be adhered to at all times (Brake).

3663

3663 is able to provide anything from a teaspoon to a complete catering solution to customers of all sizes, utilizing their national structure. The Group provides every food option from quality ingredients to finished meals, including a number of own brand ranges as well as all the big brands and regional specialties. We also offer light and heavy catering

equipment, cleaning materials and non-food lines, making them one of the leading UK foodservice suppliers. Their great assortment of products e is supported with a host of services, all tailored to help their customers grow.

Services

The **Advice Centre** offers their customers advice on a wide range of subjects including product information, nutritional guidance and complying with government guidelines. The Group also produces factsheets and recipe packs focused on key issues such as dealing with food allergens. Disposing of **waste cooking oil** can be a hassle. 3663 can collect their customers' waste cooking oil from them for free, before recycling the waste oil and using it as an eco-friendly way to power the 3663 fleet. In the **Catering Development** service 3663 chefs work closely with their customers to develop product, recipe and menu ideas. The Group is prepared to support full design, properly planned kitchen, which brings many long-term benefits such as better work flow, improved operating costs and more efficient use of labour. Finally, they offer an extensive range of support options including **strategy development**, as well as a professional menu design and printing service (3663).

ABP UK

The ABP UK mission is to be the preferred partner of multiple retailers, manufacturers and caterers in the supply of fresh and frozen meat and meat based products. With operations strategically located throughout England, Scotland and Northern Ireland, the Group is the UKs largest beef processor, slaughtering in excess of 500,000 cattle per annum. Utilizing state of the art processing technology coupled to traditional maturation techniques, we ensure that our products adhere to the highest standards of quality and food safety, whilst

delivering optimum service levels and continual efficiency improvement. We are pioneers in Category Management for the fresh meat industry and are experts in translating latest consumer research into strategic B2B solutions.

ABP UK offer a range of premium quality regional beef brands for UK, European and international customers. ABP are now part of the Bord Bia BQAS which is 45011 accredited. The farm audits are carried out independently and certification is granted by Bord Bia (ABP Food Group).

Exhibit 18. Franchising Contract

In some cases, the franchisee will require a pre-entry due diligence to ensure both parties know the demands that will be placed upon them before setting an agreement.

The UK Master franchisor endure part of the set up costs to run the operation; he will be required to pay a fee to *h3* every time an outlet is launched. Likewise, because the brand is an essential asset for the business success, the *h3* will charge a fee to rent the use of its trademarks. The royalties are straight percentages fees on the gross sales achieved by the Master franchisor; in the Spanish case, *h3* established with *VIPs*, 5% to 10% according to the level of revenues. Nevertheless, *h3* should benchmark and consider the fees of other similar UK business. *h3* has other sources of revenues; the arrangement compels *VIPS* to buy goods from a specific supplier, which means, *h3* receives income from the mark-up on goods (e.g. lemonade juice).

On one hand, the selected UK Master franchisor must provide valuable inputs to *h3*: it has to be highly motivated towards the success of the business; the Master franchisor should possess expertise in the local market and in the industry and, finally, has to be creative in


overcoming problems and boosting growth. On the other hand, the franchisee will experience the advantage of running a business, whilst benefiting from the *h3*'s expertise, stage in the learning curve and scale economies, which enables him to achieve the “maximum achievable sales” in a short period of time.

Moreover, *h3* should include in the contract a clause referent to the area of franchising, the duration of the agreement, percentage of the outlets that the Master franchisor can sub-franchise (40% in the Spanish case) and, finally, a clause that allows *h3* to increase the fees if necessary. The UK Master franchisor will benefit from on-going help through a country-manager selected by *h3*.


For the two first outlets, *h3* headquarters is in charge for the infrastructure design, this is, the headquarters architects will work together with Master franchisor architects in order to construct a functional store, and it is also in charge for the training program of that two stores employees, but the expenses are paid by the Master franchisor. From then on that is responsibility of the Master franchisor. This allows the outlets to be clones of each other (uniformity), which reduces the monitoring cost and facilitates errors detection, and brand identity, independently of its location. Once the outlets have to be adapted to the local market to take advantages available, systemwide adaptation, it is the UK Master franchisor responsibility to suggest a price strategy, which is implemented after *h3* headquarters permission (Holmes, David E. 2003.). Yearly, the administration and the Master franchisor set and expansion plan establishing a number of stores to be opened in the following year, otherwise the group has to pay a penalty. Finally, the franchisee has to suggest at least two marketing campaigns according to the annual theme, which, later on, will be launched under *h3* headquarters approval.

Exhibit 19. Prices of Francising Magazine


The United Kingdom Franchise Directory




Half Page Directory Listing
Comprehensive franchise information with logo.
£595 + VAT



Quarter Page Directory Listing
Basic franchise information.
£395 + VAT



Front Cover Logo with Top Line Positioning
Promote your franchise on the top line of the front cover (limited to four brands).
£495 + VAT



Front Cover Logo
Promote your franchise on the front cover.
£375 + VAT



NATIONAL TV ADVERT
ChipsAway Brand Leaders
With national TV advertising, there's NO competition!
Potential to earn over £80,000 pa

The only SMART repair franchise that now includes TV advertising.

Established over 15 years, ChipsAway is the original and best performing automotive paintless repair franchise in the UK. ChipsAway experts can provide the quality SMART Small to Medium Area Repair Technology repairs to meet your pain-point savings, quality, consistency and compliance.


With unrivalled training and ongoing support, together with National Advertising with a 24/7 24/365 Call Centre, creating opportunities of success worth of repair bills for the client.

ChipsAway provides a business opportunity that will generate a great ROI for the client.

To attend a no obligation Open Day at our head office, please call 0800 731 6914 or visit www.chipsaway.co.uk where you can also see our TV advert on our website.

ChipsAway
The world's leading SMART repair

Full Page Directory Listing
Full page listing of your franchise opportunity with logo and images.
£995 + VAT



Full Page Promotion
Advertising, editorial or case study.
£995 + VAT

Two Page Promotion
Advertising, editorial or case study.
£1,495 + VAT

Source: The Franchise Directory 2011 Media Information.

The Franchise Magazine

Advertising Rates

Per Edition (all prices + VAT)	
4 Pages	£4,965
3 Pages	£3,995
2 Pages	£2,925
1 Page	£1,875
Half Page	£1,125
Quarter Page	£675
3 Page Inside Gatefold	£5,250
Inside Back Cover	£2,665
National Franchise Showcase	£850

Star Package Prices

For a 12 Month Campaign (includes entry in National Franchise Showcase).

Package	Price (per edition)	Monthly Budget Req.
Four Star	£4,965	£2,482.50
Three Star	£3,995	£1,997.50
Two Star	£2,925	£1,462.50
One Star	£1,875	£937.50

Reprints – We will reprint your promotion in *The Franchise Magazine* on a four-page quality handout including a specially designed front cover showing your brand. **Price per 1,000 copies: £950 + VAT**

Source: The Franchise Magazine 2012 Media Info.

Exhibit 20. Caf 3 Restaura o SA Competitive position 2010

Table VI – Caf 3 Restaura o SA Competitive position 2010

Product type	Value share	Rank
Consumer foodservice	1%	6
Chained Consumer foodservice	3%	6
Fast Food	3%	5
Burger Fast Food	7%	4
Chained Burger Fast Food	7%	4

Source: Euromonitor International. 2011b.

Exhibit 21. h3's menus



Source: h3, 2011.