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International Master in Business Science Administration

**H3 Hambúrguer Gourmet – Main Drivers for
Internationalization and Faced Challenges**

“h3 Hambúrguer Gourmet Case Study”

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Abstract

Dissertation Title: h3 Hambúrguer Gourmet – Main Drivers for Internationalization and Faced Challenges

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H3 Hambúrguer Gourmet, a notorious Portuguese burger company, known for having transformed Portuguese fast food market, started its operations in 2007 at Monumental Shopping in Lisbon city center. Consumers were delighted with the new fresh breeze in the Portuguese fast food market which they have waited for so long. H3 Hambúrguer Gourmet wanted to prove that craving for burgers didn't have to be equal to plastic food, but rather equal to 100% genuine veal meat, 200 grams of pure quality meat for a tasty meal during a busy day.

Eating burgers don't have to be a sign of pure fast food, actually, h3 Hambúrguer Gourmet is able to offer a tasty, just-in-time meal prepared right in front of the client. The company initially aimed to target a specific market niche, although, the viral effect of h3 Hambúrguer Gourmet led this company to be a study target for many students and companies who were truly inspired by the entrepreneurial spirit and willpower of three best friends.

This dissertation aims to cover real challenges and strategic decisions faced by a national company with real people who struggled with an extremely competitive and saturated fast food market. Despite the macro economic recession, a national company was able to see outside of the box, creating a concept which no one ever thought before. The amount of success was so big that by 2010 (only three years after h3's foundation date), h3 Hambúrguer Gourmet faced an immense adherence rate among domestic saturation. With apparently no room to grow, the company has decided to internationally take a risk and started its internationalization process in Poland. Spain and Brazil were next, although, the international outcomes were not exactly what the management team had expected.

This work aims to reveal the reasons and critical factors which contributed to the unexpected international outcomes experienced by h3 Hambúrguer Gourmet. Nevertheless, entrepreneurial facets and strategic marketing are also topics covered during this dissertation, focusing on the diverse modes of entry adopted by h3 Hambúrguer Gourmet, being a critical factor that determined the success or failure of international operations.

In what extent does h3 Hambúrguer Gourmet really know its international costumers? How can be international culture correctly addressed at h3's corporate strategy?

Relevant topics are going to be introduced further on in the Literature Review section, and the critical aspects of brand creation and internationalization strategy are going to be discussed at the h3 Hambúrguer Gourmet's Case Study. This dissertation aims to give a broader view to real challenges faced by a national company which is constantly innovating itself being ultimately a laboratory of new concepts and a national reference of excellence and premium quality at affordable prices.

Resumo

Título da Dissertação: h3 Hambúrguer Gourmet – Main Drivers for Internationalization and Faced Challenges

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H3 Hambúrguer Gourmet, uma empresa portuguesa, notável no ramo dos hambúrgueres, conhecida pela transformação do mercado português de *fast food*, começou as suas operações em 2007 no centro da cidade Lisboa, no centro comercial Monumental. Os consumidores deliciaram-se com a nova leveza no mercado português de *fast food* por que tanto ansiavam. H3 Hambúrguer Gourmet desejava provar que comer hambúrgueres já não tem que ser igual a comida de plástico, mas sim já pode ser igual a comer uma carne de vaca 100% genuína, 200 gramas de pura carne de qualidade que se destina a uma refeição saborosa para qualquer altura de um dia atarefado.

Comer hambúrgueres já não necessita de ser um sinal de 100% de comida *fast food*, na verdade, h3 Hambúrguer Gourmet é capaz de oferecer uma saborosa refeição, preparada no momento, na presença do consumidor. A empresa inicialmente tinha como *target* um específico nicho de mercado, no entanto, o efeito viral do h3 Hambúrguer Gourmet tornou-se de tal forma avassalador, que a empresa tornou-se alvo de estudo para muitos estudantes e empresas, inspirados pelo espírito empreendedor e força de vontade levada a cabo por três melhores amigos.

Esta dissertação objectiva cobrir desafios reais e decisões estratégicas encaradas por uma empresa nacional, liderada por pessoais reais que enfrentaram um mercado de *fast food* extremamente competitivo e saturado. Apesar da crise macro económica vivida presencialmente, uma empresa nacional foi capaz de ver mais além, criando um conceito nunca antes pensado em território português.

O sucesso adquirido foi de tal ordem, que em 2010 (apenas três anos depois da sua fundação) o h3 Hambúrguer Gourmet atingiu uma taxa de aderência espantosa bem como uma saturação de mercado. Aparentemente, sem espaço adicional de crescimento nacional, a empresa decidiu arriscar internacionalmente, começando o seu processo de internacionalização na Polónia. Seguiram-se Espanha e Brasil, no entanto, os resultados obtidos não foram os mais esperados pela equipa de liderança.

Este trabalho ambiciona cobrir as verdadeiras razões e factores críticos que contribuíram para o resultado inesperado da estratégia de internacionalização experienciada pelo h3 Hambúrguer Gourmet. Vertentes de empreendedorismo e de marketing estratégico são igualmente exploradas no decorrer desta dissertação, focando também os diversos modos de entrada nos mercados estrangeiros adoptados pela empresa e que determinaram o resultado da estratégia de internacionalização vivida até ao momento presente.

Em que medida é que o h3 Hambúrguer Gourmet conhece realmente os seus consumidores internacionais? Como é que a cultura estrangeira pode ser correctamente anexada à estratégia empresarial do h3 Hambúrguer Gourmet?

Tópicos relevantes serão igualmente abordados mais à frente na secção de *Literature Review* e os aspectos críticos de criação de marca e estratégia de internacionalização serão abordados no h3 Hambúrguer Gourmet *case study*. Esta dissertação tenciona providenciar uma visão global dos desafios estratégicos que uma empresa nacional enfrenta diariamente. Conhecida pelo seu elevado grau de inovação e diversificação, que já é uma referência a nível nacional de excelência e qualidade aos preços mais competitivos de mercado destinando-se a um segmento *premium*.

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This Master's Dissertation was the final result of a lot of work and time invested, although, was also done through an extra effort on balancing my professional life with my personal time dedicated to my Thesis. Nevertheless, I could not have been finished on time without the precious help of several people who were so helpful and available throughout the entire process, providing all the information necessary to carry on this work.

I would like by starting to show my deep appreciation and acknowledgement for the accompaniment and support given from by academic advisor Professor Pedro Celeste in my Master Thesis development.

H3 Hambúrguer Gourmet, has also largely contributed to my Thesis's development, in sense that, the information provided proved to be essential for the accuracy and objectivity of my Master Thesis. I would kindly like to thank and show my appreciation to Nuno van Uden, responsible for Marketing and Communication at h3 Hambúrguer Gourmet, for all the visits and constant support through e-mail.

I would also like to refer my acknowledgement to the in-store managers who I briefly talked and have given me precious insights on h3's strategy and operations.

I want to highlight some special words of gratefulness to my parents for have providing me with an outstanding education throughout these years, which led me to be in the place where I am right now.

My friends were also such an important piece of my academic life, since their comprehension and support were tireless.

I would like to thank a very special person, José Santos Pereira, for have been there when I needed the most and for never giving up on me, a person who always believed in my capabilities without questioning.

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Introduction

Albano Homem de Melo, António Carvalho Araújo and Miguel van Uden were gathered in their weekly meeting to discuss future corporate issues regarding their overwhelming success with h3 Hambúrguer Gourmet and upcoming challenges. Would be this Gourmet concept well accepted overseas? In what extent international consumers are much different from national ones? At what extent would this business be profitable or sustainable over time? Are the current marketing efforts enough to maintain the premium image that the brand stands for?

In this world, defined by emerging globalization and competitive trends, corporate strategy planning must be reinforced in order to overcome competition and daily threats; strategic planning then assumes a primordial role at every organization. H3 Hambúrguer Gourmet is no exception. Founded in 2007, h3 was first opened in one of the most popular shopping malls in Lisbon (Shopping Monumental). Already having some experience in the field, the three friends and partners mentioned above, had the idea to extent their knowledge about serving premium hamburgers in Café 3, into to a unique and “*out of the box*” concept.

Actually h3 Hambúrguer Gourmet assumes a huge relevance in its respective market and sector, mainly due to its unique concept and overwhelming growth since 2007. According to the three partners’ ambition to internationalize h3, the aim of my future study would be to deepen into the key success factors of this business, including the differentiation factors which made it unique and appealing to the consumers’ eyes, as well as, to have a clear and objective overview of the corporate strategy used in order to grow overseas. With this study, my goal is to question the future business strategies in a medium-long range, since globalization and competition play a major role in h3 Hambúrguer Gourmet’s corporate strategy as well as a continuous innovative processes and promotional activities.

Food industry is constantly changing, adopting early healthy and wellness trends, where eating well became a top priority for those who want to eat fast and in a convenient way. Having this in mind, the strategic options undertaken by h3 team, enabled the brand to have an incredible growth, which was probably not anticipated, since fast food market was so saturated with apparently no room to grow. With all the constraints that a national business has, with my further study I will identify critical differentiation factors, which became the basis for an international expansion. Since being a premium brand, with a specific set of client target, it would be also useful to understand which type of marketing efforts are being undertaken, which can boost the profitability and sustainability of the business overtime.

Internationalization strategy is part of a continuous process regarding a successful management of the strategic planning at a SME (Small/ Medium Enterprise). A strategic planning can be described as being the process of developing and maintaining a sustainable fit between a company's goals and actual resources in its changing international environment. With that being said, it is relevant from the academic and pedagogic point of view, to primarily understand the roots (key success/differentiation factors) which were behind the overwhelming success of h3. After conducting that analysis, it would be relevant to study the internationalization challenges which are of greater enrichment for any student.

From a marketing and brand strategic planning point of view, my study will also focus on the current positioning of the brand, its marketing and promotional efforts regarding the brand image that h3 stand for.

Ultimately, I will question and study the future alternatives to ensure the company's profitability in a medium-long run, bearing a special focus on client's profile and at what extent an international consumer is similar to a national one.

I also hope that my further study will help h3 in finding some guidelines, about its marketing and communication efforts, sustainability prospects and to have a clear vision on how its success was obtained, largely due to the internationalization strategy and clear positioning of the brand in its market.

Research Problem

In order to fully comprehend which were the **Key Success Factors** which enabled **h3 Hambúrguer Gourmet**'s creation as well as its main drivers for **internationalization and faced challenges**, four key research questions were developed and studied:

KRQ #1: What were the main Key Success Factors which boosted h3 Hambúrguer Gourmet?

KRQ #2: How was achieved the internationalization strategy and what were the main challenges faced by h3 Hambúrguer Gourmet by doing so?

KRQ #3: How are being the marketing efforts applied and what are the further implications regarding h3 Hambúrguer Gourmet's positioning in the fast food saturated market as a premium brand?

KRQ #4: What are the key challenges that h3 Hambúrguer Gourmet is going to face in a medium-long run? What are the options to maintain their competitive level?

Methodology

To have a deeper view on how to approach and answer the key research questions, I will use different kinds of data: *primary* and *secondary* data.

Secondary data are those that have been collected and published before, usually for purposes other than the research being further conducted. Therefore, this kind of data will be provided by internal sources in h3 Hambúrguer Gourmet; namely, some of the market tests and approaches used to investigate potential clients/ target markets, as well as, publications, articles from top journals and financial data.

Regarding primary data, both qualitative and quantitative research should be applied. For the quantitative research I intend to gather previous collection and analysis of simple quantitative measurable categories in h3, which will allow me to deepen into key research questions 3 and 4. For instance, who consumes the products of h3? Where do clients buy h3 meals? Which consumers are the target consumers for h3 strategic planning? How often do consumers purchase h3? For that goal, I intend to use a relatively large sample for the results to be realistic (at least a hundred respondents).

Typical customer-based questionnaire will be developed with a large majority of multiple-choice type of questions. An online questionnaire will be also developed after my field work which consists into individual interviews (qualitative research) with some of the main departments of h3 Hambúrguer Gourmet (namely, marketing, financial, commercial, customer service, etc...). The questionnaire will have as target: daily-consumers, internal workers and front employees, to have different perspectives, touching into the several key research questions.

1. Literature Review

This section of the dissertation aims to collect several bases in order to sustain the presented case study. Therefore, four theoretical lenses will be explored into more detail, namely: **Internationalization Roots and Critical Factors, Franchising Systems – Internationalization Drivers, Introduction of New Products – Global New Product Development and Competitive Advantage in Franchising Systems.**

Thus, this literature review will also cover some of the underlined topics approached in the h3 Hambúrguer Gourmet case study. Therefore, this section should be undertaken by the readers, as being a very significant section in order to fully address the issues presented in the case study.

1.1 Internationalization Roots and Critical Factors

A lot have been said regarding the primary roots of what led companies to go over borders, regardless the dimension of the firm itself. Despite innumerous frameworks, theoretical and empirical theories, a few kept my attention, and which I intend to explore into more detail from now on.

“Context is important, especially to explain the details of an internationalization, such as choice of country market and mode of market entry” argues Schweizer, Johanson and Vahlne, 2010.

Linked to the reality we live today in business environments, Globalization and intense competition corporative behavior are part of our environment, external and internal factors stimulate companies to search for enhanced ways to contribute to the economic development of nations, industry sectors and overall productivity (Korsakiené, Tvaronaviciené 2011). Thus, it is essential to refer that internationalization, besides its background, is very much linked to a company’s internal strategy and goals definition (Hill, Hwang and Kim, 1990).

Not only internal strategic goals play an important role on what drive companies to look further, but also, the impacts of Globalization and intense international competition and an internal firm growth, are often amongst the main causes to go beyond domestic lands (Korsakiené, Tvaronaviciené, 2011).

Many scholars, namely, Welch, Luostarinen, Johanson and Vahlne (1977), state that internationalization is a process, which should be seen as gradual and sequential; consequently, firms become more involved and committed in foreign international markets. Addressing the current trends and late developments on corporate behavior, the primary stage framework developed; well known as the Uppsala Internationalization Model (Johanson and Vahlne, 1977) did not fully cover some important aspects which characterize the current market and society trends, which at 1977 didn’t seem as prominent as today.

According to the literature, stage approaches are the earliest type of theories woven by scholars. Supporting this stage theory, scholars state that firms initially begin with modes of entry that require the minimum level of commitment, with experience in the market, companies progressively increase their level of commitment of resources to international activities (Cavusgil 1980 and Reid 1981). According to Bilkey and Tesar (1977), Johanson and Vahlne (1977), Johanson and Wiedersheim-Paul (1975), internationalization should be seen as a sum of incremental knowledge acquisitions. Also, the way that knowledge is acquired and assimilated is a relevant factor, determining the performance of international sales growth for entrepreneurial firms (Autio, Sapienza and Almeida, 2000).

The concept of knowledge shouldn't be undervalued, according to Margaret Fletcher, Simon Harris, Robert Glenn Richey Jr. (2013), there are three different categories of knowledge, which are inserted in the universe of international type of knowledge, representing the learning capabilities that firms need to acquire when entering into foreign markets. International knowledge has a direct effect on how the internationalizing is conducted; the three respective categories of international knowledge are: **market entry international knowledge**, **localization international knowledge** and **international enterprise international knowledge**.

1.1.1 Entry Market International Knowledge

The type of knowledge characterized in a firm's ability to assess partners 'valuable information in order to build agreements and needed contracts in foreign territories. Entry Market International Knowledge is also connected to the need of enhancing and building relationships with international partners, which according with late literature, "*Successful internationalization requires a reciprocal commitment between a firm and its counterparts*" (Johanson & Vahlne, 1990; Vahlne & Johanson, 2002).

1.1.2 Localization International Knowledge

This second category of knowledge was concluded from the three authors described above, as the knowledge needed for firm to undertake a specific international strategy to enable firm to compete successful in foreign markets. Business models have to be adjusted, new strategies have to be found in order to sustain a competitive advantage among many other players in the foreign market, meeting at the same time the particular requirements of a target market (Cui, Griffith and Cavusgil 2005; Prashantham and Young 2011).

1.1.3 International Enterprise International Knowledge

Last but not least, the final category of international knowledge contributes to an overall coherence of a firm. New management systems, human resources policies' definition, and project management processes

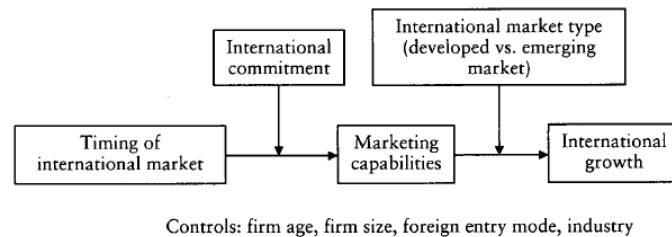
must be redefined and adapted according to the international growth acquired by the company. International growth means the firm has to work as a coherent international entity with supportive structure and management practices.

Hence, prior research has highlighted the importance of international knowledge as a key triggering factor for internationalization (Eriksson, Majkgard, and Sharma 1977; Forsgren 2002).

How can firms acquire these sources of knowledge? Experience is seen to be one of the key sources of international knowledge (Casillas et al. 2009; Johanson and Vahlne 2009; Johanson and Wiedersheim-Paul 1975; Nordstrom and Vahlne 1992).

Based on existing levels of knowledge and resources, a firm chooses the optimal mode of entry into a foreign country. This choice also addresses the current level of potential risks and inherent costs of entry (Hood and Young 1979). Sapienza et al. 2006 concluded that there are ways to mitigate the source of uncertainty by building and acquiring marketing capabilities (please observe **Figure 1**). Hence, the risk of failure can be minimized to some extent if firms develop market-specific capabilities (Zhou, Wu, and Barnes, 2012).

Figure 1 – Internationalization Factors: market-specific capabilities



Source: Zhou, Wu, and Barnes, 2012

Hence, some of the concepts described till now, were not covered on the well-known Uppsala International Model (Johanson and Vahlne, 1977). This staged development model is then described by being an incremental, risk-averse and reluctant to environmental changes, which we have noticed, are a reality in today's corporate and domestic markets (Johanson and Vahlne, 2009; Schweizer, Vahlne and Johanson, 2010).

Given a deepen research by some scholars, many have presented conceptual and empirical criticisms towards the original Uppsala Internationalization Model (Turnbull, 1987; Welch and Luostarinen, 1988; Schweizer, Oviatt and McDougall, 1994; Vahlne and Johanson 2010), concluded that, intense competition, difficulty on gaining intense knowledge about foreign markets, shifts in cultural patterns, revolutionary

ways of communicating and transportation methods, were amongst many drivers that led to a shift in the primary patterns of internationalization (Oviatt and McDougall, 1994).

Hence, Johanson and Vahlne felt the urge to redefine their primary model of internationalization. The Model was revised according to the authors 'two main arguments:

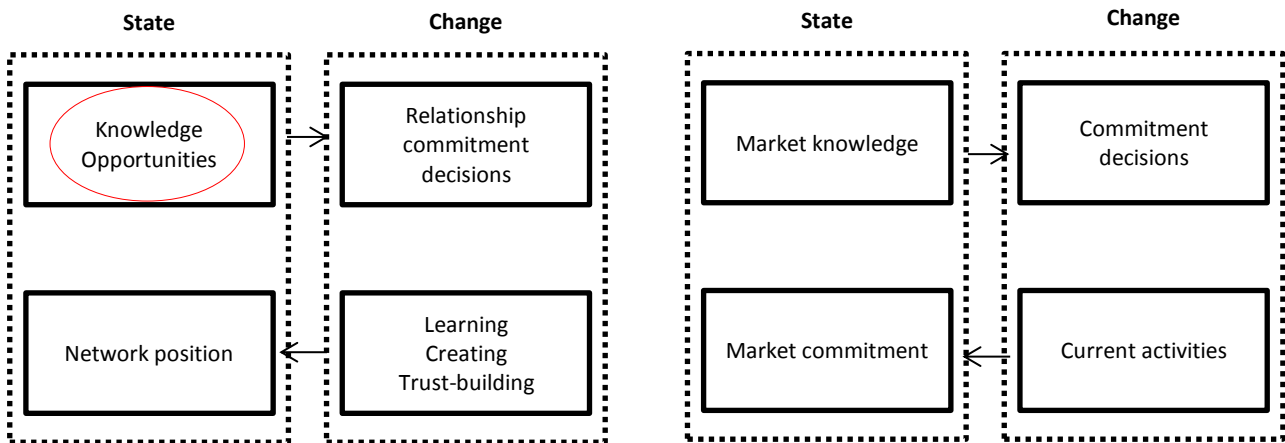
- The first argument is “*Markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns - **Insidership** in relevant networks is necessary for successful internationalization, and so by the same token there is a **liability of outsidership***” (Johanson and Vahlne, 2009);
- The second argument defended by Johanson and Vahlne is “*Relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization*” (Johanson and Vahlne, 2009).

According to the initial Uppsala Model (1977), its two main features were the following:

- i) As a typical **Establishment Chain**, firms start to internationalize by increasing progressively their level of commitment whether in financial or resource terms; thus, firms start by exporting into a foreign country. After that, companies established agreements with agents who could represent the company outside domestic borders. As the level of international complexity and volume of sales grew, companies replaced their agents by their own sales representatives, and as sales grew even more, they began to produce directly into the foreign country's territory, in order to fight trade barriers.
- ii) Internationalization process would typically start in countries which were geographically close to the domestic market. “*The larger the physical distance, the larger is the liability of foreignness*” (Johanson and Vahlne, 2009). Liability of foreignness is a concept widely referred by several authors, enhancing the fact that relationships need significant time and investment dedicated into it, in order to build trust and mutual commitment (Dyer and Singh, 1998) regarding the fact that a relationship will never be equal between both parties, in fact they are connected by some extent of mutual control (Oviatt and McDougall, 1994; Powell, 1990).

The new and revisited Uppsala Internationalization Model consists, as the previous one, based on two set of variables (please see below **Figure 2**).

Figure 2 – The New Uppsala Internationalization Model



The Revisited Uppsala Internationalization Model (2009)

Source: Johanson and Vahlne, 2009

Source: Johanson and Vahlne, 1977

Given prior **Figure 2**, the authors addressed the importance of the opportunity recognition. Hence, this was the only stage variable added to the original model, since opportunity identification is considered to be the most important element on the universe of knowledge which strives the internationalization process - *“Opportunities constitute a subset of knowledge”* (Johanson and Vahlne, 2009).

The main characteristic of the new Uppsala Model is the conclusion that a firm is inserted in a wide **Business Network**, whether it is an insider or an outsider. Although, now it depends on the firm to take advantage of the business network which it is inserted in.

“Network insiders can better identify and exploit opportunities than those on the outside” (Shane 2000), this idea is now reflected in the revisited Uppsala Model, defended by many scholars - *“What happens, happens in relationships”* (Johanson and Vahlne, 2009; Schweizer, Vahlne and Johanson, 2010).

To conclude, in a world in constant change, denoted with drastically environmental and regulatory unpredicted shifts (Joahson and Vahlne, 2009), with high levels of *“Knightian”*¹ Uncertainty, companies do not only feel the pressure to overcome domestic competition (Korsakiené, Tvaronaviciené, 2011), but also use their current amount of resources to search for enhanced opportunities abroad (Autio, Sapienza and Almeida, 2000; Fletcher, Harris and Richey Jr., 2013) to achieve an international success.

¹ **Knightian** uncertainty - *“Strategic decisions and activities lead firms into partially unknown territory where there is a high degree of Knightian uncertainty. Firms may proceed in smalls and/ or engage in mutually beneficial commitments with other firms in an attempt to cope with uncertainty in the expectation that the level of uncertainty will decrease”*(Schweizer, Vahlne, Johanson, 2010)

1.2 Franchising Systems – Internationalization Drivers

There is a need to first identify what is franchising and what is its first goal. According to Ni and Alon (1996, 2010), Rahatullah and Raeside (2008) and originally developed by Shane (1996), agency theory is the most suitable theory to describe the roots of internationalized franchising systems.

International franchising is seen as an increasing popular expansion strategy among small and large franchisors (McIntyre and Huszagh, 1995; Rahatullah and Raeside, 2008; Yamada, 2010).

One of the reasons presented by scholars to take operations internationally, is due to the fact that market saturation has become a serious burden (McIntyre, Gilbert and Young, 2006). In fact, domestic market may provide limited opportunities since *"It is becoming increasingly difficult for franchisors to differentiate themselves from other franchisors in their home markets"* (McIntyre, Gilbert and Yong, 2006).

McIntyre, Gilbert and Yong (2006) have defended that for a franchisor to search for an international experience; several factors may weight along the way. These factors can be divided into two categories: firm characteristics (or resource-based factors) and relationship characteristics (which are related into country-specific characteristics).

Firm characteristics, also commonly known as resourced-based factors, (Ni and Alon, 2010) include factors such as: age, and size of the franchisor, these factors affect internationalization (Huszagh, Huszagh and McIntyre, 1992; Julian and Castrogiovanni, 1995). Greater operations in the domestic market enable the franchisor not only to experience market saturation, leading to internationalization, but also enable inner development and acquaintance of marketing capabilities (already illustrated in Figure 1), which are the basis for monitoring international franchisees (McIntyre, Gilbert and Young, 2006).

Relationship characteristics are seen as the second group of factors which are directly connected to internationalization of franchise systems (McIntyre, Gilbert and Yong, 2006).

Relationships are based on relation norms between the two parties. One clear example of a relation norm can be described as an opportunism situation (McIntyre, Gilbert and Yong, 2006). *"Opportunism is traditionally viewed as causing a decline in relationship performance"* (Dahlstrom and Nygaard, 1999).

There are many direct and indirect factors which affects bonding (Ni and Alon, 2010). The total franchise investment pursued by the franchisee, acts like a bonding type of situation. Presumably, international franchisees will not deviate from the initial agreement, since they have a lot to lose; penalties can be suffered, hence, the more likely is the franchisor to become international since start-up costs affect bonding and bonding is one of the main reasons for franchisors to search for international success (Shane,

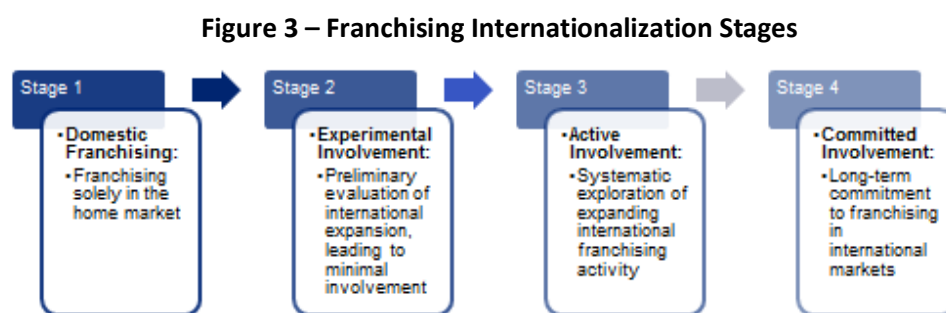
1996; Alon, 1999; Ni and Alon, 2010). It has been studied and questioned the veracity by many scholars regarding the impacts of bonding on internationalization.

According to Shane (1996), cultural and geographic proximity also affects bonding and opportunism between two parties. Actually, if the two parties are much different in terms of cultural aspects or/and in terms of physical distance, is expected a higher degree of opportunism. Hence, domestic-only franchisors are expected to have a less degree of opportunism which does not jeopardize their business relationship (Shane, 1996; Ni and Alon, 2010).

Another major feature of relationship characteristics is the ability of the franchisor to monitor and control its franchisees internationally. According to Parkhe (1993), monitoring skills are part of a successful internationalization and consequently, the welfare of a relationship, since it triggers to a monitoring behavioral transparency (Ni and Alon, 2010). Hence, low levels of monitoring behavioral transparency, will decrease the level of trust between two parties, hence the probability of opportunism may arise (Parkhe, 1993; Ni and Alon, 2010).

According to McIntyre and Huszagh (1995) and based on Cavusgil and Nevin (1980) findings, a global development of franchise systems model was built, regarding international product life cycle, which should be highlighted in order for us to have a better insight on what internationalization of franchise systems implies.

The model (please observe below **Figure 3**) built is based on several internationalization stages (similarly to the primarily internationalization model conducted by Johanson and Vahlne, 1977).



Source: McIntyre and Huszagh, 1995

Phase 1 – Domestic Franchising

Presumably, domestic franchising precedes internationalization; in fact, market saturation is expected to achieve wide distribution strength in order to think about internationalization (McIntyre and Huszagh, 1995). Hence the first stage corresponds to domestic franchising. The authors stress the point that domestic knowledge and spread of operations in internal markets are crucial, since firms are learning

market capabilities and common customer features throughout the process, becoming ready to embrace internationalization in a successful manner. Small and medium firms with limited number of national outlets may be the larger category inserted in phases 1 and 2 (McIntyre and Huszagh, 1995).

Phase 2 – Experimental Involvement

According to the model's founders, Cavusgil and Nevin (1980), the second phase is denoted by limited managerial commitment in all terms. The levels of resources invested internationally are rationalized and only a few international markets are chosen (McIntyre and Huszagh, 1995). A certain degree of international market knowledge is acquired, through the establishment of a limited number of international operations.

Phase 3 – Active Involvement

Consequently, the third stage involves a higher degree of managerial commitment than the second stage. By this stage, franchise firms are becoming more aware of international specificities and an exponential sales performance may be verified (McIntyre and Huszagh, 1995).

Phase 4 – Committed Involvement

By this stage, the major portion of profitability is expected to come from international operations (McIntyre and Huszagh, 1995). The last stage is then characterized by increased levels of resources and managerial skills implied as well as a wider variety of relationships to maintain (McIntyre and Huszagh, 1995).

To conclude, there are several reasons and motives why a franchiser wants to become international. Improving economic and managerial performance is primarily seen as the reason number one to go abroad (McIntyre, Gilbert and Yong, 2006). Domestic target for itself is nowadays seen as not enough for firms to conquer profitability and sustainability. Competition is becoming fierce and unpredictable; domestic market itself does not provide firms with a pool of alternatives and opportunities.

1.3 Introduction of New Products/ Brands – Global New Product Development

According to many scholars, including Yamada (2010) and Wang, Solan, Xu (2014), **Globalization** is seen as the main triggering factor for all companies, apart from their size or core business sector, where urge the need to redefine companies' business strategies and to adopt a different posture against external and internal factors which can directly and indirectly affect the business.

The challenges presented by Globalization are immense, including challenges with culture nature and cross-cultural conflicts (Wang, Solan and Xu, 2014). Actually according to these authors, these challenges faced by many companies can be grouped into two categories, namely: national culture and organizational/corporate culture.

National culture can be defined as being a set of basic and shared common values which have evolved through time and pass from generation to generation and embedded in a given society (Wang, Solan and Xu, 2014). **Organizational or corporate culture** is interpreted as being *“The result of the collective influence of the history of the organization, organizational values, leadership styles, and management practices as they become disseminated, shared, and inculcated throughout the organization”* (Wang, Solan and Xu, 2014). Although, there is a high correlation between the two culture dimensions, since a corporate culture cannot exist without an intrinsic national culture.

According to many scholars, introducing a product in this fast pace environment, a global strategy – standardization, should be undertaken and globalized products seemed to be the best strategy to adopt, although, many fast food chains soon realized that sometimes Globalization doesn't necessarily mean that consumers need globalized products/ services. Globalization is responsible to instill a greater awareness in people and triggers a shift in the nature of needs, desires and consumer's wishes.

Hence, according to Yamada (2010) there are four different distances embedded in the multiple effects of Globalization, namely, cultural, administrative, geographical and economical. Hence, companies must undertake these changes and redefine business strategies, which can be categorized into three different ones, given the fact that a globalized strategy not always is successful at any given country.

1) **Adaptation Strategy**

Yamada (2010) and Ghemawat (2007) defend that this is the most extreme type of strategy; which aims to fully adopt a country's specificities and traditions into a product's and business plan's development and communication dimensions.

2) **Aggregation Strategy**

Its goal is to overcome the emerging obstacles, resorting to multiple aggregation strategies, seeking for economies of scale in various countries, rather than fully adapt into single country's specificities (Yamada, 2010).

3) **Arbitrage Strategy**

Arbitrage strategy ultimately seeks for absolute economies rather than economies of scale achieved by pure standardization strategy. Similarly to adaptation strategy, arbitrage strategy instead of seeing obstacles on differences across countries, sees them as pure business opportunities looking for a differentiation approach (Yamada, 2010).

According to Yamada (2010) it is extremely important to define what would the ideal standardization level be of a determined strategy. Hence, if Globalization is not yet fully addressed in a country, adaptation strategy should be more effective. On the other hand, once globalization has reached its full potential in a given country, aggregation strategy to achieve economies of scale would be the suitable strategy to adopt.

Hence, companies increasingly have to deal with complex decisions whether to fully or partially adapt locally a product/ service (*Glocalization*) or to introduce new products or simply extending existing product lines.

Wang Solan and Xu (2014) argue that new product development can be summarized into two different stages; the first consists into initiation stage, encompassing idea generation, screening and concept testing. The second phase involves implementation step, product development, test marketing and finally product launch.

Wang, Solan and Xu (2014) defend that new product development consists into a viable strategy which largely contribute to a company's survival in actual's changing and challenging environment. Although, this process is not as simple and linear as it may seem (Wang, Solan and Xu, 2014).

Several factors are at stake when discussing new product development. According to Wang, Solan and Xu (2014) new product development is an extremely complex process which involves both cross-cultural and cross-functional integrations of several aspects directly related to cultural aspects embedded into a local's country. Task-teams must be assigned in order to conduct a new product development process; these teams are directly influenced by their corporate culture, which lastly is derived by a national cultural.

Hofstede's work and cultural model (1994) largely influenced new product development and the way that task-teams behave towards new product development stages. Actually, following Wang, Solan and Xu (2014), "*Task-team machinations are a function of national culture of corporate country, corporate/organizational culture, national culture of task-team members, and task-team subculture*".

A company's ultimate goal is to assign task-teams spread out in various countries in order to achieve as much efficiency and economies of scale as possible (Nakata and Sivakumar's (1996) bearing in mind the necessary changes that have to be addressed according to each country's specificities.

1.4 Competitive Advantage in Franchising Systems

As we have concluded from prior analysis, according to Lillis, Narayana and Gilman (1976) and Rahatullah and Raeside (2008), among many other scholars, franchising is considered to be one of the fast and promising growing industrial sectors in Western economies.

Following Caves and Murphy (1976), Combs and Castrogiovanni (1994); *“Franchising is a way to ease the financial and managerial limitations that temporarily hinder growth and to transfer risk form the firm to the franchisee”*.

Operational excellence, added value, synergetic approaches, and sustainable competitive advantage can only be achieved under a solid business relationship between a franchisor and a franchisee (Combs and Castrogiovanni, 1994; Rahatullah and Raeside, 2008). As we have seen in section 1.2 of the literature review, many are the factors which can deteriorate or enhance a business relationship. There is a permanent trade-off between franchisor-franchisee gains. Exercising power, a franchisor must support recurring to several managerial mechanisms in order to fulfill satisfaction requirements for the franchisee’s welfare; on the other hand, the franchisee contributes with their insight knowledge and expertise regarding a local market and its useful capital investment (Rahatullah and Raeside, 2008).

Therefore, a cooperative and trustful environment based on a synergetic effort from both parties to achieve a common goal through a franchising system, can contribute to achieve a competitive advantage which can be valuable when facing domestic/ international competition (Rahatullah and Raeside, 2008).

According to Lillis, Narayana and Gilman (1976) and many other scholars, various unique advantages were found based on the usage of franchising systems. Ones more direct than others, but all in all, several advantages can be found and assembled which in medium-long run can contribute to a company’s competitive advantage. The main advantages are the following:

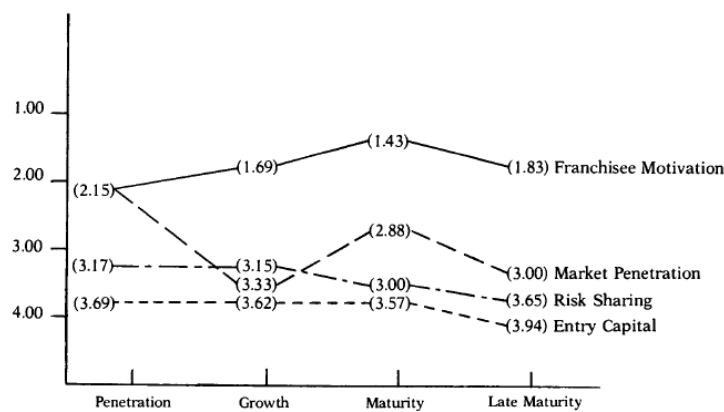
<u>Direct advantages</u>	<u>Indirect Advantages</u>
i) Rapid access to markets;	iii) Risk sharing within the channel;
ii) Reduced cost of capital;	iv) Highly motivated owner-operators.

In this sense, it is important to notice that these advantages fluctuate along the several stages of franchising life cycle. Lillis, Narayana and Gilman (1976) have pointed out that competitive advantage changes and its course is affected by several events over franchising agreement duration. With this being

said, it is imperative to understand that firms in the same franchising life cycle may differ on the perceived importance on the described advantages.

Following Lillis, Narayana and Gilman (1976), the combined effect of the described advantages may seem most important in early stages of franchising in the short-run. Observing below **Figure 4**, we can highlight the fact that different companies in the same stage of franchising life cycle perceive and value differently the various advantages. Lillis, Narayana and Gilman (1976) have concluded that, franchisee motivation can be perceived as the most important competitive advantage by the companies tested.

Figure 4 – Perceived importance of franchising competitive advantages



Source: Lillis, Narayana and Gilman, 1976

According to the authors, franchisee motivation and market penetration are crucial in early life cycle stages, on the contrast, risk sharing and entry capital are more relevant on later stages. Although, not all companies can provide competitive advantages (Barney, 1991). Franchising can be ultimately seen as a way to acquire fully owned subsidiaries, mitigating the use of power and “intermediaries” (Lillis, Narayana and Gilman, 1976).

A synergetic approach should be built continuously, since each party desire to gain as much profit and advantage from a franchising type of business relation. Hence, franchisors must determine managerial mechanisms and specific techniques not only to control and monitor the franchisee but also to ensure that the franchisee is satisfied. If a franchisee is satisfied, is more likely to cooperate successfully along with the franchisor’s terms. Trust will be achieved by continuously demonstrations of commitment and cooperation between both parties (Shane, 1998).

2. Case Study: h3 Hambúrguer Gourmet – Main Drivers for Internationalization and Faced Challenges

2.1 The Secrets behind an Entrepreneurial Adventure

H3 Hambúrguer Gourmet was a natural consequence of a common idea of three friends, where two of them are cousins and the third is a friend from childhood. Three people that knew each other very well, they have grown together, shared the same principles, values and they have one thing in common, the three friends were obsessed with food.

2.2 Direct Key Success Factors

Albano Homem de Melo is graduated in Law, although he never intended to be a lawyer and never pursued a lawyer career. His first professional experience was through an internship in an advertising Company. Albano is considered nowadays to be on the top 3 best publicists in Portugal. Albano has another passion. He is by excellence, a recognized chef and cooker for a large amount of people, therefore, food has always been a part of who he is and what passionates him aside from publicity.

António Cunha Araújo, is also graduated in Law, although he actually was a lawyer until 2007, having his first professional experience as a managing partner at Cosmo Chilli, Lda. António was the person in charge of all the bureaucracy and legal affairs regarding the founding period of h3. Every legal aspect from the expansion terms and aspects of h3 as a brand, as well as all the bank relations and funding issues at h3 were part of António's responsibility.

Miguel van Uden, was a real estate consultant, back until 2007, right now he is the h3 partner in charge of all the matters regarding to both h3 human resources and strategy & operations.

Having this three founding members in mind, we must not forget that each one had different interests and passions but most important, professionally they had a very different path from each other, coming from distinctive academic areas.

Albano is the creative man and cooker by excellence where he likes to invest his spare times. His role is to develop ideas and concepts, but most important, he creates successful recipes. Having the concept, the idea and the recipe (Albano's role) in mind, it is necessary to have someone capable to find the physical space to build the business and also capable to finance those ideas and concepts to have the business ready and possible, that someone is António. Having Albano as the mind behind all the

creativity and António financing the project, we lastly need someone to take care of the operations and costs there is where Miguel comes in.

The huge and exponential growth of h3 is explained by these three people that are basically the key success factors which translate into three very different and complementing personalities that were behind everything (**Figure 5**, faces in a summarized way the recipe for the h3's success).

Summarizing, the recipe for success of h3 Hamburger Gourmet was the combination of these three people, capable of imputing several skills, know-how and professional experience which contributed to a solid and profitable business in a sector which nobody believed.

"If these people would be just one, we would have the biggest and the best CEO worldwide."

- Nuno van Uden, Marketing & Communication, h3

One of the biggest secrets which largely contributed to this outstanding success, was the fact that these friends knew each other for a very long time, trust emerges as an important factor, since these three friends trust blindly on each other. Also, there is a realistic point of view of every single one of them, where they know that they are absolutely incompetent on each other's areas and functions.

Combining the fact that we have the necessary minds to put a business together, let's not forget how this "out of the box" concept started and what the indirect key success factors are.

2.3 Indirect Key Success Factors

The will to start something of their own

Despite being completely different from one another, Albano, António and Miguel had something special in common; the willpower to build something from scratch.

Café 3 was built in this context, back in May 2004 in Forum Tivoli at Avenida da Liberdade in Lisbon city center. Since its beginning, it was intended to serve good and quality food at affordable prices. Chef Victor Lourenço was the man behind the menu's preparation, ensured all the food was prepared carefully and on top was also a minority shareholder of Café 3. Well, Café 3 was born without any professional marketing or management financial forecasting; neither market research nor market tests were conducted because they didn't think it would be necessary. As a result, they wouldn't lose any money, although they will not have any profit at all.

They concluded that Café 3 was incapable of being the only resource to live with, even with Miguel quitting his full-time job on behalf of Café 3; all realized that Café 3 concept was not viable. By that time, an emerging problem arose. The well-known Avenida da Liberdade was not as busy as it is today; therefore, Café 3 only had some high affluence levels at lunch, when the busiest people showed up to have a quick meal. At night, the restaurant practically didn't have anyone coming in, on the contrary, lunch time was their busiest time of the day. Therefore, to fight this affluence problem, with Albano's new and fresh ideas to boost Café 3, they launched the "*Hamburgueses*", which were regular hamburgers with a gourmet's touch.

This new concept mainly introduced by Albano, it had an acceptance that proved to be largely bigger than what was expected at start. Having this emerging success coming along, they faced a dilemma; whether they would entirely renew Café 3's concept to something totally different, or they would move to another place, given the daily's seasonality of the restaurant.

It is also interesting to take into deep consideration the fact that luck also plays an important decision making factor for the opening of h3. If the business negotiations hadn't taken so long, António and the rest of his friends, probably, wouldn't open or wouldn't even think about a different concept comparatively to Café 3.

H3 Hambúrguer Gourmet was born from a very simple and objective question, which is: "**Where are the people?**" (Please observe **Exhibit 1** for more information). Given the past experience acquired in Café 3's management, the three friends learned very fast that, no matter what business they decided to pursue, they have to be where the majority of people is, regardless which type of food they want to serve. They concluded that this business would only live if they strategically position their restaurant in locals with high affluence of people.

Given the high popularity of shopping malls in Portugal, especially when having lunch, easily the three friends concluded that was the perfect spot to target.

By that time, given the past experiences and facts with Café 3, where practically there were no market tests, market research, branding or whatsoever, they decided to conduct home surveys, directed by friends and family with the goal to study the market and especially the needs of the Portuguese potential consumers.

Several people were inquired at Plaza Shopping Mall with the purpose to discover some of the main patterns of the regular consumers at lunch time in a shopping mall.

They first identified the customer type, a typical man/ woman, around 30 years old, busy and with a stable professional career, who likes to eat fast but at the same time in a healthy way. Every study conducted by that time was “home-made” and treated by internal sources. (**Appendix 1** describes in a high-level the type of homemade survey conducted at first by h3).

The clear objective of h3 is to admit that nowadays people have less time to eat well and in a way most similar at home. The past trend of going home in people’s lunch break and have a perfect fresh cooked meal is almost over, given the current trends of modernization and fast paced environment. In this sense, h3 Hambúrguer Gourmet showed up with the main reason to serve a proper meal that most resembles the homemade habits of the Portuguese people.

2.4 A Revolutionary Way to Eat Burgers – A Magic Product & Business Model

Hamburgers were not chosen to be healthy. Actually, given the popular trends in eating healthier and well, Portuguese people are still rooted to the typical stake or hamburger covered in sauce with French fries. H3 Hambúrguer Gourmet, on the contrary with what a lot of people think, is not known for being a healthier type of food chain but instead, to resemble Portuguese typical food habits (please observe **Exhibit 2**).

Albano, António and Miguel have decided to maintain the old hamburger recipe from Café 3 in almost every burger available on the menu; given the previous success and acceptability from the general public.

One of the key success factors which directed contributed for h3’s bargaining power among its stakeholders was definitely the business model and product line chosen, which were very focused on just one product offered to the general public from the beginning.

It is very common to inquire h3’s management, why didn’t they choose to offer a wider menu offer, besides their core product – the hamburger itself. Why not a gourmet fish dish?

For this question, h3’s management has its own theories; in a strategically way of thinking, h3’s faces an entire shopping mall’s food court as one big menu, full of choices available on the clients’ eyes. Therefore, a food court is considered to be a giant restaurant. Hence, when a client wishes to eat in a shopping mall, he or she looks into the food court as a variety of multiple options. The natural consequence of this behavior is to normally not be fully confident on the choice of restaurant.

Hence, one of h3's key success factors relies on the fact that they operate using a mono-product, meaning that, in operational terms, they only need to buy a short variety of products but in a very large scale. This fact contributes to enhancing their bargaining power among suppliers, having a notorious average of 12 000 hamburgers sold per day in Portugal times 200 grams of pure beef in each hamburger made gives us a total of 2 400 000 grams of meat bought per day, on average. (**Appendix 2** describes in detail the secret behind h3's strategy and operations).

As we can imagine, a direct consequence, h3 can enjoy from a very tempting price per kilogram of meat purchased. Despite having multiple requests to have some variety in terms of their core product, in operational terms, it's not even profitable to commercialize a vegan hamburger, for example, or a tuna hamburger, because this will contribute to a diminishing effect of the brand identify and awareness but most important, they will stop having the economies of scale as one of their main pillars.

"One of the key success factors was to not search for an immediate profit".

- Nuno van Uden Marketing & Communication, h3

One of the important messages that h3's management aims to spread out is that this gourmet concept appeared attached to several roots to the Portuguese consumption patterns, which made h3 a huge success from the start. Also, one of the big characteristics from the management is not to be obsessed with numbers and concrete values. For António, Albano and Miguel, the most important thing was to be able to serve a high quality meal, at a fair price and related to something that the Portuguese could associate with. If the quality is appreciated, then, there wouldn't be any problems in generating revenue. Therefore, they never targeted in revenues, they were focused instead, on offering the best product possible at the highest quality possible, no matter at what acquisition price.

2.5 Discovering the World – The Road to the Unknown

Since 2007, that António, Albano and Miguel had this megalomaniac goal to once be the biggest hamburger chain in the world (**Figure 6** shows us the management's intention). That was the first big announcement from the founding members to the general public. Actually, given their outstanding success, an internationalization strategy was the natural path to go for, (**Exhibit 3** shows us the store's evolution through time) given the number of stores opened since h3's foundation. Despite the macroeconomic instability and a downsize in 2008, 2009, h3 took an overwhelming risk to open 6 and 13 stores in those years, respectively, and never stopped reaching incredible values.

However, was António who realized that the company was reaching its maximum potential at the national market, given the high acceptance and success rate, h3 was present in almost all big shopping malls around the country (**Exhibit 4** shows us the numbers in more detail). In 2009 h3 opened 13 new stores, meaning that more than one store per month was opened in one of the national shopping malls, as well as, in 2010 where the number was similar with 12 new stores ready to start. This was obviously made so quickly because the success rate was above the initial expectations, and everyone saw h3 as a promising business, despite the recession and the saturated market where they operated in.

H3's breaking through concept had innumerable competitive advantages and multiple key success factors to support its exponential growth, however, big ideas can have big disadvantages. Despite h3's revolutionary concept, it was easy imitable. H3's competitive advantage could be easily lost due to its business peculiarity. Given the low number of shopping mall operators, their intention was to open at least one store in each big operator with a simple idea to dominate and conquer the national space against potential new business entrants with similar concepts.

Having this idea in mind and the desire to conquer the national soil, this "ferocity" led to some legal problems by that time. That was the main reason for the lower number of stores opened (6 stores) in 2008, combined with the fact that the majority of shopping malls didn't believe in h3's business model and concept.

Bearing in mind that opening a restaurant at any food court is subject to high bureaucracy and legal constraints, h3 had serious problems, since at the eyes of the major shopping malls' operators, they were another restaurant chain aiming to commercialize hamburgers. At the beginning their concept was not taken seriously, no matter what their arguments were.

António, Albano and Miguel fought this pre-mind set of everyone who said that their business was not going to be successful, by simply taking the people to Plaza Shopping Mall or Monumental Shopping Mall, for the potential clients to see how h3 Hamburger Gourmet worked and the amount of people that was dragged in.

Since 2008 there were pretty much no numbers to reveal, the management had as their weapons: the current queues and taste of the food they were selling, which was nothing even comparable with the traditional fast food chains.

The business itself had an extraordinary acceptance rate of no less than 100% per year until 2012; however h3 observed a significant downsize in its annual growth rate after 2012, passing from 100% to around 30% growth.

There was a slightly fear from the management side regarding the downsize observed in 2012 and also due to the fact that h3, by that year was already present in the major shopping mall operators, becoming very hard to obtain a higher growth rate or market share compared to what was verified in the past years.

Speculations about sales revenue and profit became to arise by 2009, therefore, in a natural and consequent way, the internationalization was the most suitable path to take, since the Portuguese market was already considered to be concentrated and h3 was already largely present.

2.5.1 Push & Pull Factors of Internationalization

Regarding the analysis previously made, we can highlight the main factors that boosted h3 to go overseas. Those factors can be distinguished into **Push Factors** (internal market factors – Portugal) and into **Pull Factors** (external market factors). The main Push Factors verified in the national economy are the following:

- Economic recession and its multiple effects, causing a downsize in sales, consequently having an impact on market share and contributed to a market stagnation;
- Lack of market “boosters” – stagnated market competition (no room to grow);
- As a direct consequence of the recession, the price of all raw materials and secondary inputs increased;
- Increasing taxes and bureaucracy;
- H3 had already reached its full potential by 2009 – 21 stores opened at almost all shopping mall big national operators.

As the main Pull Factors we can categorize them into three different areas: **market seekers**, **resource seekers** and **efficiency seekers**.

- Market seekers - concern all the appealing aspects of the entry market: the size sample (number of inhabitants), market constant growth rate and ultimately the weight of the fast food growing market;
- Resource seekers – include all the labor favorable conditions such as, the relative cost of labor force and cost and raw materials’ level of accessibility;
- Efficiency seekers – the ability to centralize operations and processes due to geographical advantages, the knowledge, know-how or expertise level and the ability of achieving economies of scale and scope.

2.5.2 Poland

The investment in Poland was tightened up with the fact that *“To be a natural market for the brand, since Poland is a large developing country with 40 million inhabitants with plenty of shopping malls”*.

- *António Cunha Araújo, Responsible partner for h3’s expansion*

H3 Hamburger Gourmet is known not only for its *“out of the box”* concept, but also due to their way of thinking and consequently, acting. Since the beginning, h3 claimed to be not fully interested in number figures, on the contrary, they were interested to be able to provide a quality product to the clients, having their satisfaction as their major reward; hence, h3’s management can be considered as bold, managed by people who do like to take risks, independently of the final consequences. Poland and Spain are pure examples of taking the risk and embracing all the opportunities that may come along the way, whether they are good or bad.

Three students (two Portuguese and one Polish), coming from a well-known consultancy company presented themselves one day to h3’s management, full of studies and conclusions about the Polish market as a potential market for the first international move.

If we look into Polish’s similarities with Portugal, clearly has nothing resembling the Portuguese market, culture, consumption patterns or mentality. Strategically thinking, Poland wouldn’t be h3’s first internationalization destiny. The only reason why António, Albano and Miguel accepted this challenge was only because they felt curious and triggered by the willpower of those three students, asking themselves, why not? H3 at this point, didn’t have anything to lose by entering into the Polish market despite the risk being very high. António, the partner responsible for h3’s expansion was truly convinced that Poland would be a great first destination, since its fast food market was not developed at all, compared to the rest of Europe and also in terms of demographic potential advantages; Polish sample size is almost 40 million inhabitants with a relative economic and political stability, high commerce affluence and an embedded shopping mall culture, were the main reasons to fundament Miguel’s confidence in betting in Poland.

In January 2011, somewhere between a Macdonald’s and a place called Thai Wok, h3 Hambúrguer Gourmet decided to take its chance into the Polish market, after some delays on the selected shopping mall, since h3 was thinking in opening its first store on December 2010.

Warsaw was the city chosen, more precisely in a shopping mall called Mokotów Gallery. This mall is situated in a middle of a noble residential area, constructed in 2002 and it has 260 stores.

The h3 menu Tuga cost 24, 9 PLN (Polish Zloty – at today’s currency exchange is 5, 88€), a price which is slightly inferior at the national’s price. For us to have a better insight, a Big Mac Menu, at McDonald’s today costs 4, 75€ in Portugal, in Poland the same burger menu costs 12, 99 PLN which is about 3, 07€. Therefore, within the market, we can confirm that for the Polish, 24, 9 PLN is a little expensive compared to a random McDonald’s menu which they still value and appreciate very much, since the fast food introduction in Poland was still very recent.

H3 Hambúrguer Gourmet started its activities in Warsaw through the system of Joint Venture or also called Foreign Direct Investment. Poland might have seemed very interesting at the eyes of the three founders, since East Europe countries are democratic nations with market economies. Regarding the process of establishing local operations in Poland, h3 decided to have as much control as possible, thus, for that purpose Café 3 S.A. assumed 40% of control of the local company. H3 Polish stores were controlled by a local franchiser in partnership with two local entities, one Portuguese and one Polish.

In terms of process and operations transfers, the quality of the product must be reinforced and constantly monitored; therefore, the meat supplier would be the same as it is in Portugal, to be able to ensure all quality requirements. For that purpose, was created a new system based on a vacuum package to transfer the meat from Portugal to Poland. This imported meat would be stored into a warehouse purposely created in Warsaw. On top of those initiatives, an external company was outsourced with the mission to deal and take care of all the logistics from Portugal to Poland to ensure the exact same quality transfer.

The management, firmly decided to offer the exact same product In Poland, besides a slightly change in prices. Additionally, a Polish special hamburger was going to be introduced as one of the options available. The drinks offered were also changed to smaller sizes adapted to local consumer patterns. Regarding human capital efforts, the staff needed was sorely trained in Portugal for approximately two weeks to keep all the standards aligned, especially when was key for the Polish employees to understand the essence of h3’s concept and way of working.

These small changes can reflect the will to “*Think global, act local*” as part of their internationalization strategy – as known as *Glocalization*². All in all, 500 thousand Euros were invested in new equipment to ensure everything ran smoothly. For a better insight on the Polish’s fast food market characterization, please observe **Appendix 3**.

² *Glocalization*, is known for being an extremely popular internationalization strategy, since it combines “the best of both worlds”; in one hand the product core is maintained wherever the final destination is, although some details are modified to embrace the culture and the habits of the local country. Hence, *Glocalization* refers the specific adaptation of a product or service to every location or culture in which it is sold.

2.5.3 Spain

The number of investors interested in h3's business and operations model is growing at a very impressive glance. Spanish investors were no exception. A very powerful Spanish group was clearly interested in h3's brand and strategy; Vips Group, who's vice-president was once spending some vacations in Portugal, occasionally passed in an h3 and completely felt in love with its concept. This Group is a leading company in the Spanish restaurant and retail industry, which has over 325 establishments, located in 19 regions in Spain and also Portugal. This powerful Spanish group had in 2011 sales that were over 387 million Euros. Having the most powerful franchises all over the Iberian Peninsula, such as, Starbucks, Vips, Friday's, among many others.

Vips Group seemed to be an ideal partner for h3 to establish itself in Spain as the following target market after Poland. They seemed to be an ideal partner; Vips Group had the sufficient knowledge, an outstanding reputation and contained some of the most powerful franchises all over Spain.

After one year of intense negotiations, the management finally decided to franchise h3 in Spain, under Vips Group surveillance. This franchise agreement was based on an exclusivity contract between h3 and Vips Group. The investment was done only by these two entities, where h3 received the respective royalties only.

This was still a learning phase for h3, plenty of concepts and underlining processes were totally new for Miguel and his friends, although Vips Group, due to their massive reputation and brand acquisitions, really seemed to be the perfect partner to represent the brand in Spain. Although, there is a need to highlight that Spanish people, in terms of shopping mall culture is definitely not the same as ours (looking into more detail to **Appendix 4** you can have a better insight of the Spanish's fast food market characterization).

First and foremost, Spanish people during lunch, in the majority of regions, take the lunch break to go home and take the common nap which normally lasts two hours. Thus, to lunch at shopping malls is common but not as common as in Portugal. Therefore, it was natural for h3 for have wanted to open its first store as a traditional street restaurant rather than an outlet store in a shopping mall. Traditional street restaurants were much more appreciated than eating in shopping malls, according to the majority of Spanish people.

This street restaurant concept was going a little bit against what was practiced in Portugal, hence, there was a fear associated with this shift from a well-known concept in Portugal to something that was never practiced before.

In conclusion, Miguel and his team were not fully secured whether h3 would be successful as a street restaurant rather than a shopping mall outlet. Miguel was confident though, that the geographical proximity will compensate this drift in concepts. Logistics would be ensured by some of h3's recurrent suppliers, to maintain the final product's quality.

Until this specific point in time, h3's management was still learning and dealing with a lot of internal legislation and bureaucracy, hence, h3 didn't impose a lot of boundaries or special requirements on the legal franchise contract, believing firmly that the brand for itself would be a huge success.

The first h3 store was then opened in September of 2011, in Kinépolis de Pozuelo de Alarcón shopping mall in Madrid's periphery (around 30 km from the city center). The second store was opened in April 2012, also in Madrid's periphery, in Diversia shopping mall. The second store was linked to an investment of 340 thousand Euros.

Similarly to the Polish example, the menu was intended to remain the same as in Portugal, although, it was planned to introduce three more different variety of salads, more desserts and coffee would be also available. Here, the underlined message is, instead of being an ordinary "fast food street restaurant", h3 wanted to direct its concept to a more gourmet "premium burger house" (using the well-known analogy and popular concept of a steak house).

2.5.4 Brazil – What's next?

Brazil and also countries situated in North America were always the plan to go first. Internationalization was a clear goal that was present in the management's head since the day of h3's creation, claiming to be one day, the biggest hamburger chain in the world.

Besides obvious strategic reasons, Brazil was the country chosen for a variety of reasons; first, the consumption of meat is very high, compared to other countries, namely European countries (Please observe **Exhibits 5, 6, 7 and 8**). H3 was suitable for the Brazilian patterns, since h3's hamburgers are definitely not thin neither savorless as the fast food typical hamburgers. In this sense, h3's meat was very much related to the well-known Argentine meat, predicting in some way, a certain degree of adherence by the Brazilian citizens.

Even more important than the meat correlation between the Portuguese and the Brazilian typical consumptions habits, it is also very important to refer another issue. Are the Brazilians' food courts similar to the Portuguese ones?

It was very strategic to address this issue on the strategic decision regarding the internationalization process. Actually, Brazil has the same system as in Portugal when talking about food courts. In fact, Portuguese shopping malls are true copies from the Brazilian ones (please observe the **Exhibit 9**).

Brazil is and was definitely the main target for h3's management, in sense that, the advantages are immense; from the language non-existent barrier, to the very similar culture, the consumption habits, the size of the sample, the macro characteristics of the Brazilian fast food market itself (please observe **Appendix 5** to have a better insight on the Brazilian fast food market characterization) which is growing at a very fast pace.

Currently h3 has 13 opened stores in Brazil, 25 fully owned by the Company and 14 in a franchising regime, having one investor partner to rely on. The first fully owned store opened in São Paulo in November of 2011 at the Morumbi Shopping Mall. By the end of 2012, with only 9 opened stores in São Paulo, h3 was able to profit 7 million of Brazilian Real (which was approximately 3 million Euros). *"In Brazil, only of those 9 opened stores, we predict to achieve a business volume of 18 million of Brazilian Real (approximately 7 million Euros) by the end of 2013"* alleged the responsible for h3's international movements.

According to the founder, the Brazilian internal expansion is done through *"two different types of operations in shopping malls"*, he explained. The first strategy would be to invest in fully owned local stores and secondly, the expansion would also be achieved by granting more franchises through local partners. Miguel also disclosed *"The investment in the first São Paulo store has reached 2, 5 million Brazilian Real (around one million Euros), which doesn't mean that the rest of the investments made on other openings reach that value"*, said Miguel.

Regarding the brand's expansion through "regional franchise" h3 counts already with two stores in Baía and one at Recife; by April of this year, the company counted already with 13 restaurants in Brazil (10 fully owned and three in a franchise regime).

Several factors were carefully weighted before entering in this matured market. Learning with the past experiences of Poland and Spain, the two main critical factors analyzed were definitely, the stage of the Brazilian market itself, involving macroeconomic issues and also the dimension and the specificities of its fast food market. On the Polish case, some fast food market maturity was needed to embrace h3's concept properly, otherwise, people wouldn't take the inner feeling of eating an h3 Hambúrguer Gourmet properly.

Brazil's internationalization was not easy at first, at least on the first months. Actually h3's management struggled with some internal issues, therefore, serious measures had to be undertaken in order to recover the huge investment done in Brazil. One of the actions done was to send several Portuguese collaborators to Brazil and even entire training teams to mold the Brazilian human capital and also the labor methods practiced until then. Given certain moment, Miguel thought about centralizing all the kitchens, not only in Brazil but throughout all stores including Portugal, since several complainants were made, claiming that the hamburger was not served the same way everyone. Therefore, centralization seemed to be the best decision to make, despite all the serious risks attached, such as, the risk of one time failure would compromise the entire service line. In terms of logistics, centralizing an entire kitchen function in Brazil was extremely expensive; hence, h3's management team took some time to think in all these implications.

A revolutionary cooking system was developed, to fight high operations costs, which is based on a new technique of cold-cooking. This system was introduced at first in Brazil's stores but it was already expanded to Portugal as well, this technique was able to drastically diminish (more than half of the price) the operations' costs, mainly in Brazil. Since the opening stage occurred very rapidly in Brazil, it was urgent to align all the human labor and stores' mode of working by sending specialized training teams directly into the field.

It was mainly due to these measures described above, that h3 was able to acquire a sustainable growth rate and success in Brazilian lands, especially in São Paulo, where are 10 stores currently running. Rio de Janeiro is also a medium term option, although it is crucial to decide its mode of entry, whether by foreign direct investment or through franchising.

Comparing both options (Foreign Direct Investment vs. Franchising), and given the past experience of h3 in this matter, van Uden believes that the most profitable mode of entry is through franchising. In this option, the costs and risks are lower compared to foreign direct investment. To illustrate this issue, let's analyze the way of entering in Poland versus entering in Spain. In Poland, h3 had serious losses in terms of profitability, since they invested massively into the Polish market without getting any returns. In the Spanish case, since the mode of entry was through a franchise agreement, it was very easy to withdraw all the brand presence by terminating the franchise contract with Vips Group; the losses were zero, since the direct investment was zero as well.

2.6 Lessons for the future – What could have been done differently?

Already having in mind these three countries where h3 Hambúrguer Gourmet has expanded its operations, several lessons were understood and kept in mind for future prospects. Miguel admitted that Poland and Spain were not the key target markets to go first.

In terms of its market maturity, they have concluded that in Poland, for instance, fast food market was not ready to embrace h3's business yet. There were two main reasons for this investment in Poland to have roundly failed. The first reason is that the Polish market was not read at all to receive a premium gourmet type of hamburger. The Polish society is still contemplating the new world of fast food, industrial chains, which are recently new in the Polish consumption habits like McDonald's or KFC.

With this being said, we can assume that the overwhelming success of h3 in Portugal, influenced somehow the decision to go to the Polish market so rapidly.

Regarding the Spanish entry, although the mode of entering in its fast food market was revealed to be the most suitable one, since there was no direct investment, the losses were zero as well as the return.

All in all, there are several critical factors which Miguel and his team now have in serious consideration before making any future decision. The mode of entry is definitely a decisive factor, depending on the type of country and market, the type of local partner, whether is a major shopping mall operator or a small investor, the stage of the fast food market, we have already seen that some degree of market saturation is also needed to value h3's concept and ultimately a controlling system of the franchise contracts must be reinforced and always monitored, which was definitely a lack on the Spanish case.

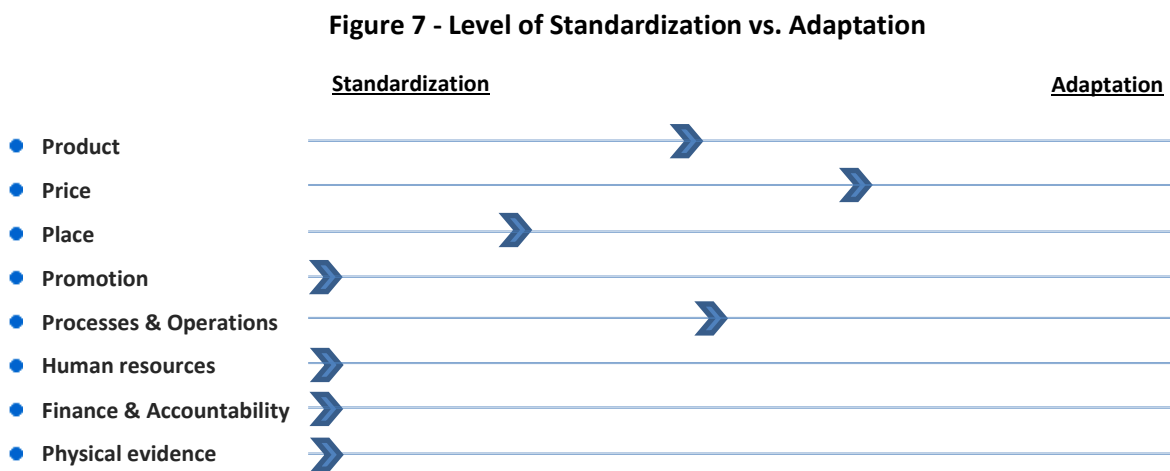
Currently h3 in partnership with a Portuguese software company is creating a management control system, which is able to monitor and regulate all the franchise contracts extended to the stores as well.

The biggest challenge of h3 Hambúrguer Gourmet is how to grow without becoming an "heavy" enterprise; not only speaking in terms of costs, but also in terms of processes or logistics. This company has learned how to become careful and how to deal with the future's uncertainty.

The franchisees are much more controlled and monitored, for that purpose and following the management control system imposed by h3, checklists are used in order to evaluate the franchisees' performance on a regular-basis. These checklists are done by everyone who goes to an h3 store, whether he or she is a supervisor, maintenance personal or even people in accountability. With the questions present on the checklists, it is very easy for the team to mislead when something doesn't

seem to be right. This is done in an internal level; regarding an external level, h3 very often hires external auditing firms and also resorts to different assessment techniques, such as, mystery shopping and special companies are hired to control the operations directly on the field. Ultimately, if something is not working the way it is supposed to be, the franchisee can be penalized.

Therefore, is very important to highlight that measures are now undertaken and created in order to not repeat certain mistakes of the past and reinforce the brand’s future success and sustainability. The key lesson that we must kept in mind is that, no matter how good or innovative the idea is, it may not perform the same way everywhere it goes. All in all, we can summarize h3’s internationalization strategy in the **Figure 7**, where we can evaluate the level of standardization or adaptation of each core and support business’s activities:



Product – Partial Standardization: Regarding the product’s local strategy, the core menu is the same, although the menu names change according to the local country. Also in case of Spain, Poland and Brazil, mainly salads and desserts were changed according to the local traditions and consumption patterns.

Price – Partial Adaptation: In terms of price schemes, they are adjusted to the local currency and purchasing power of the country. Although, they offer competitive prices, they are not known for being cheap, compared to other food chains.

Place – Standardization: In terms of stores’ location, h3 wants to be placed in shopping malls due to its concept’s nature and purpose. Hence, except some cases in Portugal and Spain where street stores were opened, their key “signature” is in shopping malls throughout all countries.

Promotion – Standardization: Despite the inexistence of promotional campaigns or outdoor advertising, h3 keeps its internal promotional efforts to each country’s specifics. H3 Hambúrguer Gourmet is known

for its context out of the box and signature, well known for its innovative and creative mottos spread out in all stores (observe **Figure 10** for more details).

Figure 10– h3 Hambúrguer Gourmet Mottos



Source: h3 Official Website

Processes & Operations – Partial Adaptation: “In store” processes and operations remained the same, despite some small changes regarding suppliers and distribution.

Human resources – Standardization: All the same requirements are still in force, when recruiting new labor force. Also, the inner rewards and benefits remained unaltered.

Finance & Accountability – Standardization: Keeping the same guidelines in all countries is also an important requirement. In this sense, there is a management control system in place whether there is a fully owned store or a franchise agreement to ensure everything is aligned with standard procedures.

Physical evidence – Standardization: All branding elements and constituents are maintained; from the brand name, logo, mottos, colors to every store physical surroundings, although, language is modified according to the country.

2.7 H3’s Future Challenge

Six years and 52 stores later, the future is still an uncertainty for the three founding members. Despite the overwhelming results and records achieved in Portugal, including net revenue of 27.000 thousands of Euros only in Portuguese operations, h3 Hambúrguer Gourmet still has a long journey to exceed.

As we have seen, the three countries chosen had significantly distinctive results from each other. Nevertheless, several factors largely contributed to the final outcome. Mode of entry, local market strategies, customer habits, partnerships, suppliers are amongst the critical factors covered in the case study presented.

After some of the strategies and business procedures undertaken by h3’s management were analyzed, it is important to highlight whether these strategies are being well affected to each country. Does h3 Hambúrguer Gourmet really know their customers? Are there any extra efforts that could be made in order to address h3’s customers’ characteristics more effectively? Why did internationalization process acquire relevant discrepancies?

3. Market Research

In order to fully address the previous challenges faced by h3 Hambúrguer Gourmet, it is imperative to first understand whether the company knows exactly the Portuguese consumer and their patterns. Is the consumer more demanding? Have the needs shifted towards newest globalization trends and market developments? Let's find out.

Before entering into foreign markets, the inner characteristics of the costumers must be address and taken into further consideration. As we have previously concluded, innumerous external and internal factors may affect the consumption patterns of hamburgers. For this purpose, a survey was conducted (**Appendix 6**) in order to gather more conclusive qualitative and quantitative information regarding Portuguese consumption preferences when having a fast meal.

Therefore, a survey was built in order to asses critical aspects towards consumption profiles and habits, covering the following topics:

- Consumption patterns: place and frequency
- Purchasing options and preferences
- H3 Hambúrguer Gourmet positioning and competitors
- Critical aspects when choosing a fast food restaurant
- Generalized perception towards h3 Hambúrguer Gourmet
- Generalized perception towards fast food

3.1 Methodology

Market research was mainly done through the development and distribution of an online survey (**Appendix 6**), which was spread out on social networks (Facebook, LinkedIn and Google +) and internal email lists, resulting on a random sample of 125 responses, which 107 were useful for further analysis.

The survey conducted was based in a majority of close-ended questions, namely, 13 close questions and three open-ended questions. The possibility of "Other" as an alternative answer was also introduced in a variety of questions, giving the respondent some flexibility.

In this survey, we can also find scale questions, which are useful to weight the perceived importance of critical factors when choosing a fast food restaurant, although, the large majority was multiple type of questions. With an exception of 5 questions, all questions were mandatory, in order to progress on the survey, to ensure complete results for further analysis.

To guarantee that the results were not biased, some modifications had to be done. For instances, some answers had to be eliminated from the final sample, since they appeared to have been answered

randomly and not in a consistent way. Hence, the sample initially constituted from 125 answers had to be reduced up to 107 useful answers.

3.2 Sample Analysis

As I previously mentioned, our sample is constituted from 107 valid answers from a concrete universe. It is important to categorize the demographics of our useful sample, thus (please consult Exhibit **10 a**):

- 34% of the sample are males and 66% are females;
- There were no respondents below 18 years;
- Between 18 and 28 years, 73.33% were males and 85.71% were females, hence the large majority of the sample is inserted in this age category with 81.40% of the total sample represented;
- Between 28 and 40 years old, 23.33% were males and 8.93% were females. The second biggest sample size is inserted in this age category achieving a total of 13.95% of the total sample;
- 5.36% of females were between 40 and 55 years old. No males were registered in this age category; having a total of 3.49% of the total sample represented;
- Above 55 years old, we have a total of 1.16% of the sample, consisting in 3.33% of males;
- There are no sample records above 55 years old.

Regarding respondents' occupation (Exhibit **10 b**), we can verify the following:

- The majority of the sample is constituted by 64.29% of full-time employees, which 60.87% are between 18 and 28 years old;
- The second largest portion is formed by students with 28.57%, which 34.78% of the respondents are between 18 and 28 years old;
- As the third biggest portion, we can observe 10.71% of the respondents are part-time employees, which 13.04% are between 18 and 28 years old.

According to the values above, we can conclude that the majority of respondents are **females** between **18 and 28 years** with a **full-time employment**.

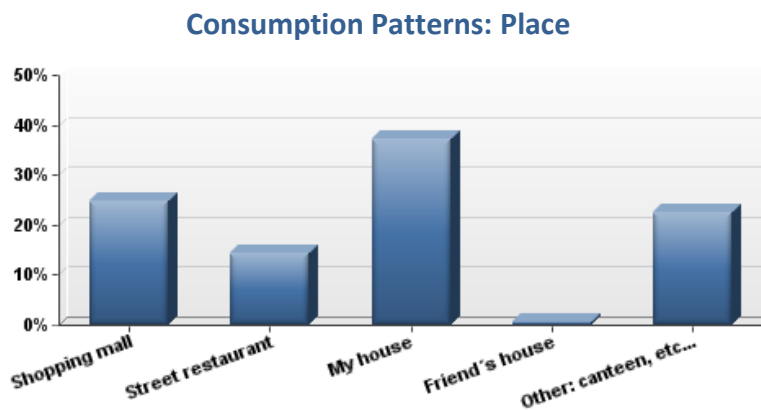
3.3 Results

3.3.1 Consumption Patterns

Concerning consumption patterns and Portuguese habits, several variables were taken into consideration. Primarily, was asked where Portuguese typically have lunch, afterwards, was asked what the frequency when eating in shopping malls is. Observing **Exhibit 10 c**) we can verify that 37% of the

sample prefers to go home when choosing to have lunch during the week. Please observe **Exhibit 10 c1)** for more information.

Exhibit 10 c) – Consumption Patterns



Shopping mall is the second preferred option, achieving a total of 25%. Actually, from the results obtained, people are still very much rooted to traditional habits. Regarding current socio-economic developments, we can assist that people would rather save money and have a meal at home than fall back on shopping malls on a regular basis. Hence, for those who prefer to eat in shopping malls, 54.26% go 1/ 2 times per week.

In Portugal, if people work/ study near home, undoubtedly, shopping malls are not considered to be the first option on a constant basis. 23% of people admitted that they don't go to shopping malls at all.

As we have observed, the large majority of the respondents affirmed that shopping malls are not their first option, as an alternative, people still rather go home at lunch during the week than go to shopping malls. Although, aside from the preferred option, a big portion of the sample goes to shopping malls when there is no other option.

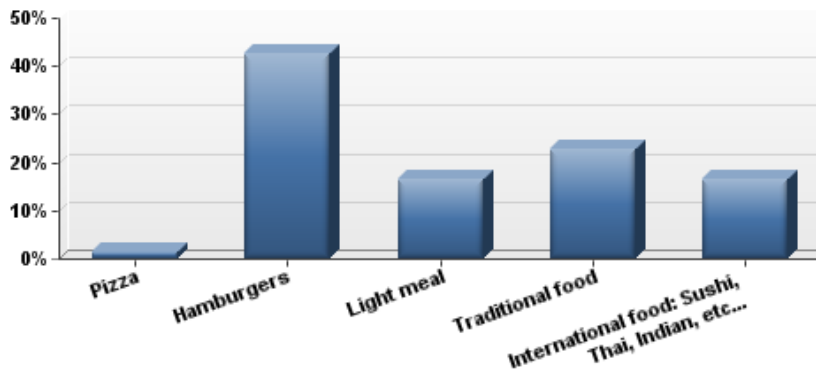
3.3.2 Purchasing Options and Preferences

Portuguese fast food market is considered to be a saturated market. Hence, for those who usually eat at shopping malls, the variety is outstanding, inducing the consumers with a wide sample of stimulus, the purchase choice is normally not well reflected. For that purpose two questions were developed on with the goal to assess the preferences of the Portuguese consumers on what concerns fast food.

According to the **Exhibit 10 d)**, two variables were used in order to assess consumers' favorite type of food when going to a shopping mall. A rank was also established in order to categorize several popular fast food chains.

Exhibit 10 d) – Purchasing options and preferences

Preferred type of food when eating in a shopping mall



As we can verify from the **Exhibit 10 d)**, the preferred type of food with 43% of the sample results are hamburgers. The second choice is traditional food achieving 23% of the results. On the contrary, the respondents seem to not choose pizza as their favorite food, with only 2% of the results. We can conclude from the previous results, hamburgers are embedded on the Portuguese consumption habits.

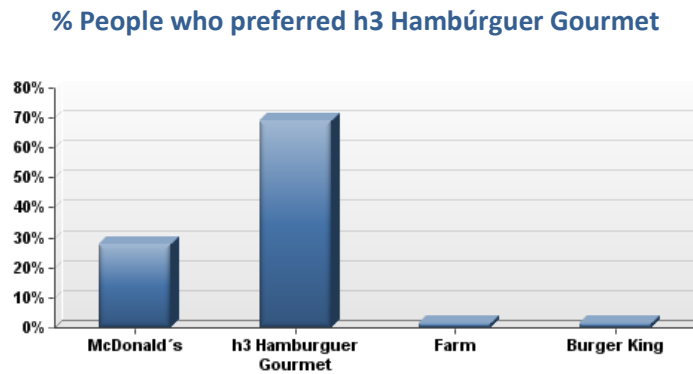
Observing more closely the radar chart (**Exhibit 10 d1**), aside from h3 Hambúrguer Gourmet being loved by many, Vitaminas has also achieved a notorious position. This fact actually confirms that Portuguese people are much more cautious when eating, and embrace the new healthy trends.

Vitaminas and McDonald’s achieved the same number of votes (**40** each) considered to be loved among the Portuguese consumers. H3 Hambúrguer Gourmet however, was the fast food chain which achieved a higher number of votes (**52**). Self service restaurants such as Ò Kilo as well as Burger King and Noori Sushi are considered to be the least preferred. Hence, we can assist to a positive correlation between the consumers’ preferences and the local chosen in a shopping mall.

3.3.3 Positioning and Competition

According to **Exhibits 10 d1) and 10 e)**, several conclusions can be withdrawn regarding h3 positioning and main competitors. Based on the sample results, I was able to build a positioning map where it is reflected h3 Hambúrguer Gourmet’s position among other players. Despite knowing that h3 Hambúrguer Gourmet doesn’t have any direct competitors, it is relevant to compare similar chains which offer the same core product which is the hamburger.

Exhibit 10 e) – Positioning and Competition



From a list of four different restaurants, h3 Hambúrguer Gourmet was by far the preferred chain, achieving a 69% of total results, whereas McDonald's, considered to be the second most popular option, achieved 28% of total results. The newest hamburger chain, Farm and Burger King were considered the least preferred ones, with 2% of preference each. Hence, when comparing h3 Hambúrguer Gourmet with the rest of hamburger chains we might observe that in terms of price, although it is higher than a regular McDonald's, the service and quality perceived are also considered to be higher in comparison with McDonald's and Burger King (please observe **Exhibit 10 e1**) to have a better insight of the company's positioning).

In conclusion, despite h3 Hambúrguer Gourmet doesn't have any direct competitors, the fact is that in alternative of eating h3, the majority of people prefer to go to McDonald's; since the other two options (Burger King and Farm) are considered to be marginal options, with low rates of preference.

3.3.4 Critical aspects when choosing a fast food restaurant

From this point on, several subject questions were made in order to assess consumers' values and intrinsic aspects that are behind the choice of a fast food restaurant when eating in shopping malls. For that purpose, scale questions (**Exhibit 10 f**) and **Exhibit 10 f1**) were made, where eight critical aspects were chosen, namely, quality, hygiene, taste, variety, fast, healthy, service and price. The perceived importance of these factors were ranked and according with the **Exhibit 10 f**), thus, we can conclude several insights.

Exhibit 10 f) – Critical aspects when choosing a fast food restaurant

Average mean of critical aspects when choosing a fast food restaurant



First and foremost Portuguese consumers consider **taste** as the most critical aspect, with an average value of 8.57. Concerns with **hygiene** are the second (average value of 8.00) most important factor when consumers are looking for a restaurant. Contrarily of what was expected, health is not a primarily issue on the consumers 'mind; in fact was the factor with the lowest score, achieving only 5.59 on an average value. This fact goes against the current trend of increasing adherence of healthy food restaurants chains, which is a surprisingly fact.

Quality and price are also seen as very important aspects regarding a consumer's choice. With these perceptions analyzed, we can assume that h3 Hambúrguer Gourmet is well inserted and its offer is aligned with the consumers 'values. Hence, the majority of people are not driven exclusively by price, but relevant aspects are perceived more important such as, quality and taste. Thus, this reveals that people would rather eat with quality and with a good taste over spend the minimum amount of money.

3.3.5 Generalized Perception towards h3 Hambúrguer Gourmet

Aligned with the conclusions previously encountered, was relevant to inquiry more deeply the perceptions of Portuguese consumers towards h3 Hambúrguer Gourmet according to eight critical aspects.

Observing **Exhibit 10 g)**, taste, quality and hygiene were the three main aspects with the highest scores, therefore, the majority of the consumers considered to be very satisfied with h3 Hambúrguer Gourmet concerning those aspects. On the other hand, variety was the critical aspect which had the lowest score; hence the majority of respondents believe that h3 Hambúrguer Gourmet is relatively poor on its menu options.

H3 Hambúrguer Gourmet is indeed aligned with what Portuguese consumers really appreciate and value when consider to eat in shopping malls. However, does this really apply to international consumers as well?

Portuguese consumers are also satisfied with the service and health levels of h3 hamburgers. Therefore, we can conclude that actually Portuguese consumers are satisfied consumers, valuing substantially quality and taste, h3 Hambúrguer Gourmet is indeed well-known for fulfilling these critical aspects.

A specific question was built which intended to evaluate the importance degree of eating an h3 hamburger, rather than being exclusively associated with a convenience choice during busy periods. Can h3 Hambúrguer Gourmet be associated with an intended choice or is it merely associated to an impulse action?

From the results obtained (**Exhibit 10 h**), the majority of the respondents (55%) admit they would go willfully to a shopping mall to eat an h3 hamburger on purpose. On the contrary, 45% of the respondents' wouldn't have the same will. The numerical result doesn't show us a huge gap between these options. Meaning that, despite the large majority had assumed that would go on purpose to a shopping on behalf of h3, several external/ internal factors can change this decision.

In what extent is the brand h3 powerful? In fact, due to the current will of h3 to become a laboratory of new concepts, h3 has recently introduced a new chain in the market, which is Empadaria do Chef Avillez. According to **Exhibit 10 i**), we cannot assume that the brand is associated to an immediate choice when going to a shopping mall. Aligned with previous conclusions, in alternative to h3, McDonald's is indeed the preferred option, with a total of 50% of the respondents. Although, 26% of the sample admitted that in alternative do h3, they would choose a different chain, such as Vitaminas and Prego Gourmet. Empadaria do Chef Avillez was only chosen by a minority of 12%, therefore we can conclude that brand empowerment cannot be affirmed. For those who selected Empadaria do Chef Avillez as an alternative of h3 hamburger, taste quality and service offered are the main reasons that sustain the choice. Many respondents have also stated that the feeling of eating real food rather than plastic food is also a plus when eating at Empadaria do Chef Avillez.

3.3.6 Generalized Perception towards Fast Food

Have consumers' perception towards fast food changed over the years? Can we assume h3 Hambúrguer Gourmet as being a light breeze in the fast food market?

Analyzing **Exhibit 10 j)**, the large majority of people (63%) believe that fast food has changed over the last 10 years. On the other hand, 37% of the respondents' don't think the same way. What would be the rationale behind this thought?

Surprisingly, the large majority of our sample has assumed the shift in today's eating habits; embracing the newest fast food chain which are not that fast food. In an overall perception, consumers are much more cautious on what they eat on a regular basis.

H3 Hambúrguer Gourmet is seen as a successful way out to the traditional plastic food. A lot of consumers have admitted that they have somehow detached the idea of hamburgers to be a synonymous of McDonald's. Actually, h3 Hambúrguer is seen by many as the breakthrough concept which contributed to a revolutionary shift in the fast food world.

Information and knowledge are also seen as powerful tools which largely contributed to an enhancement of people's awareness regarding healthier eating habits. Increased offer in shopping malls also contributed to an expanded pool of options in people's regular habits.

However, h3 Hambúrguer Gourmet offers a competitive offer differentiated to the traditional plastic burger, price is still seen as a major constraint. More competitive prices are often claimed to be necessary.

In conclusion, an increasing number of people have assumed that eating hamburgers shouldn't be associated exclusively with plastic food. Hence, gourmet options are offering a way out to this concept and h3 Hambúrguer Gourmet is one successful example.

4. Conclusion

H3 Hambúrguer Gourmet opened its first store in 2007. The company was founded due to a common idea of three best friends offering a breakthrough concept in the fast food market.

The concept, without any help of direct marketing or advertising efforts, was able to penetrate in the saturated fast food Portuguese market due to the powerful effect of word-of-mouth, conquering the palate of many demanding Portuguese consumers. Its atypical management character denoted by a solid entrepreneurship and innovative facet, enabled h3 Hambúrguer Gourmet to undertake risky strategic options which reflected unpredicted results.

Six years and 52 stores later, h3 Hambúrguer Gourmet has established its position as one of the strongest and promising restaurant chains in the Portuguese market. However, Portugal was not the only target for the company's management. The company has begun its internationalization path back in 2011, only after 4 years of its foundation. Largely due to the fact that domestic market was pretty much covered and there was no room to grow. Nevertheless, product management is a continuous task and external factors are showing to be less predictable with a fierce competition in the fast food industry. H3 Hambúrguer Gourmet internationalization targets have shown us a complexity of outcomes which leads to a future interrogation of what may happen in the future and what would be the next moves, in order to maintain a strategic position. Does h3 Hambúrguer really know its international consumers? What may have triggered the Polish and Spanish internationalization results? Was it due to a lack of managerial preparation? Did the internationalization process happen too fast and too soon? Did costumers change? How can h3 Hambúrguer Gourmet embrace all this consumption irregularities across countries?

4.1 Main Outcomes

The main goal of this dissertation was to understand the strategic implications of h3 Hambúrguer Gourmet's atypical internationalization process; which started with an overwhelming domestic performance and its innovative burger which took Portuguese market by surprise.

Therefore, in order to fully address the internationalization path and strategic involvements present on the h3 Hambúrguer Gourmet case study, I propose to answer four key research questions.

KRQ #1: What were the main key success factors that boosted h3 Hambúrguer Gourmet?

We cannot assume only one key success factor responsible for the immense domestic success of h3 Hambúrguer Gourmet. Actually, a powerful combination of successful factors was behind this entrepreneurial adventure. First and foremost, the management pillars were built in such manners which are complemented by each other. There was a combination of skills, technical expertise, several backgrounds and knowledge from Albano Homem de Melo, António Cunha Araújo and Miguel van Uden. The willpower led these three friends to go for a common idea in which they fiercely believed. From the idea concept, to its business model and operations, h3 Hambúrguer Gourmet had the chance to avenge the Portuguese market. The ability to offer a tasty mono-product at a competitive price contributed to a match to the Portuguese consumption habits.

One of the key success factors was the viral behavior that the restaurant chain acquired soon after its foundation. There was a clear match between what people desired and what existed already in the market. First mover and differentiation advantages largely contributed to the brand's national success. The cost and suppliers strategy also enhanced h3's business model. Everything was thought and assembled in such manner that only luck could play its last card.

Indeed, luck plays a vital role as one the many key success factors described above; the concept proved to be extremely well accepted even despite the beginning of the crisis back in 2007, 2008. Last but not least, it is relevant to stress out the fact that reaching immediate profit was not by far the primary goals for the h3 management. They simply wanted to offer an affordable product at a highest quality possible to a specific target in a crowded location.

KRQ #2: How was achieved the internationalization strategy and what were the main challenges faced by h3 Hambúrguer Gourmet by doing so?

Since the idea creation and the beginning of its implementation, was no secret what was the intention of the three friends; which was to take their concept out of boundaries, even comparing themselves to the giant McDonald's, h3 Hambúrguer Gourmet wanted to be the biggest hamburger chain in the world. However, the will to make it happen was not enough; several push and pull factors can be summarized in order to better understand what led h3 Hambúrguer Gourmet to internationalize at such an early stage.

Concerning **push factors** (reactive reasons), these are related to internal market factors which the domestic market was affected. Portugal was largely influenced by the economic recession of 2008, which was the environment where h3 Hambúrguer Gourmet was born in the first place. Despite its

immediate success in sales, over some period of time a decrease in sale was verified, not only due to the crisis but also due to the fact that by 2009, h3 Hambúrguer Gourmet was able to be present in almost all shopping mall operators with 29 stores opened only after 2 years of existence. Having achieved such success in such minimum period, stagnation was indeed predicted. Lack of market boosters and stagnation were the main reasons which led h3 Hambúrguer Gourmet to look for alternatives. Despite this perspective not favorable to the business, the impacts of the recession were not that linear; the price of raw materials and secondary inputs were inflated, and h3 Hambúrguer definitely struggled to keep their competitive ratio price/ quality. This conjuncture culminates with a political and economic instability, denoted by multiple tax and fiscal shifts, which did not contribute to a favorable business environment.

In what concerns **pull factors** (proactive reasons), deal with the profitability and growth prospects. In this sense, we can aggregate pull factors into three main categories such as, market seekers, resource seekers and efficiency seekers. Many of the internationalization goals have to deal with the need to look for a suitable entry markets. For that purpose, new market prospects have to be put in place and research has to be made concerning market growth, size sample, etc. Resource seekers include all the labor and raw materials favorable conditions, which may be present in an entry market.

Lastly, h3 Hambúrguer Gourmet looked for efficiency goals with internationalization. Efficiency at strategy and operation levels, taking advantage of geographical proximity and know-how expertise of the focal country as well as achieving economies of scale were the main goals which induced h3 Hambúrguer Gourmet to look for international opportunities.

KRQ #3: How are being the marketing efforts applied and what are the further implications regarding h3 Hambúrguer Gourmet's positioning in the fast food saturated market as a premium brand?

H3 Hambúrguer Gourmet is not and never was known by its marketing campaigns because they don't exist. Its powerful brand assets consist on its brand mottos and slogans which are directly present in every h3 store and which define the strategic positioning of h3 Hambúrguer Gourmet. Internal marketing however is reinforced and disclosed. The goal of h3 Hambúrguer Gourmet is not to advertise its products, their core way to achieve notability is mainly through the quality of the food they sell and hopefully general people will talk about it.

Marketing efforts were never an option, simply because the company started as a domestic familiar business between friends. The budget was tight and friends adopted other priorities by that time. Hence, six years later, to adopt a different posture in terms of advertising could possibly have a negative

effect on the perception on the consumers. The mystery effect by the time of h3's foundation was considered to be crucial for the company's launch. The only action initially undertaken was actually to influence market opinion makers in order to push the viral effect which induced a large amount of people to try the revolutionary hamburgers.

Indirectly, this option has contributed to a feeling of mystery and to a premium association of what gourmet burgers could be like. Despite h3 Hambúrguer Gourmet and McDonald's or similar fast food chains, cannot considered to be direct competitors, the general perception of the public has assumed to be that h3 Hambúrguer Gourmet resemble to a premium version of a hamburger not so fast food.

KRQ #4: What are the key challenges that h3 Hambúrguer Gourmet is going to face in a medium-long run? What are the options to maintain their competitive level?

We can aggregate the nature of the current brand's challenges into two different categories. In one hand, the possibility to expand h3 Hambúrguer Gourmet's concept overseas – based on the internationalization strategy; meaning, what does the future hold in terms of next countries to go in, and on the other hand, in what extent that would be profitable to expand the mono-product business into a larger offer-base – vertical strategy.

A lot can be said regarding these two main strategies undertaken by h3 Hambúrguer Gourmet. It is and it was always a common goal to grow and to be "*The biggest hamburger chain in the world*", thus, in order to grow in that sense, h3 Hambúrguer Gourmet wants firmly to go overseas and target not only Brazil but also other countries, Latin America and Middle East are regions in study for future prospects.

South America and Middle East, for instances, are currently a very important bet. Several proposals of potential franchisees are being in study, every country is a different case, and thus, every country must be seen as a different type of challenge, where critical factors must be taken into deep consideration. Demographics, cultural aspects, target size, market stage, partnerships, mode of entry constitute the main factors which can determine the success or failure of the company over borders.

In this sense, several ways to approach a potential market are being put in action. Different people are going directly to those potential countries and a lot of market studies and tests are being conducted. Primarily, Albano, António and Miguel normally appreciate to go themselves and explore a potential market. In this sense, was created an internal system, which allowed the company to properly function without the physical presence of the founding members. This business is ultimately relied on a mutual and true friendship, therefore, who better to explore and test different markets than the three friends themselves to do so?

The second strategically move pursued by the management, is to transform this company into a concept laboratory (please observe **Figure 8**). Meaning that, ultimately, the goal is to invent and create new concepts and sell them internationally. Let's take the example of Empadaria do Chef Avillez, which is a creativity extension based on concepts which the market was not anticipating. Other practical example can be the introduction of lemonades and fresh teas at the disposable drinks accompanying the menu. By that time, industrial drinks were served along with menus in a food court. H3 appeared with a "lemonade" revolutionary concept, where no longer industrial drinks would be the only option. Currently, is rare to find a food chain without these "new" options, induced by h3 Hambúrguer Gourmet.

It is also interesting to observe the several advantages attached to this diversification strategy; first and foremost the risk is largely diminished, second, the possibility to cover all market segments will induce in sales and revenue increase.

H3 Hambúrguer Gourmet wants to go even further on this strategy, although, according to internal sources, the goal for the next five years would be to expand h3 Hambúrguer Gourmet as much as possible through internationalization.

Both diversification and internationalization strategies must be cushioned with a financial stability. Actually, the management is aware that not all of the concepts idealized will success the way that h3 Hambúrguer Gourmet did.

5. Limitations and Future Research

Throughout these months of research and work, and even despite some drawbacks, I was able to withdraw some insightful conclusions. Qualitative and quantitative data gathered, largely contributed to an understanding of h3 Hambúrguer Gourmet's position and strategic challenges.

The first and major constraint found in my analysis was at the quantitative level; since the study conducted gathered a size sample which cannot be considered to be representative of the Portuguese consumers, once its dispersion did not include the Universe, on the contrary, the results can be exclusively representative of a segment rather than the Portuguese population who purchase h3 Hambúrguer Gourmet. In that sense, we can also conclude the fact that the majority of the respondents are females from Lisbon, which would be interesting to evaluate further consumption patterns dispersed nationally.

In what concerns the questionnaire design, it may also have been built in such a qualitative perspective which may have induced some insights. The questions presented are in its majority subjective questions, which people tend to rush it up, leading to a results bias. Even though comparative analysis was predominant regards survey design, it would be interesting to evaluate a correlation between consumption and demographic variables.

Besides the limited sample size, geographical distance was also a constraint, since it would be extremely relevant to be able to visit Brazilian stores in order to fully understand the globalization or adaptation strategies locally. Even so, face-to-face interviews and an online questionnaire to the Brazilian consumers would enrich my research. Besides these constraints, some data was not disclosed for confidentiality reasons, such as initial formal market research studies which prevented me to dig further on the prior motivations and roots of h3 Hambúrguer Gourmet.

Also, despite some important findings, my own research could be enriched with a qualitative perspective, through a focus group conduction and further analysis. This specific type of qualitative data would enable deeper insights on weaknesses and misperceptions fully understand consumers' needs and desires.

We should not forget the unpredictability which fast food market is known for. It would be also interesting for a future analysis to study and observe the corporate strategy (e.g. Diversification Strategy) of h3 Hambúrguer Gourmet and the choices made regarding the alternatives when facing new entrants and external threats.

6. Teaching Notes

6.1 Case Study Synopsis

Despite the fierce competition and unpredictable environment within Portuguese fast food market, in 2007, h3 Hambúrguer Gourmet was able to penetrate the market against all odds, offering a product which no one considered to be innovative or sustainable over time.

The presented case study aimed to cover all the relevant facts which enabled and supported h3 Hambúrguer Gourmet's decision to go over borders. Hence, the case study was built in order to cover all the precedent facts which led the company to start thinking in internationalization as a way to complement its national success, to achieve a wide variety of client base, to gain competitive and first move advantages on its market target and ultimately, to boost sales facing a market stagnation in 2010.

Six years later its foundation, h3 Hambúrguer Gourmet proved to everyone that they are not another common burger chain; its offer goes beyond the traditional seen until now. However, internationalization path was not easy and h3 Hambúrguer Gourmet faced many obstacles during the first years as being an international brand.

Hence, this case study aimed to understand the rationale and strategic roots of an internationalization strategy, covering also, and complementary aspects tighten with the fact that customer knowledge must be reinforced and adapted according to the location.

Basically, this case study addressed two main challenges: in one hand, how internationalization was achieved and in which way was accomplished; and on the other hand, what can the future strategic alternatives be to face market stagnation and lack of surprise effect.

6.2 Target and Audience of the Case Study

H3 Hambúrguer Gourmet case study covers essential topics related to international strategic management, such as, internationalization strategy, mode of entry (franchising vs. foreign direct investment), introduction of new products/ brands and consequent product/ brand adaptation and competitive advantage. Therefore, this case study can be particularly useful for undergraduate and master students attending courses related to the topics described, since it allows the students to have better insights regarding corporate and strategic options but also positioning, brand awareness, product adaptation and differentiation enhancers.

6.3 Teaching Objectives/ Usage of the case/ Relevance of Study

This dissertation was built in order to address a real life case study using a real life company which faced many interesting strategic alternatives, which led to the development of a case study very rich on a pedagogical point of view. It was extremely relevant tracking different drivers of internationalization and studying the importance of addressing cultural aspects on what concerns different countries than Portugal, namely, Poland, Spain and Brazil. This case study also gives us an overview of the h3 Hambúrguer Gourmet 'pillars, as being a powerful brand, covering its market positioning, brand assets and client target. Theoretical lenses are also visible in this dissertation, highlighting the different internationalization stages of franchising systems and the rationale behind the internationalization evolution is also understandable. A comprehension of the internationalization path of h3 Hambúrguer Gourmet and future challenges allow students to explore theoretical concepts and also apply managerial skills when analyzing the strategic alternatives and internationalization outcomes experienced by h3 Hambúrguer Gourmet.

All in all, students will have an opportunity to:

- Understand the global strategy undertaken by h3 Hambúrguer Gourmet when launching a different burger concept in the Portuguese market;
- Embrace the internationalization drivers which enabled h3 Hambúrguer Gourmet to go beyond the domestic market;
- Comprehend the multiple implications of country adaptation/ standardization when internationalization occurs and understand the complexity of cultural differences on product launch;
- Cover internationalization modes of entry, their implications and potential consequences, with a focus on franchising systems;
- The importance of country choice and potential customer base comparatively with domestic market;
- Understand that competitive advantage is essential and must be reinforced throughout time recurring to business strategic alternatives such as vertical or horizontal strategies;
- Reflect on the reasons why a product can have different acceptance rates whether is sold domestically or internationally and the rationale behind a sales stagnation after some years of the product launch on its home country.

6.4 Teaching Plan

In order to fully understand the concepts covered in this dissertation, it is advisable for the students to have some previous background related to the theoretical topics covered. Thus, I strongly believe that students should read the following articles regarding Internationalization Strategy and Drivers and also related to Franchising Systems, which cover important aspects of prior literature review:

1. Erko Autio, Harry J. Sapienza and James G. Almeida
Effects of Age at Entry, Knowledge Intensity and Imitability on International Growth
Academy of Management Journal; Vol. 43 (October 2000), 909-924
2. Jan Johanson and Jan-Erik Vahlne
The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership
Journal of International Business Studies (2009) 40, 1411-1431
3. Faye S. McIntyre and Sandra M. Huszagh
Internationalization of Franchise Systems
Journal of International Marketing, Vol. 3, No. 4, (1995), 39-56

The h3 Hambúrguer Gourmet case study should be prepared and read carefully before class and delivered to students at least one week before its resolution. Due to its complexity and variety of topics approach, it is advisable for students to have some knowledge on internationalization theories and common internationalization stages as well as, different modes of entry available.

6.4.1 In class discussion: Case Analysis

In order to introduce students to h3 Hambúrguer Gourmet case study, it is advisable to induce in a class discussion first. This class discussion should cover some important aspects concerning h3 Hambúrguer Gourmet, such as, the company's roots, management characteristics and brand assets (mission, vision, values) as well as brand positioning and market target. A final overview on the Portuguese fast food market and Portuguese consumption patterns, including cultural aspects, should also be addressed in class discussion.

6.4.2 Assignment Questions/ Discussion Questions

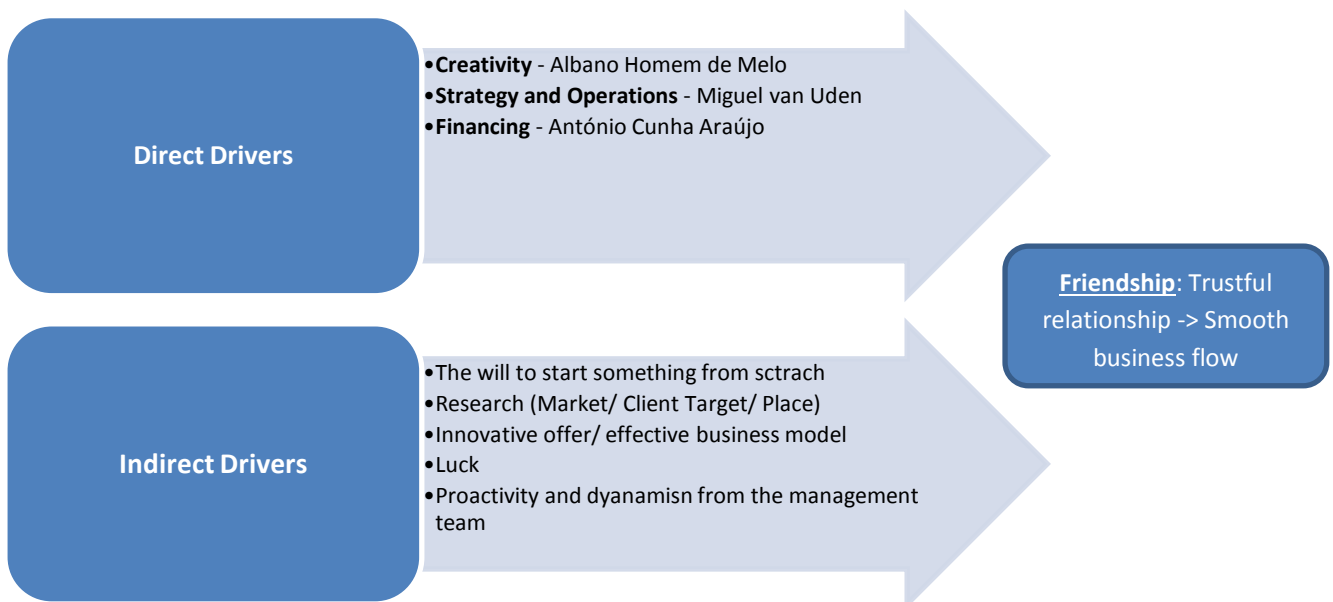
After conducting a class discussion towards h3 Hambúrguer Gourmet foundation and management profiles, the presented case study should be discussed in class in order to gather the main ideas and reflections concerning the main challenges faced by h3 Hambúrguer Gourmet during its domestic and international expansion.

Additionally, several questions will be below proposed in order to debate and compare students' opinions on critical factors faced by h3 Hambúrguer Gourmet. For that purpose, it is important to refer that there is more than one corrected answer, hereafter; I will present some guidelines covering the topics which students and coordinators should follow from this moment on.

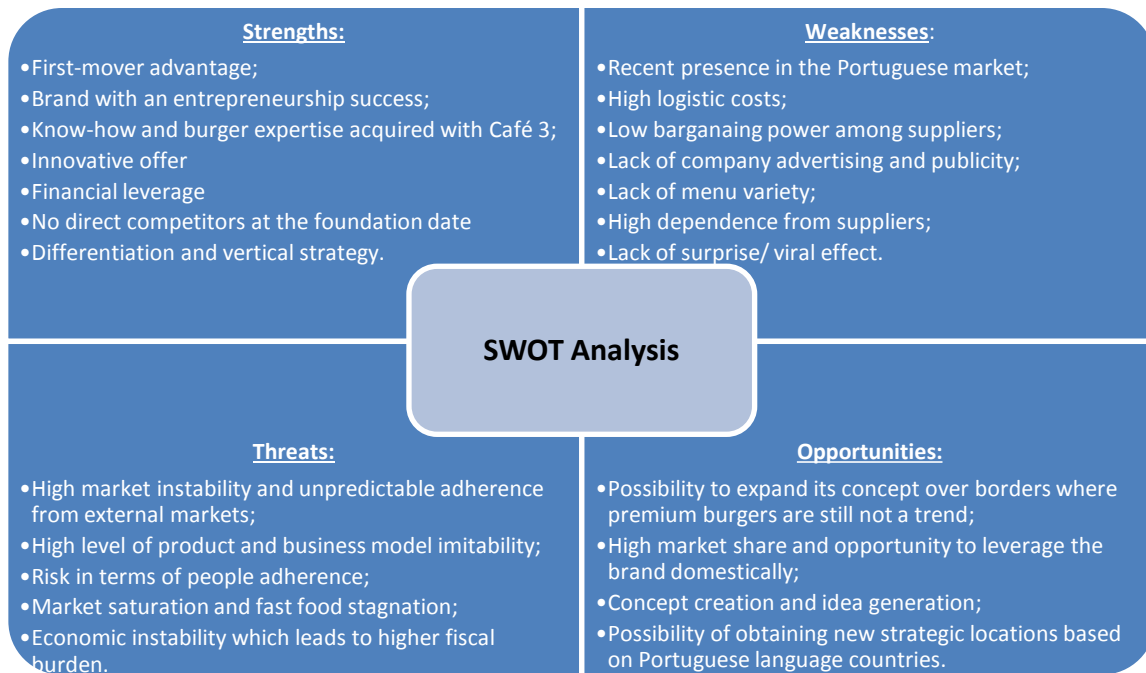
1. In your opinion, what were the key drivers (direct and indirect) which largely contributed to the success of h3 Hambúrguer Gourmet at its launch? Please identify the critical points of h3 Hambúrguer Gourmet's business strategy. To sum up, please illustrate them in a SWOT analysis. **(Closed question)**

Answer:

Students throughout the initial reflection should be able to stress out the following points:



SWOT Analysis from a **business strategy** perspective:



2. Please explain the potential Portuguese market opportunity saw by the three friends and founding members of h3 Hambúrguer Gourmet back in 2006/ 2007. (**Opened question**)

Answer:

“Competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create blue oceans of uncontested market space”.

- Kim and Mauborgne (2004)

Given the prior experience of Café 3 and as being pure entrepreneurs, the fact was that the three friends actually saw a gap which could be fulfilled with the right offer given the current consumption patterns. Aligned with the expertise and the will power to make things happen, the rest is “history”.

Actually, h3 Hambúrguer Gourmet saw back in 2006 a variety of factors which could result into a profitable business. Although, h3 did not make money by competing directly with the major fast food chain, such as McDonald’s, Burger King or Burger Ranch. On the other hand, h3 Hambúrguer Gourmet considered itself as being the “reinventor” of eating burgers. H3 Hambúrguer Gourmet was able to offer a basic product in a way which was never offered before. Thus, we can distinguish two different types of market space, which we can think as being red and blue oceans.

Red oceans, represent the existent industries operating nowadays – the known market place. In this context, companies struggle with the goal to outstand and acquire as much market share as possible in comparison with the competition. As space become scarce and crowded, prospects for growth and increased revenue are significantly shrunken. The products sold become mere commodities, competition become fierce with constant price battles and the “water gets bloodier” progressively.

Blue oceans, represent all the industries which do not exist today – the unexplored market space, where competition does not exist and demand must be created rather than disputed. There are two different ways to find a blue ocean; the first one is rare and consists into invent a whole new industry; on the other hand, is more common to create a blue ocean market through a red one, where a company makes its own rules and changes the rules of the existing industry.

H3 Hambúrguer Gourmet clearly found out a blue ocean space/ market within the red ocean of fast food industry. Actually, the company was able to break through the concept of fast food and fought the traditional boundary separating fast food and gourmet food. The result, was a new market space denoted by offering the core fast food product, the burger in a gourmet way. It is also very important to notice two different aspects of the blue ocean strategy; the first one is actually to chase and discover blue ocean markets where competition does not exist and the second aspect is the ability to exploit and maintain blue oceans. Actually, on the contrary what everyone believes, large R&D investments are not common requirements for achieving a blue ocean strategy; actually, the necessary and mandatory requirement is the ability to take the right strategic moves and definitely the three best friends had the entrepreneurial ability to do so.

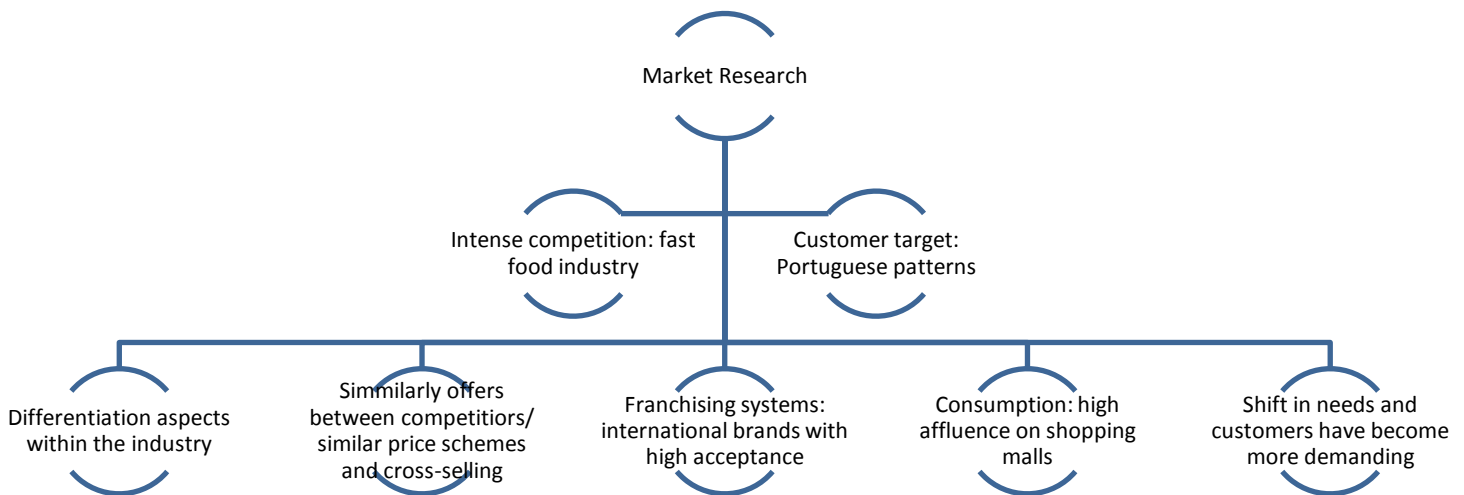
Please observe **Figure 9**, where we can contrast both strategies presented.

Figure 9 – Red Ocean Strategy VS. Blue Ocean Strategy

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation <i>or</i> low cost.	Align the whole system of a company's activities in pursuit of differentiation <i>and</i> low cost.

Source: Kim and Mauborgne, 2004

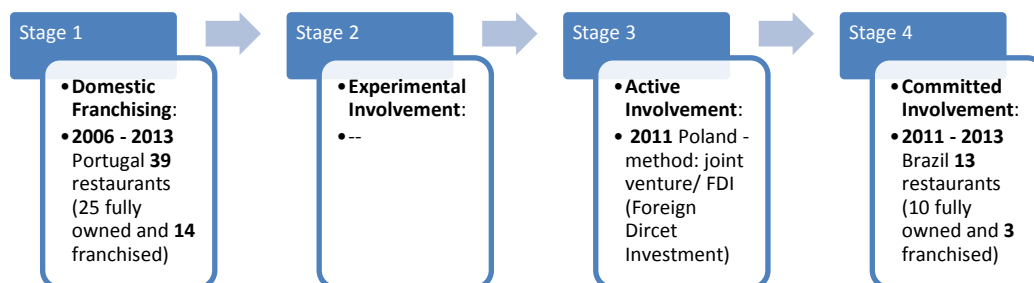
In conclusion, it is important to highlight some of the critical aspects considered by António, Miguel and Albano when strategically induced in a blue ocean strategy;



3. Please compare McIntyre and Huszagh’s Franchising Internationalization Stage Model with the internationalization path actually verified by h3 Hambúrguer Gourmet in the beginning of 2010. **(Closed question)**

Answer:

Observing **Figure 3** (Franchising Internationalization Stages), students must be able to establish a comparison and to adapt h3 Hambúrguer Gourmet’s internationalization strategy to the theoretical model presented.



Stage 1: Domestic Franchising – Typically, domestic franchising is the necessary requirement for internationalization. Actually, observing **Exhibit 4**, students can conclude that h3 Hambúrguer Gourmet had an outstanding domestic development in terms of opened stores. Only after three years of h3’s foundation date, there were **31** stores opened, covering pretty much all relevant Portuguese urban areas and partnerships were established with the major Portuguese shopping mall operators. With this

being said, we can conclude that stage 1 was actually fulfilled; probably not as slow as the other newly fast food companies, thus, domestic market was rapidly took over.

Stage 2: Experimental Involvement – Limited managerial inputs are expected in the second stage of franchising internationalization. In h3 Hambúrguer Gourmet's case, we cannot affirm that internationalization has begun with an experimental development. The investment made in Poland was not considered to be at minimum levels, we can only assume that the mode of entry was not suitable. Hence, h3 Hambúrguer Gourmet did not have the sufficient level of market or client knowledge regarding Polish consumption habits.

Stage 3: Active Involvement – Regarding the conclusions previously made, we can only assume that Polish investment can be considered as an active involvement since the resources invested were significant as well as the losses.

Stage 4: Committed Involvement – h3 Hambúrguer Gourmet revealed a similar behavior regarding these two last stages. After Poland, the company was able to penetrate the Spanish market much more carefully and adopted a franchising system to do so. The internationalization outcome was not favorable although the amount lost was not relevant either. By this time, the company has shown a commitment behavior towards moving forward with prospect countries to penetrate in. Brazil was the choice right after Spain and proved to be a success contrary to the other two countries. H3 Hambúrguer Gourmet finally realized that franchising system is indeed the most profitable and safe way to carry on the brand over borders minimizing the risks and achieve economies of scale and scope. Currently, we can assume that h3 Hambúrguer Gourmet is inserted in committed involvement since the Brazilian plans don't seem to stop. Increasingly more resources are being invested and the management team has seriously acquired a significant level of market and client knowledge. Future prospects for opening more stores in Brazil are in place and increasing countries are being under an intense study and careful analysis in order to not repeat the errors of the past.

In conclusion, students must be able to affirm that internationalization path of h3 Hambúrguer Gourmet was not common, compared to the majority of small/ medium enterprises. Perhaps, due to the entrepreneurial character of the management team and the rapid domestic achievement, many other collateral factors boosted the brand's internationalization.

4. Please point out the main reasons why Poland, the first international country where h3 Hambúrguer Gourmet has settled its presence, was not well successful. Please identify the main h3 Hambúrguer Gourmet adaptation points towards the Polish market. **(Closed question)**

Answer:

It is important for students to have a clear vision that despite size and core business of a company, not all international moves can be well succeeded. Actually, we have concluded that there are several factors which enabled the success or failure of an international move, since it can even jeopardize the financial viability of a company. It is important to bear in mind the following reasons which can explain the Polish failure:

- Lack of market knowledge; despite some research initially conducted by the three friends who introduced the idea to h3's management team, proper market research was not concluded;
- Product adaptations were not fully addressed given the discrepancy between Portuguese and Polish consumers;
- Geographically, Poland was not the most accessible country to target first;
- Mode of entry: Foreign Direct Investment (FDI) proved not to be the ideally mode of entry. This mode of entry is considered to be commonly used in more complex internationalization stages, or if the risk level is not significant;
- Lack of market stagnation: h3 Hambúrguer Gourmet is a concept which requires in some extent a certain degree of market saturation in order for the consumers to value and appreciate a gourmet burger. Portugal as well as Spain and Brazil, for instance, are good examples where shopping mall culture is already well established and eating habits can be considered similar;
- Poland is still living the McDonald's "boom", in sense that, fast food industry, analogously with the rest of Eastern countries is still in the maturity phase; h3 Hambúrguer Gourmet did not address this issue properly;
- Cultural/ demographics/ socio-economic indicators: despite some slightly adaptations, the core product remained the same as well as the menus (expect small product adaptations), price, place and promotion. Well, one of the major indicators which largely influenced the final outcome was its price practiced. Polish purchasing power and living quality is considered to be inferior compared with Portuguese standards. Hence, h3 Hambúrguer Gourmet was perceived to be expensive, given the aspects referred before. Promotion efforts kept the same domestic standards and there was no publicity or whatsoever. Poland, given its specificities, probably if the product would have been more announced the result could have been different.

In conclusion, students must be able to describe some of the main adaptation points which h3 Hambúrguer Gourmet faced on:

- Price: higher than the average of available fast food chains (e.g. McDonald's); the price practiced in Poland was slightly inferior compared to Portuguese prices, although it was considered to be higher in terms of Polish average purchasing power;
 - Target segment: considered to be high class level in Poland which corresponds to the medium Portuguese class;
 - Place: h3 Hambúrguer Gourmet adopted the same domestic strategy; shopping malls continued to be the local chosen;
 - Promotion: promotional efforts were not undertaken in Poland, since the goal was to keep the marketing communication strategy unaltered throughout all countries;
 - Product: the core product remained the same; however, slightly changes were put in place, such as drinks 'size, side dishes and ultimately, a traditional Polish was intended to be created;
 - Customer service: the same training sessions and labor force standards were put in place; for that purpose, special Portuguese teams were assembled and sent to Poland for training purposes;
 - Logistics (strategy & operations): to ensure the quality throughout all the process, the meat supplier remained the same;
 - Brand name: h3 Hambúrguer Gourmet remained unaltered, as well as the brand's mottos and in-store slogans (language adaptations only).
5. Towards h3 Hambúrguer Gourmet current market positioning and client target, what would be a suitable positioning statement for the company, regarding the absence of direct competitors? (**Closed question**)

Answer:

Students must be introduced with concepts such as brand elements, market positioning, segmentation and targeting. It is important to highlight current h3 Hambúrguer Gourmet's positioning within the fast food market and its current offer. For that purpose, a clear and objective positioning statement would enhance h3's image on employees mind. A positioning statement does not only help to define a clear message in the collaborator's mind but also, ensures that all company employees understand and bear in mind the product's unique benefits and respective target, in order to know how to communicate effectively its differentiation points among the competitors and clients.

To build a positioning statement, it should include the following four elements:

- **Target market:** In the positioning statement should be clear what the audience the product was conceived to appeal is. Hence, h3 Hambúrguer Gourmet aims to target working social class, typical men/ women from 18 – 50 years old, who usually go to shopping malls at lunch;
- **Industry range:** Concerns the respective industry set in which h3 Hambúrguer Gourmet is inserted in. In this case, industry range is referring to gourmet fast food. Students must interiorize that fast food itself cannot be considered h3's direct industry range since is not what their offer. In this sense, direct competitors are all restaurants in a food court, being the ones offering burgers considered to be direct alternatives to h3 Hambúrguer Gourmet;
- **Differentiation factor:** Should be present on the positioning statement, the core differentiation factor that the product offers to the general public. It is a crucial element since is what mainly distinguish the product in comparison with the rest of the competition; in this sense, h3's differentiation factor is considered to be the premium burger with a supreme quality.
- **Reasons to believe:** the final part of the positioning statement should ensure and convince the audience about the benefits of the product they are about to purchase; assuming that the product sold is indeed delivering what promised in the first place, referring also technological or functional features of the product.

Example of a positioning statement for h3 Hambúrguer Gourmet:

“For all the busiest people who aim for a quality meal at lunch, h3 Hambúrguer Gourmet is the premium burger that ensures 100% genuine veal meet, with an incomparable flavor, carefully prepared just in time for even the most demanding clients who desire to taste the real flavor of a not so fast food burger”.

6.4.3 Group Assignment

For the group assignment, it is advisable for students to constitute groups of 4/ 5 members in order to discuss the following questions. Each question has an estimated time of completion of 30/ 40 minutes and students can consult external sources of information for an enhanced answer and support of the topics suggested below.

1. Please create the next “big concept” (e.g. Empadaria do Chef Avillez) and design its brand strategy, consequently analyze its potential for internationalization. What should be the basic requirements for a product to become international? (**Opened question**)

Answer:

First and foremost an idea or a concept's creation normally implies the need or desire to enhance a company's competitive advantage. For that purpose, a resource-based view (RBV) can be the basis for the competitive advantage of a firm. For an idea creation, is important to refer the following **VRIN** approach as an important framework which can pre-determine a success of an idea; hence, in the process of idea creation, it is important for students to bear in mind the following:

- **Valuable:** An idea must imply a value-creating strategy; for that purpose, the strategy must outperform its competitors, or diminish a company's weaknesses;
- **Rare:** To be valued, an idea must be rare by definition; thus, there is no point in creating a commodity as the next big concept, since the fast food market is highly saturated already;
- **Inimitable:** If a valuable resource/ idea is dominated by only one entity it could be definitely a source of competitive advantage since it is considered to be a scarce idea/ resource; sustainability lies on the possibility if this idea/ resource could not be replicated by any other competitor;
- **Non-substitutable:** Despite creating a rare and unusual idea with a potential to be well successful, we must not forget that the possibility for competitors to find a substitutable idea/ resource would make prices to fall down and the product will no longer be appealing to the consumers' eyes.

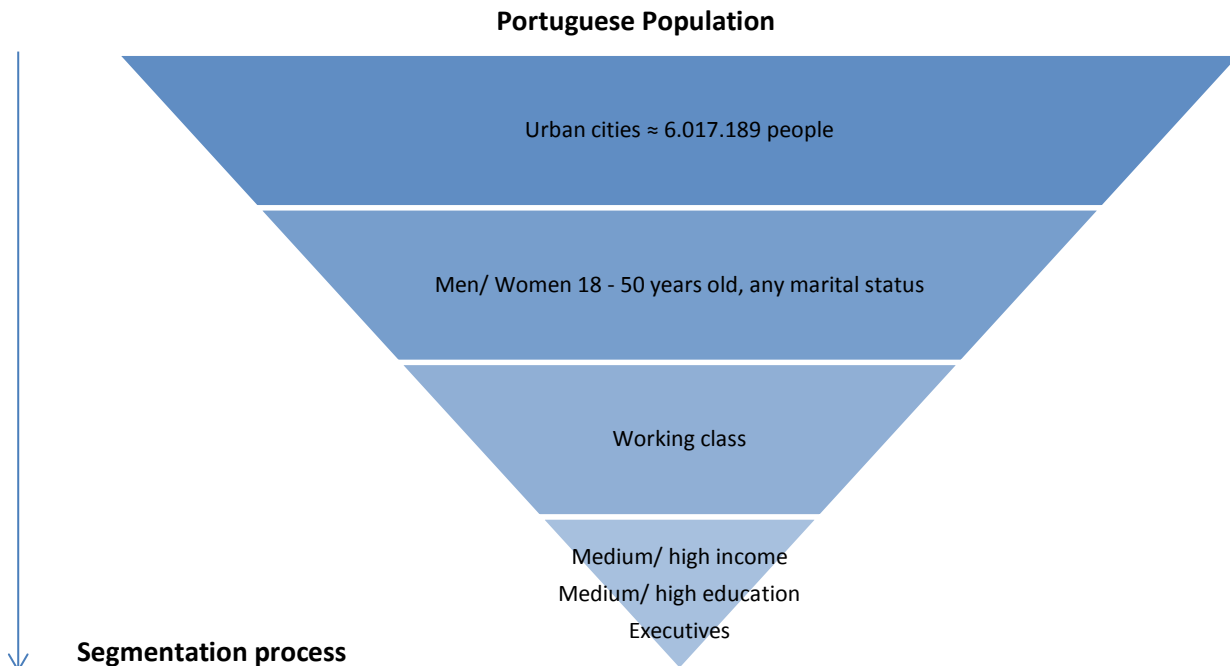
To have a big and outstanding idea it is not enough to blow market's eyes. Brand creation, market penetration, mode of entry, positioning and segmentation are concepts which need to be well reflected throughout the process.

Before establish the brand at any country, it is imperative to conduct an explicit and deep market research; **PESTEL Analysis** and **Porter 5 Forces** analysis are some frameworks which are very useful and could serve as powerful guidelines for further research. A **Blue Ocean Strategy** must be found and reinforced in order to guarantee the future success of an idea.

Brand elements must also be put in place, such as, brand name, slogan, brand colors, logo and packaging (if applicable). In line with the market research, which is one of the main pillars of an idea implementation, a detailed competition analysis is also crucial to define a brand's potential success. Direct and indirect competitors must be assed and carefully analyzed, if possible using a positioning map (please observe **Exhibit 10 e1**)).

A brand/ idea when available in the market, must be targeting a specific type of niche market, ideally if they have not been served till that moment. The process of segmentation, targeting and positioning

should not be undervalued in sense that, the brand should communicate effectively its market positioning to be well understood in the market where it operates in. Below, there is a clear example of h3 Hambúrguer Gourmet segmentation and targeting process.



Source: Census 2011

Brand positioning is also an important aspect to consider. Actually we might think what would be the evoked set of h3 Hambúrguer Gourmet. Clearly, h3 Hambúrguer Gourmet wants to be evoked set at:

- ✓ Shopping malls
- ✓ Premium lunch experience
- ✓ Burger lovers

H3 Hambúrguer Gourmet



McDonald's

After having covered some of the major topics on what concerns brand creation and brand strategy it is also important to highlight what involves a strategic planning and international market entry strategy. Obviously, in h3

Hambúrguer Gourmet, market saturation and domestic success were clearly some of the main drivers for internationalization, which occurred such in a fast pace. For internationalization to happen, many prior reflections at a strategic corporate level have to be put in place.

Strategic planning must exist and should not be undervalued, hence at a corporate level; the main goal of international strategic planning is the coherency between long-term company goals and present

resources at the company's disposable and also the potential opportunities which might exist internationally. There are several steps when strategic planning is occurring which enable a company's better adaptation to international markets; students must think in the following steps as prior requirements for an internationalization strategy:

- Definition of company's mission;
- Setting company's goals and long-term objectives;
- Defining a business portfolio;
- Planning marketing and other functional areas – at a business unit, product and market levels.

Lastly, international market entry strategy helps to define the future success or failure of internationalization attempt. Therefore, the decision on how a company enters a new international market is one of the crucial decisions on internationalization strategy. A market entry mode can be decided among many external and internal factors which can ultimately influence the company's decisions, such as:

- What capital is necessary to enter a foreign market;
- The amount of resources at a company's disposable;
- The growth potential of the target market;
- The possibility to control corporate activities in the target market;
- Business and political risks (political environment).

2- Please analyze h3 Hambúrguer Gourmet's internationalization process. What could be the alternative strategic moves which could have supported h3 Hamburguer Gourmet's success over borders? Please outline some of **international growth strategies** which could be used for h3 Hambúrguer Gourmet in future prospects. (**Opened question**)

Answer:

To briefly summarize h3 Hambúrguer Gourmet's internationalization process, the following aspects must be highlighted:

- The strategic choice of mode of entry was crucial in every country targeted;
- The high investment costs and resources commitment, led the company to reorganize its strategy for future prospects;
- Lack of market research and customer insights, led to a misunderstanding of the target market (e.g. Poland);

- Lack of product advertising and market publicity, for those countries where hamburgers are not as trendy as in Portugal (e.g. Poland and Spain);
- Risks of partners, which indirectly jeopardized the product (franchised), not addressing specific product specificities in place;
- High logistic costs and quality assurance systems, due to geographical reasons (e.g. Poland and Brazil);
- Cultural/ demographic constraints, which led to a product misunderstanding;
- Fierce competitive environment, marked for already established and well-accepted fast food chains.

Since internationalization is and will be a reality for h3 Hambúrguer Gourmet, the previous facts will be definitely taken into consideration before any strategic decisions. For a sustained international growth, the company can and should expand for new markets where Portuguese consumption habits may be similar. Market research is a crucial piece before any decision. Students may point out the following aspects when considering the next international countries:

- Countries with Portuguese similarities towards meat consumption, cultural and daily habits (lunch in shopping malls);
- Countries with high affluence of people in shopping malls throughout the week;
- Countries with medium/ high education levels, prominent working class, due to the product's target niche;
- Countries where the fast food market is considered to be saturated with apparently no room to grow;
- Countries with an existing tradition of cattle production, due to supplier issues.

Examples of potential future markets for h3 Hambúrguer Gourmet: Venezuela, Mexico, United Arab Emirates and The Netherlands.

On what regards to international growth strategies, there are three core strategies in which h3 Hambúrguer Gourmet can rely on: a **strategy of intensive growth**, an **external growth strategy** or a **diversification strategy**.

- A **strategy of intensive growth** aims to increase the sales of current products to current market segments by intensifying the marketing efforts. This strategy relies on market penetration recurring to several strategic techniques, such as, acquiring customers from competition, push the product to a higher level of purchase or create newer and increased consumption occasions;

- **External growth strategies**, typically have two goals; the first goal is to grow horizontally, meaning, to acquire market share through a direct acquisition of market competitors or to simply by eliminating them in the current market; this strategy present a different set of advantages to the company, namely, economies of scale, international leading position, better bargaining power. With a vertical strategy, the company aims to better control its members of the respective values chain (e.g. meat suppliers);
- **Diversification strategy**, which clearly seems to be the pursued one by h3 Hambúrguer Gourmet, mainly relies on spreading the risk across the creation of multiple business and the concept creation, in order to overcome seasonal fluctuations, extension of product portfolio and improve a company's customer base. This strategy implies a huge initial investment and high managerial skills. Diversification strategy can also induce to costumer confusion and misunderstandings of the company's primarily focus.

7. Figures

Figure 5 – Three best friends as the recipe for success

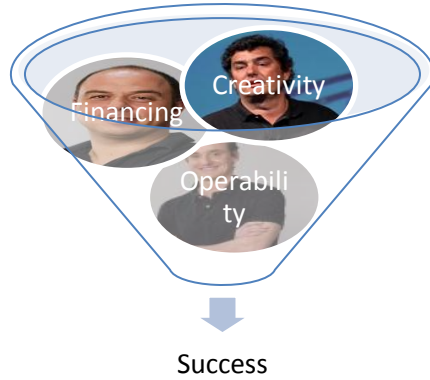
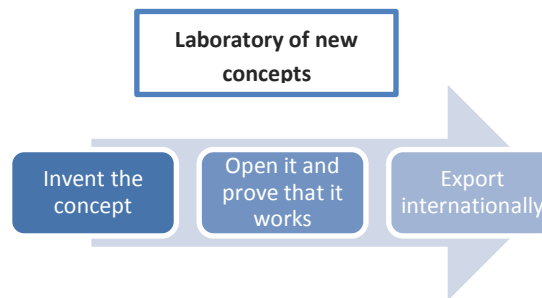


Figure 6 – World Map engraved in António Araújo’s wall (reflecting the desire to be the biggest chain in the world)



Source: Café 3 S.A.

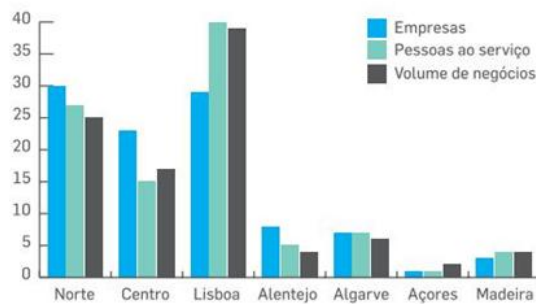
Figure 8 – h3 Hambúrguer Gourmet Business Intention



8. Exhibits

Exhibit 1 - Regional distribution of food market’s key performance indicators

Distribuição Regional dos principais indicadores da Restauração



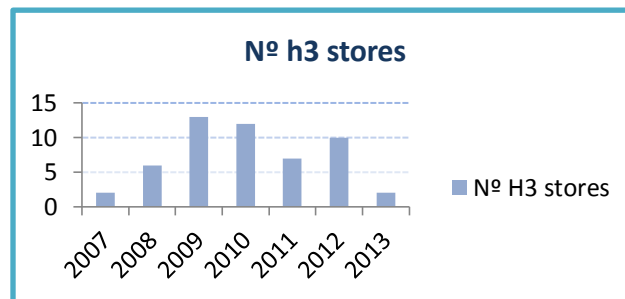
Source: INE, 2004

Exhibit 2 – Differences between h3’s typical offer and a common fast food offer

	Traditional Offer (McDonalds, Burger King, amongst others)	h3 Offer - Hamburger Gourmet
Ways of serving	In bread with disposable boxes	In a porcelain heated plate with knife and fork (although they already introduced burgers in bread)
Type of meat/weight/cooking mode	Frozen/100 grs./Standard mode	Fresh meat/200 grs./undercooked, medium or toasted
Extra accompaniments or side dishes	Frozen potato crisps	Thai rice, sliced and fresh French fries, salad and spinach
Sauces	Industrial sauces (ketchup, mayonnaise, mustard)	In house made sauces with fresh ingredients
Hamburger accompaniments	Onion, pickles, bacon, lettuce	Poached egg, fried egg, cheese, tomato, vegetables and/or fresh spinach or fresh <i>foie gras</i>
Drinks	Industrial (Coke, iced tea and others) and Coffee	Industrial or natural drinks such as lemonade, iced tea and lemon tea, draft beer or glass of wine
Desserts	Ice creams, pies	Chocolate <i>coulant</i> , ice-creams <i>everyday</i> or <i>holiday</i> , with chocolate, raspberry <i>coulis</i> , caramel or sweet eggs
Target	Juvenile and child	Demanding adult
Image/colour	Traditional fast food/red	Fashion and gourmet/blue and <i>bordeaux</i>
Concept	American	Portuguese

Source: *Economia Global e Gestão*, Vol. 17, no. 2

Exhibit 3 - Stores ‘evolution throughout time – Portugal (absolute values)



Source: *Café 3, S.A.*

Exhibit 4 - Stores ‘evolution throughout geographies and time

Year	Month	Location
2007	Jul	DV Monumental
	Sep	Amoreiras Plaza
2008	Apr	Forum Almada
	May	DV Miraflores
	Aug	Odivelas
	Sep	LoureShopping
	Sep	DV Antas
	Oct	IKEA Porto

Year	Month	Location
2009	Feb	Arrábida Shopping
	Feb	Saldanha Residence
	Mar	Oeiras
	Apr	Spacio Oliveis
	May	DV Tejo
	Jun	Fórum Montijo
	Jun	Coimbra
	Jul	Portimão
	Jul	Fórum Algarve - Faro
	Jul	Colombo
	Aug	Campo Pequeno
	Oct	Cascais Shopping
	Dec	W Shopping - Santarém

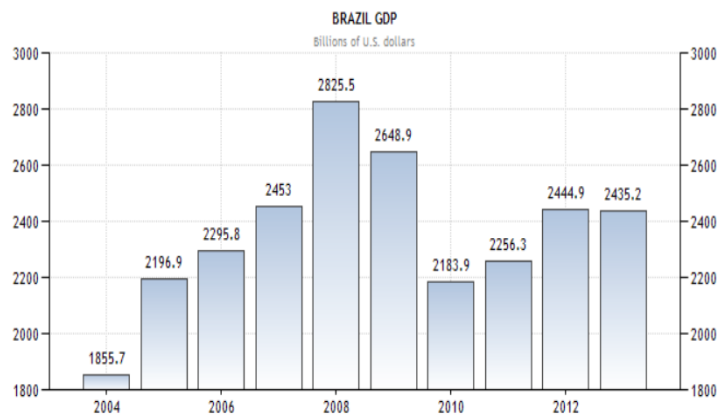
H3, Hambúrguer Gourmet: Main Drivers for Internationalization and Faced Challenges

Year	Month	Location
2010	Feb	Viseu Palácio do Gelo
	Feb	Algarve Shopping - Guia
	Feb	S. J. Madeira
	Mar	Central Park
	Mar	Leiria Shopping
	Apr	ECI Gela Porto
	Jun	Campus S. João
	Aug	ECI Lisboa
	Aug	Norte Shopping
	Oct	Shopping Braga Parque
	Nov	Tivoli
	Dec	Medeira Shopping
2011	Feb	Chiado
	Apr	Parque Nascente
	May	Parque das Nações
	Jun	Rio Sul Shopping
	Nov	Parque Atlântico (S. Miguel, Açores)
	Nov	Morumbi (S. Paulo, Brazil)
	Dec	Vila Olímpia (S. Paulo, Brazil)

Year	Month	Location
2012	Jul	Shopping Jardim Sul (S. Paulo, Brazil)
	Jul	ABC (S. Paulo, Brazil)
	Aug	Mozes (S. Paulo, Brazil)
	Aug	El Dorado (S. Paulo, Brazil)
	Oct	Bourbon (S. Paulo, Brazil)
	Nov	Tamboré (S. Paulo, Brazil)
	Dec	Iguatemi Salvador (Salvador, Brazil)
	Dec	Dolce Vita Coimbra
	Dec	SalvadorShopping (Salvador, Brazil)
	Dec	Shopping Anélia Franco (S. Paulo, Brazil)
2013	Feb	RioMar Recife (Recife, Brazil)
	Jun	Vila Lobos (S. Paulo, Brazil)

Source: Café 3, S.A.

Exhibit 5 - Brazil's GDP (Gross Domestic Product) Evolution



Source: Trading Economics

Exhibit 6 - Brazil Health and Wellness Market Retail Sales US\$ Million

	2004	2005	2006	2007	2008	2009
Organic Food and Beverages	30.4	37.4	42.4	48.9	55.9	59.2
Fortified/Functional Food and Beverages	3334.6	3797.3	4035.9	4644.0	5357.3	5632.8
"Better for you" Food and Beverages	2778.0	3103.6	3470.4	4168.5	4941.0	5303.1

Source: Euromonitor International: Health and Wellness

Exhibit 7 - Brazil Food and Beverage Market Sales US\$ Million

	2004	2005	2006	2007	2008	2009
Health and Wellness - Nutritional s	1159.2	1340.6	1472.5	1639.0	1769.3	1927.7
Health and Wellness - Food and Beverage	11,282.6	12,448.3	14,148.7	15,858.5	17,535.1	19,806.6

Exhibit 8 – Brazil Food and Beverage Market Sales US\$ Million

	2004	2005	2006	2007	2008	2009
Vitamins and dietary supplements	649.5	729.5	799.1	866.6	950.4	1028
Herbal/traditional products	262.5	306.6	348.6	401.0	419.8	454.5
Slimming products	167.2	220.2	236.7	258.6	297.4	329.6
Sports nutrition	53.6	58.3	61.9	66.5	73.6	80.7

Source: Euromonitor International: Health and Wellness

Exhibit 9 - Similarities between Brazilian and Portuguese Shopping Mall

Estação Shopping Mall, Curitiba – Brazil



Source: Guia Turismo Curitiba

Iguatemi Shopping Mall, Rio de Janeiro – Brazil



Exhibit 10 – Survey Results

Exhibit 10 a) – Survey Demographics

Cross tabulation between % people age and % gender

		What is your gender?		Total
		Male	Female	
What is your age?	< 18 years	0 0.00%	0 0.00%	0 0.00%
	Between 18 - 28 years	22 73.33%	48 85.71%	70 81.40%
	28 - 40 years	7 23.33%	5 8.93%	12 13.95%
	40 - 55 years	0 0.00%	3 5.36%	3 3.49%
	> 55 years	1 3.33%	0 0.00%	1 1.16%
	40 - 55 years	0 0.00%	0 0.00%	0 0.00%
	> 55 years	0 0.00%	0 0.00%	0 0.00%
Total		30 100.00%	56 100.00%	86 100.00%

*Please note that gender and age were not mandatory questions.

Exhibit 10 b) – Survey Demographics (cont.)

Cross tabulation between % age and % occupation

		What is your age?						Total	
		< 18 years	Between 18 - 28 years	28 - 40 years	40 - 55 years	> 55 years	40 - 55 years		> 55 years
What is your occupation?	Student	0 0.00%	24 34.78%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	24 28.57%
	Full-time employee	0 0.00%	42 60.87%	12 100.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	54 64.29%
	Part-time employee	0 0.00%	9 13.04%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	9 10.71%
	Unemployed	0 0.00%	3 4.35%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	3 3.57%
	Retired	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%
	Other	0 0.00%	1 1.45%	0 0.00%	2 100.00%	1 100.00%	0 0.00%	0 0.00%	4 4.76%
	Total		0 100.00%	69 100.00%	12 100.00%	2 100.00%	1 100.00%	0 100.00%	0 100.00%

*Please note that occupation was not a mandatory question.

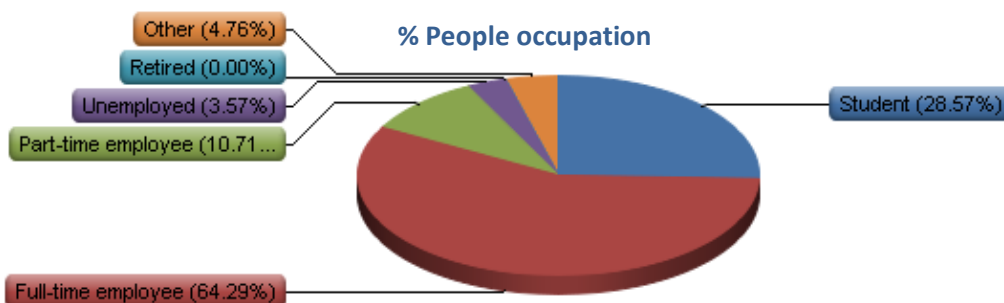
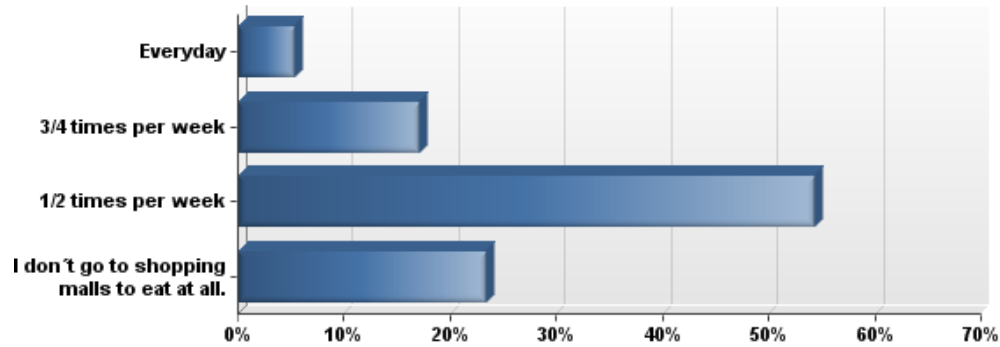


Exhibit 10 c1) – Consumption Patterns (cont.)

Consumption patterns: frequency



Cross tabulation between place and frequency

		Where do you normally have your lunch during the week?					Total
		Shopping mall	Street restaurant	My house	Friend's house	Other: canteen, etc...	
Per week, how many times do you eat in a shopping mall?	Everyday	5 16.13%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	5 5.32%
	3/4 times per week	16 51.61%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	16 17.02%
	1/2 times per week	9 29.03%	14 77.78%	28 62.22%	0 0.00%	0 0.00%	51 54.26%
	I don't go to shopping malls to eat at all.	1 3.23%	4 22.22%	17 37.78%	0 0.00%	0 0.00%	22 23.40%
	Total	31 100.00%	18 100.00%	45 100.00%	0 100.00%	0 100.00%	94 100.00%

Exhibit 10 d1) – Purchasing options and preferences (cont.)

Categorization on absolute values of several fast food chains

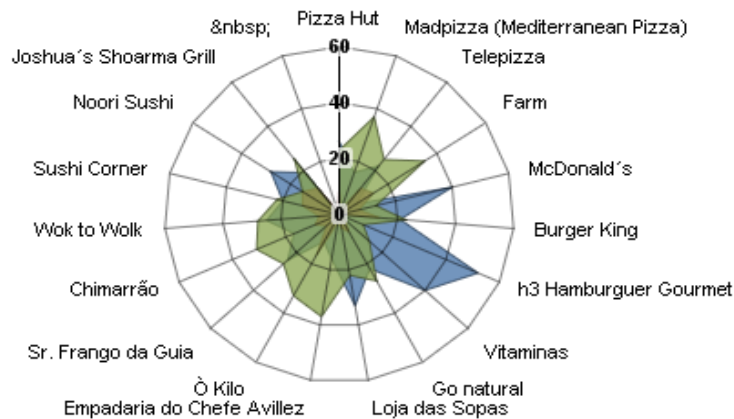


Exhibit 10 e1) – Positioning and competition (cont.)

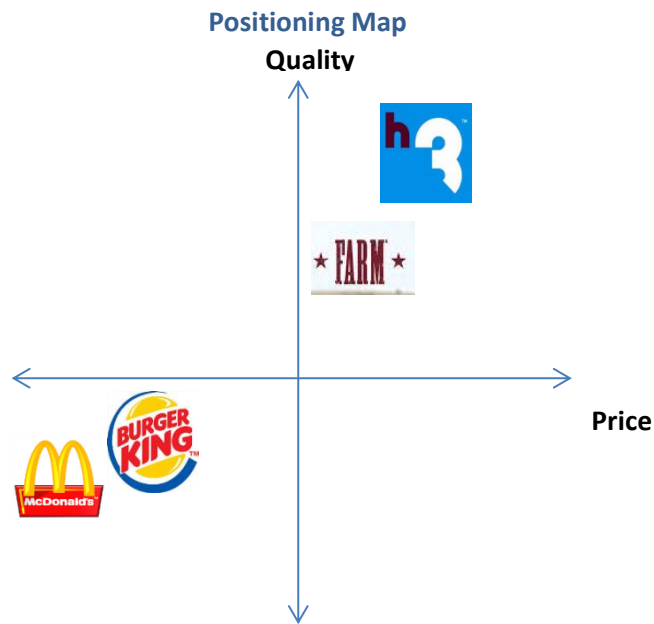


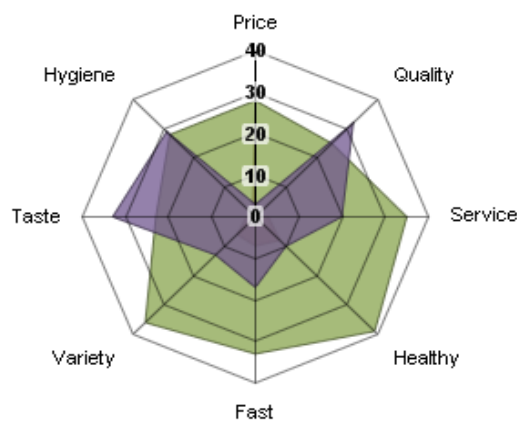
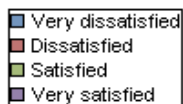
Exhibit 10 f1) – Critical aspects when choosing a fast food restaurant (cont.)

Quantitative results of critical aspects when choosing a fast food restaurant

#	Answer	Min Value	Max Value	Average Value	Standard Deviation	Responses
1	Quality	0.00	10.00	7.66	2.00	58
2	Price	3.00	10.00	7.64	1.93	58
3	Service	0.00	10.00	6.29	2.31	58
4	Healthy	0.00	10.00	5.59	2.30	58
5	Fast	3.00	10.00	7.52	2.13	58
6	Variety	1.00	10.00	6.33	2.11	58
7	Taste	3.00	10.00	8.57	1.64	58
8	Hygiene	0.00	10.00	8.00	2.18	58

Exhibit 10 g) – Generalized perception towards h3 Hambúrguer Gourmet

Characterization in absolute values of h3 Hambúrguer Gourmet according to several factors



Quantitative results of h3 Hambúrguer Gourmet characterization in several factors

Statistic	Price	Quality	Service	Healthy	Fast	Variety	Taste	Hygiene
Min Value	1	1	2	1	1	1	2	2
Max Value	4	4	4	4	4	4	4	4
Mean	2.57	3.52	3.29	3.00	3.14	3.02	3.53	3.48
Variance	0.39	0.36	0.32	0.39	0.47	0.54	0.32	0.29
Standard Deviation	0.62	0.60	0.56	0.62	0.69	0.74	0.57	0.54
Total Responses	58	58	58	58	58	58	58	58

Exhibit 10 h) – Qualitative results on the consumers’ perceptions towards h3 Hambúrguer Gourmet

% People that would go to a shopping on purpose to eat an h3 hamburger

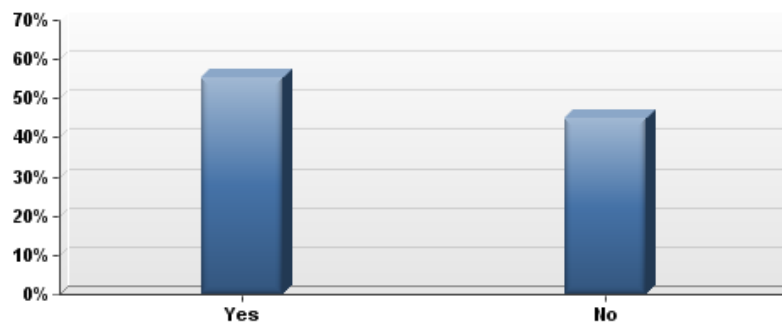


Exhibit 10 i) – Brand empowerment and association

% People that chooses the brand Empadaria do Chef Avillez

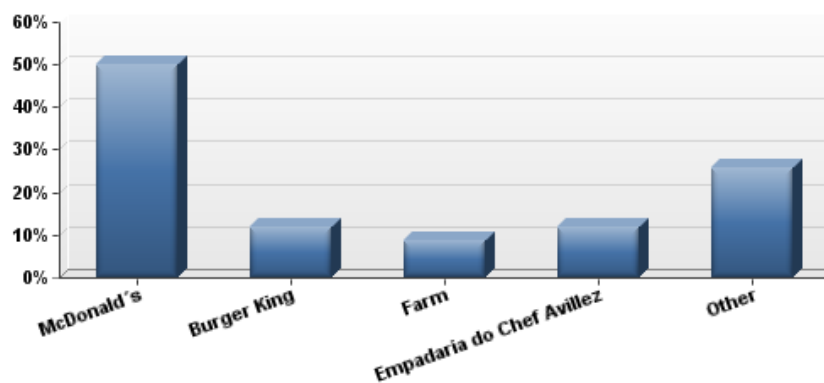


Exhibit 10 j) – Perception towards fast food

% People who admitted their perception towards fast food has changed over the last 10 years

#	Answer	Response	%
1	No	21	37%
2	Yes	36	63%
	Total	57	100%

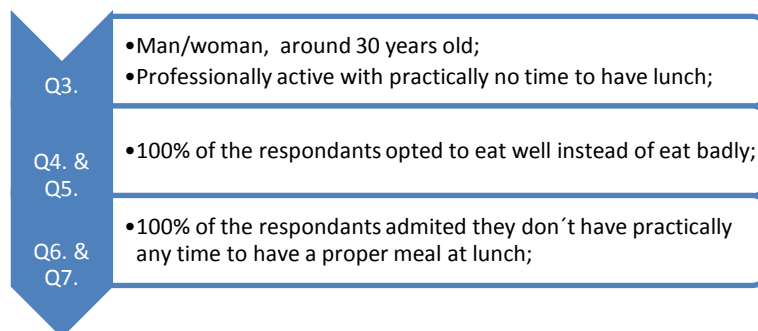
9. Appendixes

Appendix 1 – h3’s first home-made survey

Critical questions to investigate the consumer-type were:

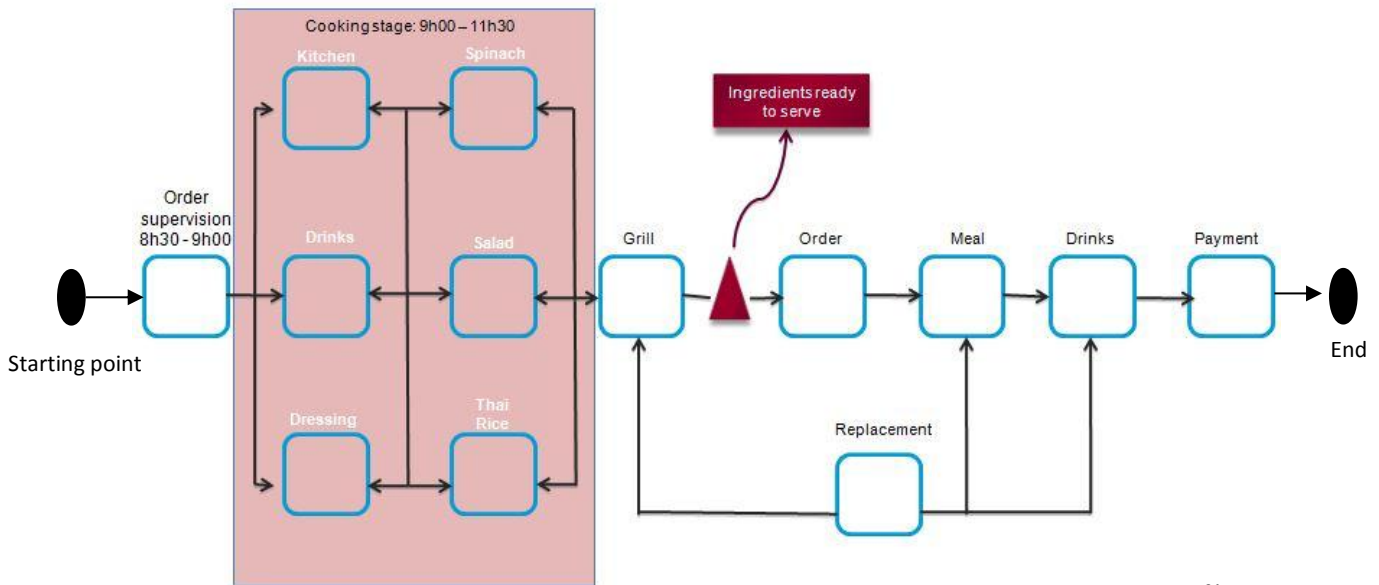
- 1- What does the person normally eat at lunch?
 - 2- What are the costumer’s leftovers in the plate?
 - 3- Who is our costumer-type?
 - 4- *Do you like to eat well?*
 - 5- *Do you like to eat badly?*
 - 6- *Do you like to eat fast?*
 - 7- *Do you like to eat slowly?*
- } **“Suggestive” questions**

The conclusions of the home-made survey were:



Appendix 2 – h3’s Strategy & Operations

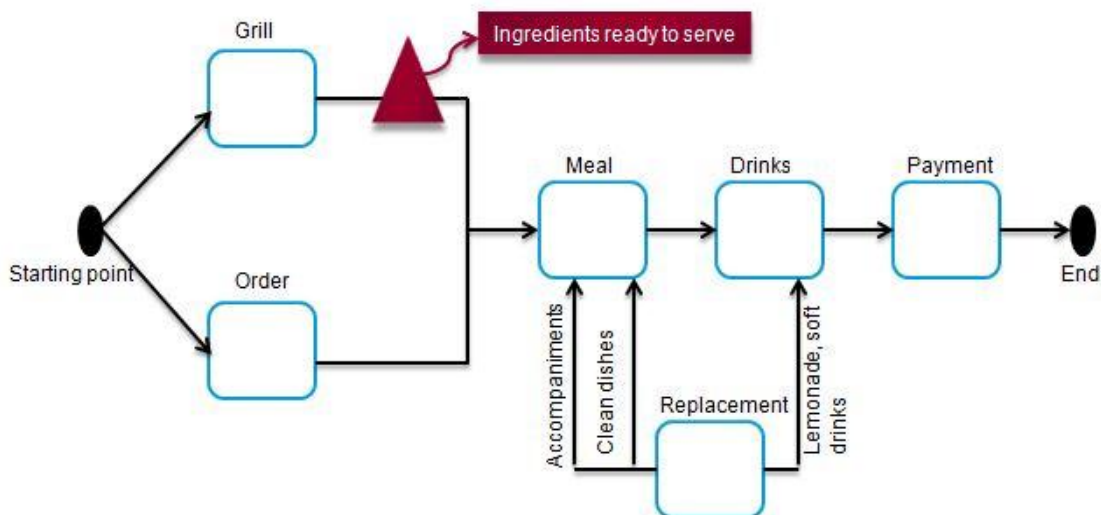
Processes diagram:



Source: Café 3 S.A.

Meals' preparation:

Based on the standard indicator: *Hamburgers served per minute*



Source: Café 3 S.A.

The flow of processes in h3 is simple and fast due to the fact that they only work with a mono-product, having the operational capacity to grill on average one hamburger from 5 to 10 minutes, depending if the customer wants it well or bad done. Every station above can afford from 2 h3 professionals, where the grill station can grill up to 5 hamburgers per minute. For this to happen, the grill stage has to be always one step ahead from the customer, since it takes 8 to 10 minutes for the grill just to warm up.

Therefore, is crucial to observe the queue to order and its number of clients and also the time of the day. At lunch is fundamental to start preparing hamburgers long before customers arrive; this operational scheme is hence facilitated by the fact that if there are 20 customers in a queue ready to order, the grill station knows that those 20 customers will order hamburgers and not something else.

So, the grill station puts 20 hamburgers into the heating phase, so that when the customers are ready to order they have their hamburgers done by that time, only having to put the ingredients on the dish as well as ordering the drinks. This whole process contributes to an outstanding efficiency on all h3's processes, where it takes about 30 seconds since the client's order until it's fully served.

This precision would be impossible in the case of *Empadaria do Chef*³, where the founding members work with several types of pies. In this case, the production process is not as fluid as in the h3's case; here you observe severe breaks in the entire value chain of the production process. In the *Empadaria do Chef*'s example, the professional responsible to be one step ahead from the client never knows which type of pie the client is going to prefer.

One of the roads to success is actually to maximize profit through ways to serve the clients as fast as possible using the least amount of resources, using this efficiency as a competitive advantage compared to the rest of a food court's options. To illustrate their bargaining power in terms of operational processes, h3's record is to serve 258 clients in one hour.

Appendix 3 - Poland: Fast Food Market Characterization

Since 2003, the Polish economy verified serious developments, despite the economic crisis faced in all Europe; Poland was actually one of the few countries being able to grow and to register a positive growth rate at the year of 2009. According to the Economist Intelligence Unit (EIU), the Polish economy registered the third biggest Gross Domestic Product (GDP) growth rate after Sweden and Slovakia. Those number figures were supported by several factors, such as: Poland has one of the biggest sample values (38, 544,513 million inhabitants, at 2013), also has a relatively low total external debt (approximately 54% of GDP, in 2012) and also a steady public debt of 53, 8% of GDP in 2012. Pretty much every country on the East area, have a relative political and economic stability. Despite the differences in terms of economic growth, due to historical reasons, almost all East regions passed similar problems while growing. In fact, we can observe capital entries and serious investments in 8 countries in the East Europe, where Poland is included among countries such as: Czech Republic, Croatia, Hungary,

³ Empadaria do Chef is the second biggest investment which consists in offering a 200g pie based on traditional Portuguese dishes (cod fish, "alheira", among other. This investment was around 200 thousand euros in its first store in Portuguese shopping mall Colombo in 2012.

Romania, Slovakia, Ukraine and Turkey. Those countries augmented their capital inflows in about 9% from 2009 to 2010, despite the economic crisis verified in the remaining European zone.

Regarding the Polish fast food market, we could also observe some levels of tough competition with more than local 200 McDonald's stores and KFC restaurants all over the country.

As some of the major trends in its fast food market, we can highlight, the 6% growth in sales of fast food, reveals the weight and the amount of success that this sector had in the year of 2011. The rapid expansion of worldwide brands, like McDonald's, as well as the introduction of new ones, contributed to a 9% in value sales in chained outlets. Not only franchising business were taking the lead, also new type of restaurants such as, Cafés or even self-service diners, were developing themselves at a very fast pace, mainly due to their pricing strategies, which are considered to be penetration strategies, adopting low prices and bundling schemes.

The best performing Company at the fast food market in Poland remains to be McDonald's with 11% of market share in 2011. Operating with 136 stores, MacDonal'd's is considered to be, by the Polish citizens, the most easy-recognizable brand, among the rest of competitors. Followed by AmRest, which contains Burger King and KFC with 10% market share, due to internal strategically changes which boosted AmRest's brands.

Regarding future prospects, fast food category is expected to have a compound annual growth rate (CAGR) of 4% in constant values. This substantial value is supported by the continuous growth of the existing outlets and also due to changing mentality and patterns observed in the Polish community, creating higher demands for eating fast on shopping malls. Although, consumer trends, in comparison with the Portuguese current trends are in some sense different. Portuguese people are more cautious nowadays compared with Polish people; this can be sustained from the fact that Portuguese fast food market has experienced a higher degree of fast food maturity and saturation. On the contrary, Polish people are still contemplating the new boom of McDonald's and similar chains.

Appendix 4 - Spain: Fast Food Market Characterization

Studying the Spanish fast food market within the current conjuncture, we might not forget about the macroeconomic factors which largely influence the fast food category; the high unemployment rate, for instances, was near 23% in 2011. However, this negative macro environment was not responsible for a bad performance in terms of fast food absolute values. Fierce government's measures in order to control the extraordinary public debt, caused a downsized on the Spanish community's disposable

incomes, although, the consumption values on fast food remained positive observed also a growth around 5% in current value terms in 2011.

According to EuroWeeklyNews, common hamburger chains led the Spaniard fast food market to witness a 3% of growth in 2012. *“The sector reported €2,730 million turnover last year, although the 1.3 per cent increase on 2011 was lower than in preceding years owing to falling demand. Despite deceleration, fast food remains the liveliest area in the restaurant industry.”* Tell us EuroWeeklyNews, who contrasts the “hamburger” evolution with a slowdown in pizzerias in terms of demand. It is important to highlight that given slower values in 2012 compared to a homologous period, new stores are constantly being opened despite the current macroeconomic situation felted in Spain. In terms of hamburger total sales in Spain, 1065 stores accounted for a turnover of 1430 million Euros, on the contrary, pizzerias only accounted for a turnover of 495 million Euros.

These values mentioned only confirm the effects of the world recession. Actually, with the suffering disposable incomes within the macro environment, people are much more cautious and price-sensitive; hence, fast food chains, especially the most popular ones, can afford to practice appealing discount strategies, are going to benefit from this conjuncture.

Appendix 5 – Brazil: Fast Food Market Characterization

Brazil is the world’s fifth largest and Latin America’s largest economy. Also, Brazil is actually the biggest country in Latin America with the highest value in terms of its GDP (Gross Domestic Product) which was worth 2435, 20 billion USD in the year 2012 (please observe **Exhibit 5**). Brazilian’s GDP represents nearly 4% of the world’s economy. Not only by these figures, we might also highlight this country is also one of the biggest in terms of size of population, being extremely attractive for new entrants such as h3 Hamburguer Gourmet.

In terms of market concentration, the major players are McDonald’s, *Al Saraiva Empreendimentos Imobiliários e Participações*, Brazil Fast Food and Doctor’s Associates; which are holders of respectively: McDonald’s, Habib’s, Bob’s and Subway; combining all these brands, they were responsible for 58% of total’s Brazilian market share in 2011.

Once again, playing with favorable prices and using aggressive marketing campaigns, fast food brands are responsible for a higher number of followers given these last years. However, there are several arising trends which have shaped consumers’ mentality and way of behaving. Brazil is characterized for having its population with a significant purchasing power due to its emerging economy and increasing curiosity in trying new and innovative products, which are can be not necessarily cheap.

There is an emerging group of people considered to be healthy-cautious and more aware of new healthy trends and new ways of eating. This emerging group, is although, relatively small compared to the rest of Brazilian's population. There is still a gap in society classes, where the majority lives in poverty. Lastly, there is a small share known to be in a middle class. The consumption and demand for light meals have increased over time (**Exhibits 6 and 8**). With this being said, it's natural to assume that, with more disposable income, Brazilians will embrace new type of food chains, willing to try different things; thus, from a strategically point of view, h3 couldn't target a most appropriate country to entry in.

Appendix 6 – Survey: What is your perception? Fast food consumption patterns

- 1) Where do you normally have your lunch during the week?**
 - Shopping mall
 - Street Restaurant
 - My house
 - Friend's house (**Go to question 14**)
 - Other: canteen, etc... (**Go to question 14**)

- 2) Per week, how many times do you eat in a shopping mall?**
 - Everyday
 - 3/ 4 times per week
 - 1/ 2 times per week
 - I don't go to shopping malls to eat (**Go to question 14**)

- 3) What is your favorite type of food when you decide to eat in a shopping mall?**
 - Pizza
 - Hamburgers
 - Light meal
 - Traditional food
 - International food: Sushi, Thai, Indian, etc...

- 4) Please categorize each type of food, whether you love it, hate it or it's indifferent:**
 - Pizza Hut
 - Madpizza (Mediterranean Pizza)
 - Telepizza
 - Farm
 - McDonald's
 - Burger King
 - h3 Hambúrguer Gourmet
 - Vitaminas
 - Go Natural
 - Loja das Sopas
 - Empadaria do Chefe Avillez
 - Ò Kilo
 - Sr. Frango da Guia
 - Chimarrão
 - Wok to Wolk
 - Sushi Corner
 - Noori Sushi
 - Joshua's Shoarma Grill

- 5) Please indicate your favorite restaurant from the list below:**
 - McDonald's
 - h3 Hambúrguer Gourmet

- Farm
- Burger King

6) From a scale 0 to 10, please indicate the respective weight of the below factors on your choice, when eating in a shopping mall:

- Quality
- Price
- Service
- Healthy
- Fast
- Variety
- Taste
- Hygiene

7) Please characterize h3 Hambúrguer Gourmet according to the factors described below:

- Quality
- Price
- Service
- Healthy
- Fast
- Variety
- Taste
- Hygiene

8) Would you go to a shopping mall on purpose to eat an h3 Hambúrguer Gourmet?

- Yes
- No (If no, why?)

9) If there is **no** h3 Hambúrguer Gourmet in your shopping mall, where would you go?

- McDonald's
- Burger King
- Farm
- Empadaria do Chef Avillez (**Go to question 10**)
- Other (If other, which one?)

→ **10)** If you previously selected option Empadaria do Chef Avillez, please explain why.

11) During the last 10 years, has your perception towards eating hamburgers changed?

- No (**End of block**)
- Yes (**Go to question 12**)

→ **12)** If you said **yes** on the last question, please explain why.

13) If you could change anything in h3 Hambúrguer Gourmet, what would it be?

14) What is your gender?

- Male
- Female

15) What is your age?

- < 18 years
- Between 18 – 28 years
- 28 – 40 years
- 40 – 55 years
- > 55 years

16) What is your occupation?

- Student
- Full-time employee
- Part-time employee
- Unemployed
- Retired
- Other

End of Survey

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