Academia. Revista Latinoamericana de Administración
ISSN: 1012-8255
esalgado@uniandes.edu.com
Consejo Latinoamericano de Escuelas de Administración
Organismo Internacional

Marx Andrade, Olivia Vieira; Pautasso Barreto Amorim, Renata; Cassilha Pires, Fabiana; Wilcox Hemais, Marcus

Spoleto: internationalizing a Brazilian franchise of Italian cuisine

Academia. Revista Latinoamericana de Administración, vol. 26, núm. 3, 2013, pp. 415-431
Consejo Latinoamericano de Escuelas de Administración
Bogotá, Organismo Internacional

Spoleto: internationalizing a Brazilian franchise of Italian cuisine

Olivia Vieira Marx Andrade, Renata Pautasso Barreto Amorim, Fabiana Cassilha Pires and Marcus Wilcox Hemais
Pontifícia Universidade Católica do Rio de Janeiro, Rio de Janeiro, Brazil

Received 17 July 2012
Revised 1 March 2013
29 May 2013
Accepted 7 June 2013

Abstract

Purpose – The purpose of this paper is to show students the problems that a Brazilian franchise in the fast food sector faced while internationalizing its business to Mexico and Spain. Specifically, discuss how the entry mode of master franchise used by Spoleto presented problems to the company's managers.

Design/methodology/approach – This is a teaching case, designed to make students reflect on issues related to international business and international marketing. The primary data were collected through interviews with Edwin Junior, International Expansions Manager of Spoleto. The information gathered in the interviews was complemented by secondary data from newspapers, business magazines, internet sites and the Spoleto sites in Brazil and Mexico.

Findings – The choice to make partnerships with companies that already have experience in managing big multinational franchises might not be the best move for a brand that is unknown outside of its country. This aspect of master franchise partnerships is scarcely discussed in the literature, which instead tends to focus on other negative aspects of this kind of arrangement. It is also important to point out that close control over the master franchisees actions, especially in the initial phases of international expansions, is important to guarantee that operations will be up to standards in all countries.

Originality/value – The value of this study is in the discussion it raises about the mistakes, rather than the successes, made by a Brazilian franchise in its first attempts to expand internationally.

Keywords Marketing, Internationalization, Fast food, Brazilian, Franchise, Spoleto

Paper type Case study

Driving home, after a long day at work, the only thing on Eduardo Ourívio's mind are the plans for the new international expansion of Spoleto, a Brazilian franchise of Italian cuisine. As a company associate, he feels responsible for reviewing the steps to be taken, in order to avoid repeating previous mistakes.

In the past, Spoleto faced problems in its expansions to Mexico and Spain. Partnerships were made with local companies so that they would become master franchisees, but these initiatives did not bring the expected benefits. However, with plans to expand to three new countries, Spoleto's plans to continue its internationalization process are in full swing. Ourívio has a meeting scheduled with his associate, Mário Chady, to discuss such expansions. He believes that, before any future moves of this kind, they should reflect on the company's internationalization process. Should Spoleto continue expansions through master franchises? Should the company maintain its current master franchises in Mexico and Spain? Should it establish a new marketing strategy abroad? All these issues needed to be discussed.

Academia Revista Latinoamericana de Administración
Vol. 26 No. 3, 2013
pp. 415-431

1012-8255
DOI 10.1108/ARLA-07-2013-0097

The company

Spoleto began its business in 1999, in Rio de Janeiro, Brazil, with an innovative concept of an Italian cuisine restaurant. Customers could choose from a vast list of pastas, sauces and toppings to tailor-make their own meals, which were prepared in less than two minutes (for more information on this process, see Appendix 1). In addition to personalizing meals to consumers' tastes, the process of preparing dishes allowed mass customization of production – through a standardized operation – meaning that the service could be fast.

The business first opened in 1997 as an Italian food kiosk inside a gastronomic shopping mall called "Estação Ipanema," in Rio de Janeiro. The other eating options included a bar, a restaurant, a coffee house, an ice cream parlor and a sushi bar and, even though the kiosk only took up 12 m^2 of the total 600 m^2 of the mall, it became the main attraction.

Realizing the potential of the business, the partners decided to expand. Without capital to invest in opening stores, they decided to franchise the business. The first store was opened in February 1999, and, since then, the company has grown steadily in Brazil, mostly through franchising.

The company manufactures most of the products sold in Brazil, with the exception of the dry pasta (spaghetti, penne, noodles, for example) that is imported from Italy. Domestic production is supplied by the Pizzicarolo factory, which produces the sauces, stuffed pasta, lasagnas, risottos and polpettones that are distributed to the entire Spoleto network in Brazil by the Magazzini company.

Spoleto started its international expansion to Mexico in December 2004, after being approached by the Mexican food chain Alsea. This partnership resulted in the Mexicans becoming responsible for the franchise in their country, and, in exchange, the Brazilians got 50 percent of Domino's Pizza in Brazil.

At the end of 2006, a new opportunity emerged for Spoleto to expand to Spain. The partnership, this time, would be with the Spanish group Hispania Franchise.

In both cases, Spoleto established a master franchise with the foreign companies, through which the partners could set up stores in their home country, and also franchise the brand to third parties. Ourívio and Chady believed that Spoleto would more likely succeed with this model, since the local partner would offer knowledge of cultural, economic and political aspects of their home markets.

In 2007, the Umbria group was created, which was the holding of Spoleto and Domino's Pizza in Brazil. In 2008, the new company acquired 80 percent of the control of Koni Store – a fast food chain specialized in Temakis (Japanese cones wrapped in seaweed) – in order to consolidate itself in the fast food market. As well as restaurants, Umbria also own both the Pizzicarolo and the Magazzini companies.

In 2011, Spoleto had 263 stores in Brazil (between franchisees and their own), with projections to increase this number to 284 in 2012. More information on Spoleto can be found in Appendix 2.

The fast food market

Driven by increased urbanization and the demands of modern life, food consumption habits around the world have changed. This means that meals consumed outside of the home are becoming as important in people's lives as those made at home. This phenomenon resulted in the growth of the foodservice industry worldwide.

The foodservice industry consists of companies that produce food for consumption outside the home. This industry ranges from large industrial kitchens, fast food chains, catering companies, pubs, restaurants, schools, ice cream parlors and bakeries, to hot dogs stands on the streets. Projections by Global Industry Analysts indicate that by 2015 this industry will generate revenues of 2.2 trillion dollars. In turn, the fast food industry worldwide reached a turnover of 154 billion dollars in 2008, with projections to reach 200 billion dollars by 2013.

With a population of over 195 million and a GDP of 2.48 trillion dollars, Brazil became the sixth largest economy in the world in 2011, having grown over 400 percent in the 2001 to 2011 period. This growth has been reflected in various sectors, such as the country's foodservice industry, which grew 219 percent between the years 2000 and 2010, reaching 75.1 billion reais in sales in 2010 (43.7 billion dollars at the exchange rate of BRL$1.8 used at the time by Banco Central do Brasil), as shown in Appendix 3. Currently, Brazilians are one of the main consumers of fast foods, generating revenues of about 4 billion dollars annually, with an increase of 12 percent every year in the number of stores opened. The major chains found in Brazil are Subway, Pizza Hut and McDonald's, in addition to the Brazilian chains, Habib's, Giraffas and Spoleto (Appendix 4).

After Brazil, Mexico is the second largest economy in Latin America, with a total population of 113 million (2011). After a drop of 4.3 percent in the country's GDP, in 2009, the Mexican economy regained growth in 2010, closing with 1.03 trillion dollars. Despite the economic recovery, the foodservice industry still shows signs of difficulties. Sales in 2010 were of 41 billion dollars, with per capita spending of 365 dollars (Appendix 5). In relation to previous years, these figures show a drop in the market, but projections indicate that by 2015, the industry should regain its past sales, reaching 51.3 billion dollars. Several factors contributed to these negative results, such as: the global economic crisis, the H1N1 flu epidemic that spread through the country and a new law the local government implemented that bans smoking in public places.

The country's fast food industry was also affected by these factors through the last quarter of 2008 and early 2009, even though it had increased by 60 percent between 2003 and 2008, when its annual sales rose from 3.2 billion dollars to 5.1 billion dollars. Most companies in the sector marginally increased or decreased their sales at the end of 2008 and through 2009. To minimize the effect of the crisis, prices were lowered, costs were cut and aggressive promotions were created to maintain consumer interest. These actions seemed to help the industry recover, with sales of over 6 billion dollars in 2010. Large multinational corporations currently dominate some areas of the fast food sector in Mexico, such as hamburgers (McDonald's and Burger King), sandwiches (Subway) and fried chicken (KFC).

Spain, with a population of 46.5 million and a GDP of US$1.374 trillion (2010), is among the top 20 largest economies in the world. For ten years the country's economy grew steadily, until the 2009 recession, which made the GDP drop by 0.4 percent in 2010. This scenario affected the foodservice industry, with sales declining by 6.3 percent between 2008 and 2010. Faced with financial difficulties, Spaniards shifted their dining habits to cheaper solutions, such as fast food restaurants. As a consequence, projections are that this sector should show a growth of 13 percent in sales over the 2010 to 2014 period (Appendix 6).

The popularity of fast food consumption in Spain was initially low. The local tradition of having lunch at home, followed by a siesta, hindered its spread. However, as in the rest of the world, the lunch hour for workers became reduced, increasing the number of meals consumed outside the home. As Spaniards are eating at least two meals per week in restaurants, the healthy diet they were used to has gradually been replaced by fast food. At the same time, the fast food sector is showing signs of significant growth, given that between 2004 and 2008, the number of restaurants grew by over 30 percent, and their revenue was over 20 percent. McDonalds and Burger King are the main chains in the country.

The Spoleto managers consider that their main competitor worldwide is McDonald's, especially in Mexico and Spain. Although McDonald's does not offer the same service as Spoleto, the Brazilian franchise bases its prices on those used by the American chain. The only company that matches Spoleto's concept of preparing tailor-made pasta meals is Vapiano, a German company with more than 70 restaurants around the world. However, its marketing positioning is different, as its meals are more expensive and it targets a higher income segment.

International expansion to Mexico

Spoleto's internationalization to Mexico in December 2004 was the start of its foreign expansions. Although the company had no plans to internationalize, Ourívio and Chady thought that it would be beneficial for the business for three reasons. First, the product was known worldwide, so it would be easily accepted in any market. Second, growth in the Brazilian market was limited in the long term and so to increase the number of stores Spoleto would have to expand abroad. The third reason came from a risk assessment. Since Spoleto's production model was simple, other competitors could easily copy it. To avoid running this risk, it was better for the company to capitalize on its model while it could. The venture to Mexico was undertaken in partnership with the Mexican food chain Alsea.

Alsea is a restaurant operator in Latin America, in the fast food, cafeteria and casual dining segments. It has a portfolio of global brands, which include: Domino's Pizza, Starbucks, Burger King, Chili's, California Pizza Kitchen, PF Chang's, Pei-Wei and Italianni's. The company started operations in Mexico, as a master franchise of Domino's Pizza in 1990. With its steady growth, Alsea decided to expand the pizza brand to Brazil, in 1998 as its first attempt to internationalize the business. Until 2002, the company had only managed the Domino's Pizza brand, when it decided to diversify, adding Starbucks and Burger King to its portfolio. In 2006, the company entered the Argentinian and Chilean markets, by acquiring all Burger King restaurants in these countries, and, in 2008, it took both Domino's Pizza and Burger King to Colombia. By June 2012, Alsea was managing 1,363 units of its eight brands, in all four countries (see Appendix 7), which made it the largest restaurant operator in Latin America.

By 1998, Alsea already had 1,111 Domino's Pizza stores opened in Mexico, and it started to operate the brand in Brazil. Because it did not know the particularities of the local culture, the franchise began to face difficulties in this new market. After six years of struggle, aware that Spoleto was growing fast in the country, Alsea approached Ourívio and Chady to make a deal with them. The partners jumped at the opportunity.

In December 2004, Spoleto took over the operations of Domino's Pizza in Brazil, with a 50 percent stake in the company. Under the new command, the pizza brand's Brazilian operations started to take off. Alsea became Spoleto's master franchisee in Mexico, with a commitment to invest in the brand, opening five restaurants in the first years of operation in the country.

Ourívio and Chady believed that internationalizing through a master franchise system was their best option, since Spoleto did not have the capital to invest in this kind of expansion by itself. Alsea would be responsible for such investments, and Spoleto would offer its experience and know how of the business. Moreover, Alsea was a multinational company, with knowledge of franchises in the fast food sector, especially in the Mexican market, which was unknown to the Brazilian associates. “What could possibly go wrong?”

Mexico was seen as a good market for Spoleto to start its foreign operations. The fast food sector was growing, and projections indicated further growth in the following years. Since the process of internationalization would require great efforts, it would only be compensated if the market supported a vast number of stores. Also, Mexico was geographically close to the USA, a market considered key to Spoleto’s future ventures.

To start operations, Ourívio and Chady needed to find a local producer to supply their Mexican stores. They found a company, and began sharing information, methods and technology for the production of their recipes. Alsea, for their part, would be in charge of guaranteeing that standards of quality would be met by the producer. With that matter resolved everything was set for the grand opening.

The first Spoleto store was opened in a shopping mall in Mexico City, widely used by the target audience that the company wanted to reach: the middle and upper classes. The second and third stores were opened in shopping malls where lower income consumers shopped. All the new stores were opened in neighborhoods that were a fair distance from one another. Ourívio and Mario believed that, if Alsea chose these locations for the stores, they must be profitable spots, given that the Mexican company had vast and successful experience in opening restaurants all over the country. So, the Brazilians decided not to interfere with the decisions made by the Mexicans, and they were not asked to do so.

When the first stores opened, consumers showed little interest in the food offered. Unlike what Ourívio and Chady believed, Italian cuisine is not as widespread in Mexico, as it is in Brazil. In a ranking of per capita consumption of pasta, prepared by the International Pasta Organization, Mexico ranks only 38th in a total of 47 countries, whereas Brazil ranks 13th. Alsea did not attend to this fact when it presented Spoleto with a study of the Mexican market. As well as not being familiar with the cuisine, Mexican consumers were unfamiliar with the ingredients – some of them typically Brazilian – used in the recipes.

In addition to this, the food offered was not up to the standard that was expected. The producer that supplied the stores was not following Spoleto’s guidelines, reducing the quality of the recipes. Given such a problem, the Brazilian partners decided to change the producer. They found a substitute that already worked for Domino’s Pizza in Mexico, and, once again, they shared their knowledge of production. Yet, as before, standards were not met. Since Spoleto’s demands were small in comparison to those of the pizza brand, and would demand more work and costs, the producer had little interest in complying with the standards of the Brazilian franchise. To deal with this situation, the two Brazilians considered installing a factory in the country, but knew that this option was not the best alternative as there were not enough stores to supply and it would render the operation expensive. However, they wanted to guarantee that their brand would not be harmed by low-quality production.

The team Alsea used to manage Spoleto in Mexico lacked knowledge on how to manage brands that had small international exposure. They were used to dealing with global brands, such as Domino’s Pizza, Starbucks and Burger King, and so they treated Spoleto just like the other brands. This meant that the team did not consider it essential to monitor operations closely and dispend major investments and personnel for promoting the Brazilian brand. Alsea’s team believed that, like all of its other brands, consumers would be naturally attracted to the restaurant, and that would be enough for its success.

Initial results of Spoleto's Mexican experience were not as expected. In hindsight, Ourívio and Chady realized that Alsea was not managing Spoleto the way the Brazilians thought they should. To begin with, the location of the stores was questioned. The one in the shopping mall attended by the middle and upper class consumers was located in a part of the mall where there was little movement, making it hard for the brand to be visible. The fact that all three restaurants were in neighborhoods far away from one another made it difficult to strengthen Spoleto in the mind of consumers. Worst of all, the food being offered was below standards, because the producer that Alsea was in charge of monitoring was not following Spoleto's guidelines.

The Brazilian associates also believed that the team designated by Alsea to manage Spoleto's expansion to Mexico was not adequate for the task. Even though the team leader was interested in the project, he did not know how to implement it correctly. His team, as a result, was inadequately prepared for the challenges the brand faced.

To reverse this situation, Ourívio and Chady believed that Alsea should change the way it was exploring the brand in the Mexican market. The Brazilians realized, though, that the master franchise did not know how to do that, since their qualifications were better suited for managing global brands. After Spoleto's initial results proved to be unsatisfactory, Alsea lost interest in the Brazilian chain; the other brands the Mexicans managed were significantly more lucrative than Spoleto, and demanded less effort to succeed. In 2005, Domino's Pizza, Burger King and Starbucks had net sales of 2.3 million Mexican pesos, 689,000 Mexican pesos and 367,000 Mexican pesos, respectively, while Spoleto drew only 1,000 Mexican pesos, as shown in Appendix 8.

With less than two years of operations in Mexico, Spoleto was experiencing more problems than benefits, and store owners were starting to get tired of this situation. Given such difficulties, Ourívio and Chady knew changes needed to be made.

International expansion to Spain

At the end of 2006, a new opportunity for Spoleto to expand internationally emerged, this time, to Spain. Once more, this chance to expand the business abroad came to Ourívio and Chady, without any effort on their part to discover it. They were still focussing on Spoleto's lagging operations in Mexico, so expanding to yet another country was not their priority. Even though they already had some experience in internationalizing the brand, the Brazilians did not make big enough changes in their international expansion process to rid themselves of problems, since similar ones arose in the Spanish operations.

The candidate company to become the master franchise of the brand in this new market was the Spanish group Franchise Hispania. This organization consisted of nine members, one of whom had experience in the fast food sector, since he managed the expansion of Burger King in southern Europe. When the contract was closed with Spoleto, this member became the major partner in the project.

Ourívio and Chady's goal was to open 50 stores in their first five years of operations in Spain. They based their projections on the growth the fast food market was undergoing in the country at the time. If the company was successful in the Spanish market, they believed that this could be a starting point for an expansion to the rest of Europe.

January 2007 marked the start of Spoleto's venture in Spain with the opening of five stores. Ourívio and Chady, again, were not consulted to suggest places where the restaurants should be opened. As he was in charge of all operations, the local project manager believed it was his responsibility. Spoleto's first store was located on a busy street in Madrid, and was bigger than conventional stores installed in shopping malls. The other stores were opened in shopping malls, in Madrid and Malaga.

All five stores brought dissatisfactory results. Ourívio and Chady attributed this to the fact that the locations of the stores were unsuitable for their business. The Brazilian associates believed that, in the case of the street store, a consumer who is unaware of the brand will not go to a new restaurant if it is located on the street. If a customer has no previous relationship with the brand, he would not know whether the food is worth the effort of going out of his way just to get to that location. The shopping mall stores, on the other hand, were located in remote parts of the mall, where the consumer would not go if he was looking for a meal. Even though Ourívio and Chady did not have empirical data to back these ideas, they believed that they had enough experience to know what makes a Spoleto store successful.

To further aggravate the situation, the red and yellow (the colors of the Spoleto logo) store front was intended to draw attention to the restaurants. However, the effect was quite the opposite from what was expected. Spaniards were confused by the fact that this was a Brazilian restaurant, offering Italian food, with colors that reminded them of the Spanish flag. The initial suspicion of consumers was compounded by the fact that the store waiters did not interact with them to explain how to order their meals. In Spanish culture, the waiter expects the customer to ask him for help. If the reverse happens and the waiter approaches the customer, it is considered rude.

Spoleto suggested that waiters be trained to interact with the customers, since that was an important part of the service operation. The Spanish project manager, on the other hand, did not believe this kind of training was beneficial for the business. As far as he was concerned, clerks should have minimal contact with consumers, to guarantee fast service. In his mind, as consumers grew more aware of the franchise, business would pick up.

The Spanish project manager was experienced in the hamburger market, so he believed that because his strategies always worked when he opened fast food sandwich shops, they would also work with an Italian fast food restaurant, even if Spoleto, unlike Burger King, was not a known brand in Spain. This made it difficult for Ourívio and Chady to argue otherwise, since they imagined that the project manager knew what he was doing.

The poor results made the master franchisee close four of the five restaurants. The initial planning of Ourívio and Chady to use Spain as a springboard to internationalize the franchise to the rest of Europe did not take off. After losing four stores, Spoleto opened another one, but operations in the country were faltering. Even the internet site of the company was taken down, to lower costs.

International expansion plans to other markets

In late 2007, Spoleto studied the idea of entering the North-American market. The form of expansion to the USA would be through direct ownership. Ourívio and Chady thought that, in the North-American market, the company would require large investments in order to ensure the success of the business. Their concern was that if they used the master franchise system, and ended up opening a large number of sub-franchises, the master franchisee would have control of the company in the country, and the headquarters would thus have only reduced control.

Noting that the US market was vulnerable to new investments due to the financial crisis in the country, Ourívio and Chady decided to postpone this alternative, and focus their investments on the Brazilian market. In addition, Umbria had recently purchased an 80 percent stake in the Koni Store in Brazil, which would require large investments. They also decided to invest in possible new branches in Central America and South America, in order to raise funds and sufficient knowledge to increase their chances of success in the USA.

One country in South America that caught Spoleto's attention was Colombia, not, as one would think, as a business opportunity, but, rather, a threat. Ourívio and Chady discovered that the Spoleto logo and brand name were being reproduced illegally in the country. Similarly, when Spoleto studied the possibility of entering the Portuguese market, it discovered that the concept developed by the Brazilians already existed there. Local businessmen, who knew the franchise and its business model, created their own brand, with a similar operation. Curiously, they incorrectly claimed to be related to Ourívio, claiming that he had given them the idea for their restaurant.

In total, Spoleto's revenue from international operations in 2010 was of only 1.5 percent (200,000 dollars) of the total revenue the franchise earned. Ourívio and Chady aimed to raise this value, so, in 2011, the company studied the possibility of opening stores in Costa Rica. Once again, a business opportunity for the company to expand to this country appeared because of the interest of a local group, desiring to become a Spoleto master franchise. Other proposals to expand to Argentina and Australia were also being studied.

The decision to expand to these countries was based on Ourívio and Chady's analyses of market studies presented to them by the groups interested in becoming Spoleto's master franchise. The Spoleto managers believed that expansions to these three countries would prove profitable for the business. But, should they expand through master franchises?

The international marketing mix

In Spoleto's expansions to Mexico and Spain, the master franchisee was responsible for controlling operations locally. Spoleto, in turn, was in charge of marketing activities for the franchise. Any adaptations, especially the creation of new recipes, would have to be approved by headquarters. All the stores would have to conform to the planning developed by Spoleto in Brazil.

Spoleto determined that all the meals in their stores would be similar to the ones in Brazil. To guarantee the quality of the meals, the master franchises received the recipes used in Brazil, so they could reproduce them locally. This proved to be challenging, because some vital ingredients needed for preparing the meals in Mexico and Spain were not the same or could not be found in these countries.

For example, Ourívio went to Mexico before the first store was opened, to taste the meals. Some adjustments had to be made, but eventually he approved them, and gave the "ok" for operations to start. After a few days, Ourívio started to receive feedback from the consumers about the meals. One of the main comments was that they missed something spicier such as a sauce or a topping to put on the pasta. Also, they were not familiar with some of the ingredients used in the recipes, which ended up not being eaten. Based on this, Spoleto changed its menu in Mexico, to comply with local tastes (Appendix 9).

Following a plan to diversify the dining options, Spoleto added two lines of readymade meals to their menu in Brazil, and afterwards in Mexico. One is composed of cheaper meals than the traditional ones, to reach lower income consumers. The company made this decision because they realized that the consumption power of this segment was growing in both of these countries. In the Mexican campaign, called "Express Line," seven meals were released, six of them priced at 65 pesos (approximately five dollars at an exchange rate of BRL$12.87 used by Banco Central do Brasil).

The other line of readymade meals offers more sophisticated and expensive options, designed for a premium audience. Unlike Brazil, where dishes are offered with no pasta, such as the "Filet Mignon in red wine," in Mexico adaptations were made. The Mexican consumer can choose from eight meals, and only one does not have pasta (the "*Insalada de pollo*"). The prices of these meals vary between 88 and 96 Mexican pesos (6.84 and 7.46 dollars at an exchange rate of BRL$12.87 used by Banco Central do Brasil).

Initial results were positive for these meals, but criticism came from store owners about this marketing plan. They stated that the company was drifting from its target audience, the middle and higher income consumers, when it included meals for lower income consumers. This could result in consumers perceiving Spoleto as a mass audience restaurant, like McDonald's.

To price their meals in Mexico and in Spain, Spoleto decided it would adopt the same formula it used in Brazil. The final price is made up of 30-33 percent of the cost of goods sold (COGS) and the remaining value is for the profit margin. In order to adjust the price to the reality of local markets, the company analyzed the prices of competitors, with McDonald's as its main yardstick. Prices of meals in Spoleto had to be 20 percent above those of McDonald's.

This proved to be a problem in the Spanish market, since the price of meals in Spoleto would end up being similar to those of more formal dining restaurants. Given that waiters did not approach customers to explain that Spoleto was not just another fast food restaurant, the price of meals weighted negatively on decisions to eat at the Brazilian chain.

The locations where stores should be opened became a delicate subject between Ourívio and Chady and their partnering companies. In the view of the Brazilians, stores should be located in shopping malls, especially in food courts, because this is where there is intense movement of consumers. In Brazil, Spoleto did not have specific criteria for evaluating where they would open restaurants. The underlining logic was: if the food court of a shopping mall or a street is busy from Monday to Sunday, a store should succeed. In Mexico and Spain, Ourívio and Chady were not consulted in the search for the location to open the restaurants. They believed and were led to believe that their partners were qualified for the task, because of their experience in opening other fast food franchises in their countries. In the end, the partner's choices of store locations were based on no specific criteria, and so restaurants were opened in unsuitable places.

The advertising forms, promotion and brand awareness actions in Mexico and Spain were based on the Brazilian communication plans. Mostly, campaigns would be developed in Brazil and, depending on their results, "exported" to the other countries. To implement these campaigns, the master franchises used local advertising agencies, so cultural nuances would be respected.

One example was the campaign implemented initially in Brazil that was then used in Mexico, in 2009. Approximately two weeks after the inauguration of every store in Brazil, Spoleto offers a full day of free meals to the customers. Ourívio and Chady consider the feedback of this campaign positive and, therefore, decided to develop it on the Mexican market, to increase product trials. In partnership with Barilla pasta maker and Coca-Cola – both of which offered products at cheaper prices and free of charge to Spoleto – free meals were served for eight days, one in every store the company had at the time. As a result, Spoleto's sales in the country increased 22 percent from one week to the next.

One adaptation that was imposed to Spoleto in Mexico was the color of the store's facade in some shopping malls. Because of local regulations, all competing stores in the food court have to conform to following similar tones of color, based on black and white. Even though Ourívio and Chady thought this would harm their brand, since Spoleto was known for its red and yellow facade, they had to agree in order to install the stores. A picture of a Spoleto store in Mexico with the black and white facade is presented in Appendix 10.

Since operations in Mexico and in Spain are smaller and generate less revenue than in Brazil, marketing communications are restricted. Spoleto's internet sites in these countries were used as an important media to communicate with customers, informing them about special sales or events the company promoted, and even links to videos of Spoleto. Because of cost restrictions, however, the site in Spain was taken down, leaving the company with no formal communication activities in the country.

The meeting

After considerable reflection, Ourívio headed to the meeting with his associate to discuss the future international expansions that Spoleto will undergo. As he entered the meeting room, he greeted his friend, sat in a chair, and said: "Mário, I have been thinking about the strategies that the company has been adopting in its international ventures. We need to talk about some of the aspects before we continue our expansions into other foreign markets."

References

Alsea (2005), "Hungry for yields. Annual report 2005", available at: http://test.alsea.com.mx/wordpress/en/investor-relations/en/annual-report/ (accessed July 7, 2013).

Alsea (2012), "2012 in augmentation. Growth, strengthening, results, sustainability. Annual report 2012", available at: http://test.alsea.com.mx/wordpress/en/investor-relations/en/annual-report/ (accessed July 7, 2013).

Associação Brasileira de Franchising (2011), "Subway chega a 583 lojas no Brasil e quer ser maior rede do país até 2015", available at: http://g1.com/economia/negocios/noticia/2011/03/subway-chega-583-lojas-no-brasil-e-quer-ser-maior-rede-do-pais-ate-2015.html (accessed July 11, 2013).

Food Service News, (2013), "Apresentação", available at: www.foodservicenews.com.br/publicidade.php (accessed February 22, 2013).

International Markets Bureau (2011), "Foodservice profile Spain. Market analysis report", available at: www.gov.mb.ca/agriculture/statistics/agri-food/spain_foodservice_en.pdf (accessed July 7, 2013).

International Markets Bureau (2012), "Foodservice profile Mexico. Market analysis report", available at: www.ats-sea.agr.gc.ca/mex/pdf/6105-eng.pdf (accessed July 7, 2013).

Spoleto (n.d.), "Onde Estamos", available at: www.spoleto.com.br/onde-estamos (accessed February 23, 2013).

Appendix 1. Meal preparation process at Spoleto

The way meals are prepared by Spoleto is aimed to achieve speed and simplify the food development stages. For this to happen, both customers and cooks must work together. To facilitate such interaction, only a glass separates the customer from the cook and the pasta, sauces and ingredients that make up the meal. In this way, the customer can speak to the cook, tell him what he wants, and watch his meal being prepared.

To start, the client is asked to select the type of pasta he wants. All different types of pasta (penne, spaghetti, fettuccine, farfalle, fusilli, cappelletti, gnocchi and ravioli) are already pre-cooked, weighed and stored in bags, requiring only heating.

While the pasta is being heated in boiling water, the customer is asked to choose his topping from the ingredients displayed in front of him. In a regular adult size meal, there is a choice of up to eight ingredients, while in a child size meal there are up to four, from an array of items such as vegetables, dried fruits, cold meats, chicken, shrimp, salmon, cheeses, seasoning, spices and herbs. As the customer starts to choose one by one, the cook selects small portions of each and adds them to a pan with a small quantity of oil, which is already being heated.

Once all the ingredients have been chosen and deposited into the pan, the customer chooses the sauce he wants, from a range of options such as tomato, white sauce and fungi. Once selected, the cook adds a portion of the sauce, usually a ladleful, to the same pan and then includes the pasta. All the ingredients are mixed and, finally, served.

As he receives his dish from the cook, the customer moves on to the checkout counter. There, he is asked if he wants a beverage, a desert (cake, mousse or pudding) and a bag of shredded cheese, to accompany the pasta. After the customer pays for the meal, free toasts and some seasoning are available for him to choose from.

The whole process takes an average of two minutes, from the moment the interaction between the customer and the cook begins, to the final stages of the checkout.

Appendix 2. More information on Spoleto

SPOLETO

Company Logo

Spoleto sells over 1.3 million dishes of pasta per month. Its factory plant in Rio de Janeiro produces every month approximately 176 tons of sauce, 71 tons of pasta with filling, 17 tons of lasagna and 7 tons of risotto. The company's supply chain centralizes more than 95 percent of all the commercialized items. In total, Spoleto has 3,000 employees, including franchisees. Numbers like these helped the franchise achieve a revenue of 402 million reais (233.7 million dollars at the exchange rate of BRL$1.72 used at the time by Banco Central do Brasil) in 2011, 16 percent more than the previous year, and an 11 percent increase in the total count of stores, with 28 new ones opened that year.

To invest in a Spoleto franchise, the candidate company has to pay 60 thousand reais (29.1 thousand dollars at an exchange rate of BRL$2.06 by Banco Central do Brasil) as the initial franchise fee, plus 6 percent royalties and 4 percent for advertising funds, to be discounted from gross sales. Return on investments takes between 24 and 36 months, with monthly earnings of 100 thousand reais (48.5 thousand dollars at an exchange rate of BRL$2.06 by Banco Central do Brasil) and an average profit margin of between 15 and 20 percent.

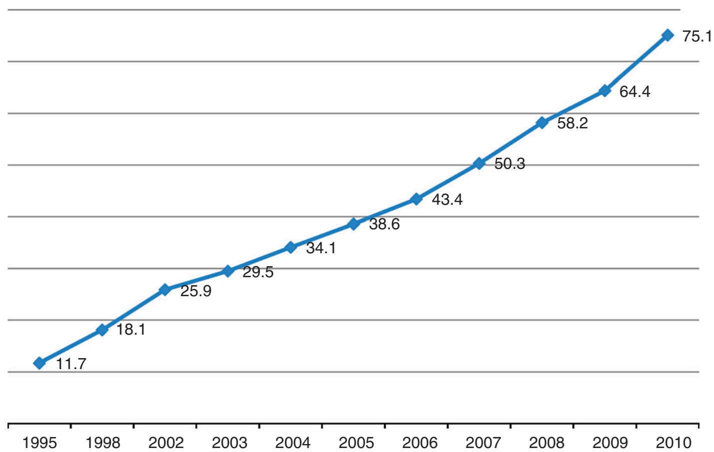
A standard-sized store (35 m^2), usually installed in shopping malls costs 300 thousand reais (145.6 thousand dollars at an exchange rate of BRL$2.06 by Banco Central do Brasil) for investments in infrastructure. On average, ten employees are needed for it to run. A bigger street store (150 m^2) costs 450 thousand reais (218.4 dollars at an exchange rate of BRL$2.06 by Banco Central do Brasil), and requires up to 14 employees.

In 2011, the Umbria group decided to invest in a new concept called "store in store," where a Spoleto and a Domino's Pizza restaurant can be found in the same location. The company believes this operation works harmoniously, since Spoleto's biggest demands are at lunchtime and Domino's are in the evening.

In Brazil, Spoleto is present in 23 states, in addition to the capital district.

Source: Adapted from Spoleto onde estamos

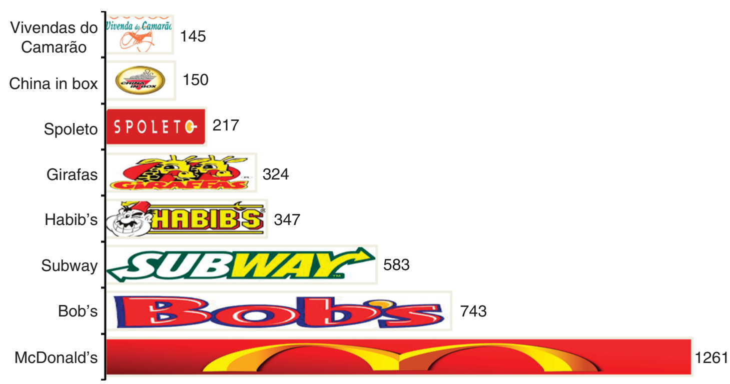
Appendix 3



Source: Food Service News (2013)

Figure A1.
Foodservice growth in Brazil (in R$ Billions)

Appendix 4



Source: Associação Brasileira de Franchising (2011)

Figure A2.
Number of stores of main fast food chains in Brazil (2011)

Appendix 5

Category	2005	2006	2007	2008	2009	2010
Market sizes – Mexico foodservice Value in US$ millions – constant 2010 prices						
Consumer foodservice	47,333.9	46,905.1	47,523.3	46,486.5	41,365.3	41,076.7
100% Home delivery/takeaway	716.3	746.5	782.9	789.2	733.1	721.5
Cafés/Bars	4,499.0	4,726.3	4,853.7	4,949.2	4,618.3	4,589.3
Full-service restaurants	25,400.3	25,474.5	25,548.9	24,997.7	21,647.3	21,384.6
Fast food	5,797.5	6,068.7	6,370.5	6,352.9	5,928.1	6,074.5
Self-service cafeterias	–	–	–	–	–	–
Street stalls/Kiosks	10,920.9	9,889.2	9,967.3	9,397.5	8,438.5	8,306.8
Pizza CFS	1,350.0	1,335.1	1,365.4	1,358.3	1,237.2	1,215.0
Mexican consumer spending on food and foodservices						
Category	2006	2007	2008	2009	2010	
Foodservice sales (US$ millions)	34,258.38	37,515.47	40,221.5	33,393.71	39,663.56	
Foodservice sales per capita (US$)	326.72	354.62	377.02	310.49	365.14	
Total food spending (US$ millions)	166,196.12	178,227.76	187,219.52	154,834.27	178,775.02	
Total food spending per capita (US$)	1,584.98	1,684.72	1,754.91	1,439.64	1,645.77	

Source: International Markets Bureau (2012)

Table AI. Market size and consumer spending in the foodservice industry in Mexico

Appendix 6

Market sizes – historic/forecast – foodservice
Value RSP – US$ mn – current prices – fixed 2009 exchange rates

Spain	2004	2006	2008	2010	2012	2014
Consumer Foodservice (CFS) by type	131,167	139,288	147,887	138,594	135,062	137,177
Chained CFS	5,053	6,077	7,365	7,318	7,652	8,264
Independent CFS	126,115	133,211	140,522	131,275	127,410	128,913
100% Home delivery/takeaway	763	885	1,116	1,177	1,239	1,330
Cafés/Bars	63,736	66,248	70,413	64,421	61,790	62,674
Full-service restaurants	62,724	67,780	71,453	68,031	66,808	67,480
Fast food	3,446	3,779	4,260	4,307	4,536	4,952
Self-service cafeterias	142	197	237	252	274	303
Street stalls/Kiosks	357	380	407	406	416	438
Pizza CFS	840	969	1,220	1,198	1,256	1,353

Source: International Markets Bureau (2011)

Table AII. Market size of foodservice industry in Spain

Appendix 7. Information on Alsea Stores in Latin America

In June, 2012, Alsea had 1,363 restaurants, 1,121 being corporate owned and 202 subfranchised. In total, the company manages eight brands, in four countries:


Mexico: 1,139 units


Argentina: 116 units


Chile: 73 units


Colombia: 35 units

Brand	Total Units	Country(ies) Present	Units in Country
Domino's Pizza	601	Mexico	576
		Colombia	25
Starbucks Coffee	442	Mexico	348
		Argentina	54
		Chile	40
		Colombia	10
Burger King	212	Mexico	107
		Argentina	62
		Chile	33
Italiannis	51	Mexico	51
chili's	34	Mexico	34
california pizza kitchen	13	Mexico	13
P.F. Chang's China Bistro	9	Mexico	9
Pei Wei	1	Mexico	1

Source: Alsea (2012)

Appendix 8

Table AIII. Alsea's net sales by brand in 2005

Brand	2004	%	2005	%	Var.(%)
Domino's Pizza	$2.088	74.8	$2.295	66.5	9.9
Starbucks Coffee	199	7.1	367	10.6	84.4
Burger King	497	17.8	689	19.9	38.4
Popeyes	7	0.3	28	0.8	300
Chili's	–	na	73	2.1	na
Spoleto	–	na	1	0.0	na
Total	$2.791	100.0	$3.453	100.0	23.7

Source: Alsea (2005)

Appendix 9

Table AIV.
Adaptations of Spoleto's menu in Brazil and in Mexico

Pastas	
Both in Brazil and in Mexico	
Spaghetti, Fettuccine, Penne and Fusilli	
Only in Brazil	*Only in Mexico*
Chicken Cappelletti, Beef Cappelletti, Gnocchi, Gorgonzola and Nuts Ravioli, Cheese and Ham Ravioli, Dried Tomatoes with Mozzarella Ravioli	Cheese Ravioli, Beef Ravioli, Chicken Tortellini, Ricotta/Spinach Ravioli, Ricotta and Dehydrated Tomato Ravioli Smoked Ham Tortellini
Ingredients	
Both in Brazil and in Mexico	
Bacon, Broccoli, Carrot, Capers, Chicken, Garlic, Gorgonzola, Ham, Mozzarella, Mushroom, Olives, Onion, Salmon, Shrimp, Tomato, Turkey Brest, Zucchini	
Only in Brazil	*Only in Mexico*
Corn, Corned Beef, Haloumi, Heart of Palm, Leek, Minas Cheese, Peas, Quail Egg, Raisins, Smoked Sausage	Basil, Dried Chili Peppers, Eggplant, Elotes, Ground Beef, Nuts, Oaxaca Cheese, Oregano, Panela Cheese, Parsley, Peppers, Salami, Spinach, Surimi, Tuna
Sauces	
Both in Brazil and in Mexico	
Tomato, Four Cheeses, White, Bolognese	
Only in Brazil	*Only in Mexico*
Fungi	Arrabiata and Chipotle
Salads	
Both in Brazil and in Mexico	
Small (4 ingredients), Big (8 ingredients), Big with Chicken, Big with Pasta and Chicken	
Only in Brazil	*Only in Mexico*
Small with Chicken	Big with Pasta, Big with Turkey, Big with pasta and Turkey, Capresse Salad (tomato and mozzarella cheese), Spoleto Capresse Salad
Special dishes	
Both in Brazil and in Mexico	
Lasagna (Bolognese or Ham and Cheese), Mamma Mia (1 and a half portion of traditional pasta + 10 ingredients + 3 serving of sauce), Bambini (Medium portion of traditional pasta + 4 ingredients + 1 serving of sauce)	
Only in Brazil	
Risotto, Meatballs, Chicken Stuffed with Spinach, Ricotta and Minas Cheese, Beef Stuffed with Mozzarella Cheese	
Deserts	
Only in Brazil	*Only in Mexico*
Chocolate Truffle, Condensed Milk Pudding, Chocolate Cone Filled with Chocolate Mouse, Crunchy Sweet Milk Sponge Cake	Apple Cheesecake, Strawberry Cheesecake, Chocolate Truffle, Cookies

Appendix 10

Source: Supplied by the company

Plate A1. Spoleto's Black and White Store Facade Used in Mexico

About the authors

Olivia Vieira Marx Andrade is a Consumer and Brand Insights Analyst at Souza Cruz, Rio de Janeiro, Brazil; undergraduate degree in business administration from the IAG Business School at the Pontifical Catholic University of Rio de Janeiro, Brazil. The author has conducted research on marketing to the bottom of the pyramid and international marketing.

Renata Pautasso Barreto Amorim is a Manager of La Trattoria, Rio de Janeiro, Brazil; undergraduate degree in business administration from the IAG Business School at the Pontifical Catholic University of Rio de Janeiro, Brazil. The author has conducted research on low-income consumer behavior and international marketing.

Fabiana Cassilha Pires is an Auditor at Deloitte Touche Tohmatsu, Rio de Janeiro, Brazil; undergraduate degree in business administration from the IAG Business School at the Pontifical Catholic University of Rio de Janeiro, Brazil. The author has conducted research on consumer behavior and international marketing.

Marcus Wilcox Hemais is a Professor of Marketing in the IAG Business School at the Pontifical Catholic University of Rio de Janeiro, Brazil; PhD in consumer behavior from the Coppead Graduate School of Business at the Federal University of Rio de Janeiro. The author has conducted research on low-income consumer behavior, marketing to the bottom of the pyramid, consumer dissatisfaction and complaint behavior, consumerism and international marketing. Professor Marcus Wilcox Hemais is the corresponding author and can be contacted at: mhemais@gmail.com