International Market Assessment and Entry – United States' Fast Casual Firm Entering the Brazilian Food Market

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International Market Assessment and Entry – United States' Fast Casual Firms Entering the Brazilian Food Market

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## ABSTRACT

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International Market Assessment and Entry – United States' Fast Casual Firm Entering the Brazilian Food Market

Director of Thesis: John M. Geringer

This thesis strives to analyze the fast casual food market in order to understand if Chipotle would be successful in Brazil and what the concerns would be if the American chain decides to internationalize its operation to Brazil. This thesis has developed as a prospective case study based mainly on business and cultural analysis. The study analyzed Brazil by using the theory of market assessment, and also analyzed the fast casual, fast food, and food service industries and products by applying other business theories such as PESTEL, Porter Five Forces and VRIO. Furthermore, the study interviewed one entrepreneur in the fast casual industry in Belo Horizonte, Minas Gerais, Brazil to understand the local industry dynamics. Regarding all the information analyzed, this thesis creates a business model that consists on explaining how Chipotle would operate in the country. Brazil is an attractive market for Chipotle, there is room for rapid growth, and Chipotle could provide a positive impact for Brazilians.

# DEDICATION

*I dedicate this work to my mother and my father; they are the reason that I am in this world and the reason for any success that I have in my life.*

ACKNOWLEDGMENTS

Dr. Geringer was the first to help me with all knowledge that he holds about international marketing, all the extra time that he created to be have meetings and discuss this thesis with me. Also, Dr. Hughes and Dr. Partyka not only reading and helping me as a professional, but also mentally motivating me to accomplish this work. I would like to mention Dr. Toledo and Dr. Livanis, who added great value with insights and recommendations on this thesis.

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# CHAPTER 1: INTRODUCTION

## International Business

International Business (IB) surged as the international trade interaction among several countries as they started to trade goods and/or services among themselves. IB has been developed to overseas operations as well as globalization has transformed international relations. Globalization is present in business and is becoming more natural every day; moreover, the internationalization of companies is also becoming more natural. It looks like the subject of internationalization of companies is expanding in businesses and in academia at the same pace, because the internationalization of companies is increasingly natural in business, and the number of articles about this matter is increasing passing the years. Due to this expansion, this thesis is focused on Internationalization of Companies, Market Assessment, and Modes of Entry for companies from United States to enter into Brazil's food market. Progressively, companies are trying to internationalize their operations to achieve a growth in sales, economies of scale, and several other benefits that an international overseas operation can provide. The internationalization of companies is happening at a fast pace. This paper will provide support to this topic with a bibliography review.

Usually, internationalizing the operation of a company requires high allocation of resources to achieve development in the new market and also achieve a valuable position. In other words, the internationalization of a company requires a strategic level of decision in a company. The internationalization of companies is delicate and requires, for the company that is trying to enter in a new market, a high level of analysis, precise elaboration and adaptation of the business model, and investment on assets to make the operation work according to the elaborated plan. Internationalization of companies is basically starting a new business from scratch, which requires strategy. It is necessary to rely more on strategy to make business work when starting from scratch, because at the beginning the strategy is the only direction; in addition, as soon as the firm begins growing different opportunities emerge.

Nowadays, the demand for fast, healthy food is widespread across the United States along with Brazil. Increasingly, fast and healthy restaurants are emerging in urban centers in both countries. This type of new fast food chain is known as fast casual, which represents a fast food with healthy meal options. As the Washington Post shows, the fast casual food is growing more in sales since 1999 than the standard fast food market (Ferdman, 2015). According to Mintel's survey (2019), the fast casual industry has a low value perception, although this survey covered only 1,035 users over 18 year old that are customers of fast casual companies. However, the same report indicates that the fast casual industry is growing: *"Almost one-fourth (24%) of consumers report increased year-over-year visitation to fast casuals. This is the highest visitation increase of any segment underscoring the high growth and popularity of fast casuals"* (Mintel, 2019).

The population targeted in this work are those of the Brazil's population who have healthy eating habits and are looking for fast casual restaurants. In Brazil, the target would be represented by the economically active part of the population, people who live in urban areas, the young and old population, people without time to cook, and healthy eaters. According to Mintel (2019), fast casual companies, have more visits on lunch and dinning hours, main meals for Brazilians.

The market assessment is important because it helps to understand if the country has the basic needs to provide demand and if it is possible to keep a sustainable growth. Also, this would help to erase doubts if there are many competitors that already supply the demand. The Basic Needs screening represents the demand for the product and basic conditions which would be needed to provide the survival of business. The Brazilian's Food Market shows the potential to reach the target; the Financial and Economic Assessment would bring up the share of the population that fits within the target. Also, the economic situation of the country helps provide a healthy environment for the business. The Political and Legal assessment would indicate if there is any restriction for the business entering the country. The Socio Cultural Assessment would approach the understanding, if the product would fit to the population and if any adaptation must be done. The Competition Assessment would point out if there are more players in the market than the demand asks for, and what is necessary for success – resources, competencies. The assessment of the country will be the base to understanding if internationalizing operations to Brazil is attractive. Theoretical models from International Business will be utilized to identify the best mode of entry in Brazil for fast casual restaurants. This study will also forecast financial provisions.

# CHAPTER 2: RESEARCH QUESTIONS

This study aims to identify what are the impacts that fast casual restaurants have and understand what the impacts of an internationalization of a fast casual chain from United States to Brazil would be.

1. Is there room for a new competitor in the Brazilian fast causal food market?

2. What are the risks and what must a company do to successfully manage them. What is necessary to enter the Brazil market, where to enter, how, why the business model needs to be adapted from the operation in the United States and its implications?

3. What are the expected outcomes for Brazil?

This study will focus on business strategy, marketing assessment for fast casual business entering potential countries, and analyzing the market for fast casual food.

Regarding the knowledge acquired with the work cited in the last paragraph, this paper focuses on design projections for Chipotle.

# CHAPTER 3: LITERATURE REVIEW

The literature review will present what has been discussed about the fast-casual market and its implications; furthermore, it will present potential concerns that have been raised in the literature. This thesis will analyze food market with particular attention to the fast food markets in US and Brazil. Finally, the literature review will present the Brazilian economic situation in order to provide information to support the findings in this work.

## Definition of Fast Casual

Fast casual restaurants represent a significant sector of the restaurant industry in the United States, according to the United States Census Bureau (2018). The sector is growing fast, and it calls attention because it already holds more than one third of the restaurants' revenue (United States Census Bureau , 2018). Fast casual food is a rather new trend in the fast food industry. The fast casual concept allows customers opportunity to eat fresh food while still enjoying the speed of fast food. Fast casual is a concept that combines quick service and better quality. This concept came from a combination from fast food and casual-dining (Quick-Service Restaurants, 2014). This definition provides a general view of fast casual restaurants as the fast meal and better quality food, service, and environment.

According to the *Quick-Service Restaurants Report (2014),* the biggest segments of food are Mexican, bakery/café, and delis; furthermore, the biggest players in the United States are Panera Bread, Chipotle and Jimmy John's. The author claims that these fast food chains overcame regular restaurants in the past ten years, moving from a market share of 47% in 2004 to 53% in 2014. Also, the article states that customers look for fast-casual chains to satisfy mainly their desire for a healthy/light meal; food value/quality; and sensible pricing. The main conclusion that the article drives is that the fast-casual is growing faster than other competitors due to the better quality and quick service that the concept offers.

## General Food Market

It is important to study the consumption of food to understand better the industry and market conditions. The information in this section answers primary questions like "How is the food market developing?" or "What is the trend regarding the past?"

The food market is in direct connection with the country's population size and population's eating habits: if the population increases, if the population eat light food consumption in Kcal/capita decreases. It is possible to check the size of each country's population and food supply per capita below (Max Roser and Esteban Ortiz-Ospina, 2019). Furthermore, there are several factors that influence food consumptions and specifically mention fast casual consumption (Max Roser and Esteban Ortiz-Ospina, 2019); however, one of the main drivers of food consumption can be determined by population growth and eating habits, which this chapter will present.

It is possible to check the change of supply of food by checking from the table below, from 2003 to 2013 (Max Roser and Esteban Ortiz-Ospina, 2017), using Kcal per capita per day standard.

Table 1 Population, daily per capita caloric supply (Max Roser and Esteban Ortiz-Ospina , 2019)

| Country | Population (2019) | Daily per capita caloric supply 2003 | Daily per capita caloric supply 2013 | Increased % 2003 - 2013 |
|---|---|---|---|---|
| Brazil | 212,392,717 | 3,067 (kcal/person/day) | 3,263 (kcal/person/day) | 6.39% |
| United States | 329,093,110 | 3,777 (kcal/person/day) | 3,682 (kcal/person/day) | -2.52% |

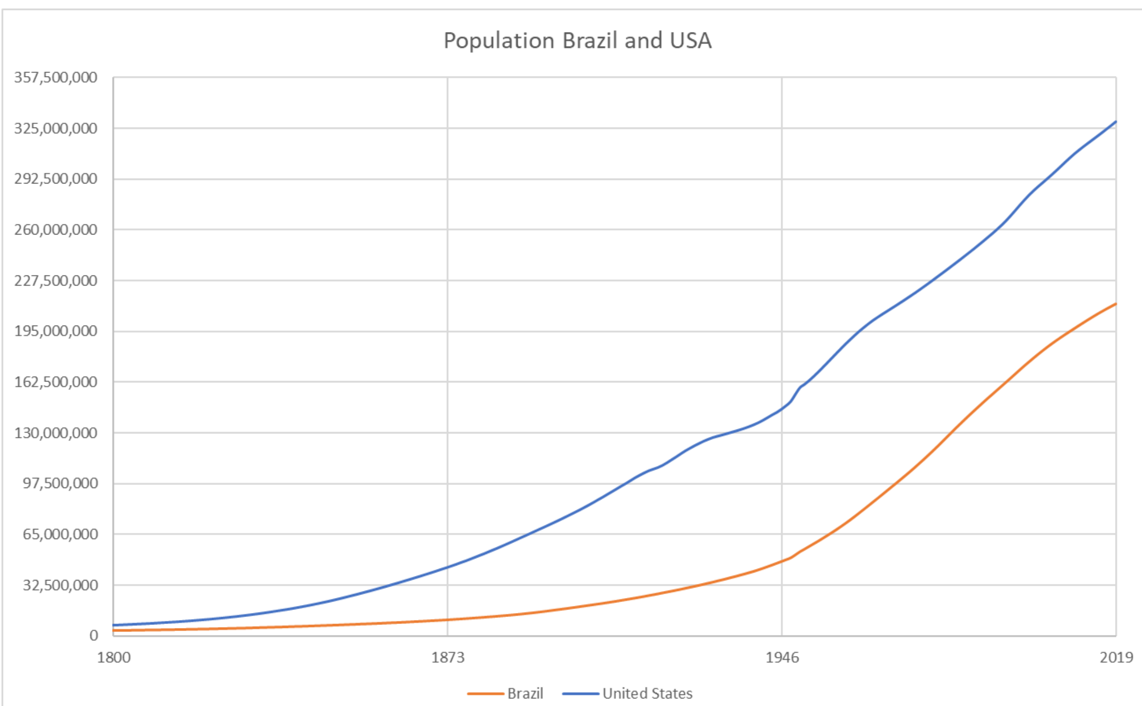



Figure 1 Population Brazil and USA (Max Roser and Esteban Ortiz-Ospina, 2019)

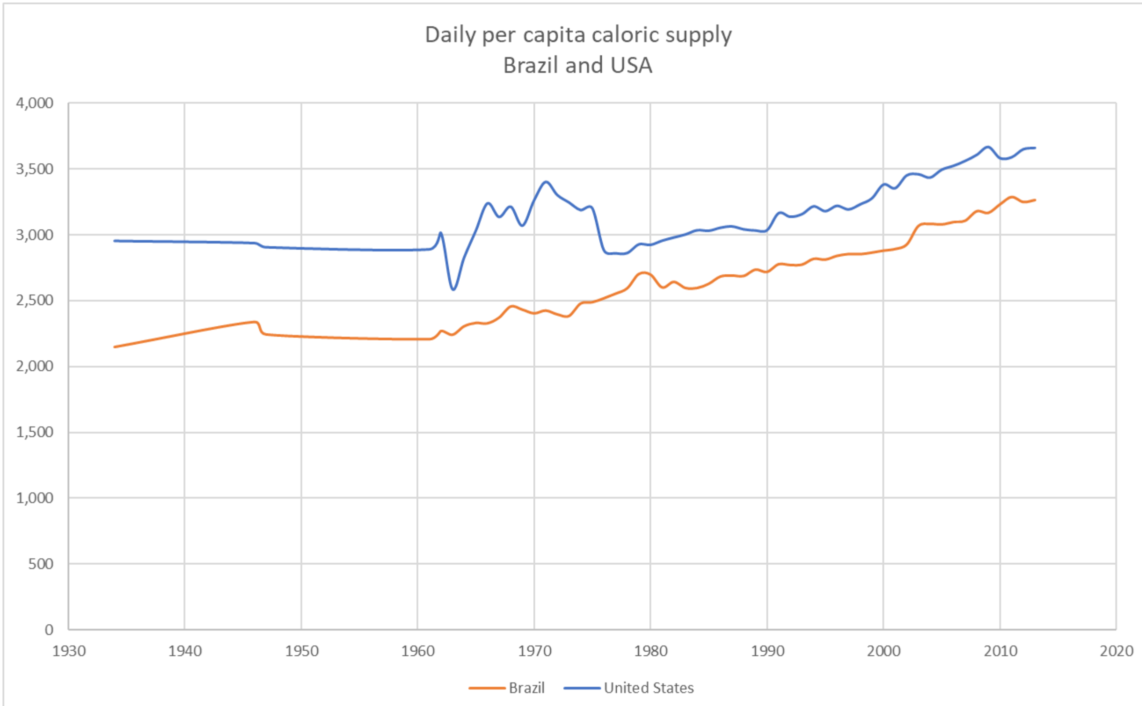



Figure 2 Daily per capita caloric supply in Brazil and United States (Max Roser and Esteban Ortiz-Ospina, 2019)

Brazil and United States have similar population growth rates, as Figure 1 depicts. The difference in food supply from them is based on different culture, economy, and several other drivers. Brazilians and Americans have also food supply growth, as Figure 2 depicts. That indicates similar pattern of food consumption between these countries. Although both countries increased their population, food supply in the United States decreased from 2003 to 2013 and in Brazil it increased. A possible assumption to explain is that in the United States, people are eating less caloric food. On the other hand, in Brazil poverty is decreasing, providing more food for its population.

*Brazil*

Understanding the food market in Brazil is essential so as to create a base for comparing the United States food market to Brazil's food market. In order to internationalize a company to Brazil it is necessary to study foreign markets, in this case Brazil's, food market.

Brazil is the fifth biggest population in the world with an estimated population of about 210 million people. In 1950 the population was about 53 million people, which represents an average growth rate of 2.02% in the population per year (United Nations, 2018).

Several fast US food chains are already in Brazil, such as Subway, McDonald's, and Burger King. Burger King has invested aggressively in sales growth to reach potential customers and increase its revenues. Burger King has grown in sales each year from 2011 to 2017 (Toledo, 2017).

The economy in Brazil is the basic factor that must be analyzed. Understanding the economy is essential because that will provide support to recognize the country's production and its population power purchase. Brazil's economy is significant for this study because it will provide basic information about not only the population's financial position and productive situation, but also the country's position in the international trade world.

In the macroeconomics view, Brazil has just recovered from an economic recession that lasted from 2015 to 2016. GDP main components are: consumption, investment, government purchases, and trade balance (exports minus imports) (Greenlaw, 2017). The economic growth relies directly on the variation of these four factors and each of them have its own derivation in the economy's indicators.

As mentioned, since 2015, Brazil's economy was facing a significant decline in all these indicators: GDP growth, income rate, employment rate, industry activities, and wholesales retail. These declining indicators placed the country as facing an economic recession (FRBSF, 2007). The first quarter of 2015 had negative GDP growth of 1.3%, and the second quarter had 1.9% negative growth (OECD, 2018). The country's crisis lasted until the first quarter of 2017, where the economy started to recover with a growth of 1.3% (OECD, 2018).

Understanding Brazil's past and present scenarios are essential to discuss its economy. Brazil was facing long economic growth. Since 1997 to 2014 the average annual growth was 6.2% per year (excluding the global recession in 2009, where Brazil declined 0.1%). In terms of total GDP (World Bank's "GDP current U$$") that means $883 billion yearly in 1997 to $2.456 trillion in 2014 (World Bank, 2018). Meanwhile during the same period, the global economy grew 5.6% per year on average, from $31.431 trillion to $79.131 trillion (World Bank, 2018).

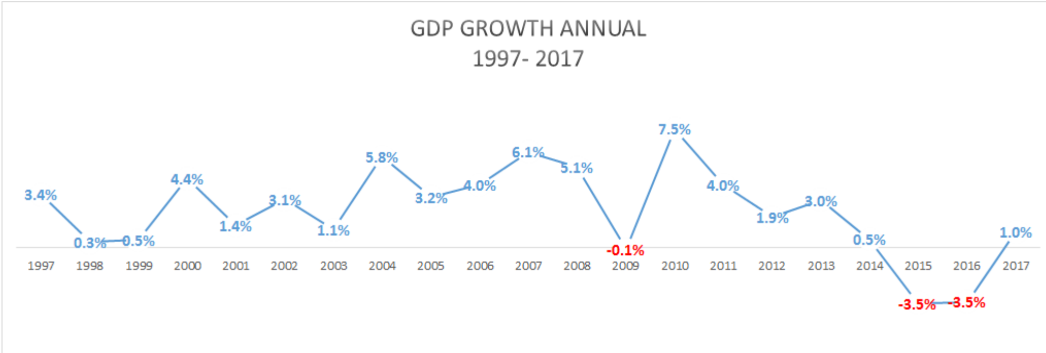



Figure 3 GDP Growth Annual (OECD, 2018)

The main indicator of inflation in Brazil, or the consumer index price (CPI), is the IPCA, measured by Instituto Brasileiro de Geografia e Estatística (IBGE). Historically, the CPI in Brazil is higher than other developed countries such as European countries and the United States. From 2002 until 2017, Brazil had a CPI of about 6.5% per year on average; however, with the energized economics of Brazil, the country managed to achieve 3% of IPCA. The last time Brazil reached this low IPCA rate was in 1998, which shows price control (IBGE, 2018).

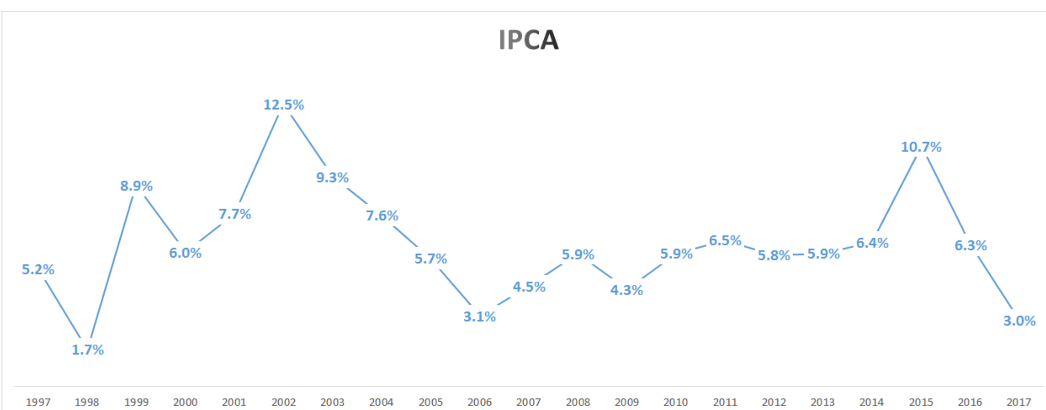



Figure 4 Inflation Rate - IPCA (IBGE, 2018)

The interest rate of the country, also known as SELIC tax, faces the same situation of having a high baseline as well as the IPCA. It revolves around 11% annually, however with the economics stimulation of government, the current SELIC is 6.5% (Central Bank of Brazil 2018).

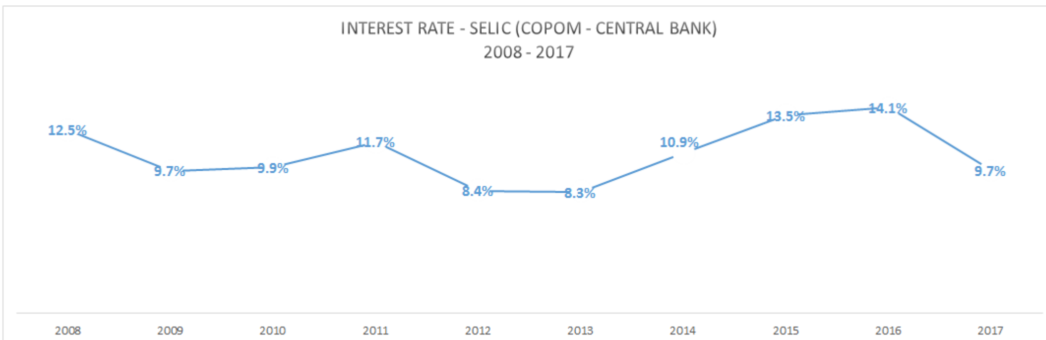



Figure 5 Interest Rate – SELIC (Central Bank of Brazil)

Also, the poverty in the country has been decreasing, which indicates positive economic performance. Basically, the reduction of poverty implies the new potential of customers and workers. The country developed from about 21% of poverty in 1992 to 3.4% in 2015. It shows how economic development is developing the country's population.

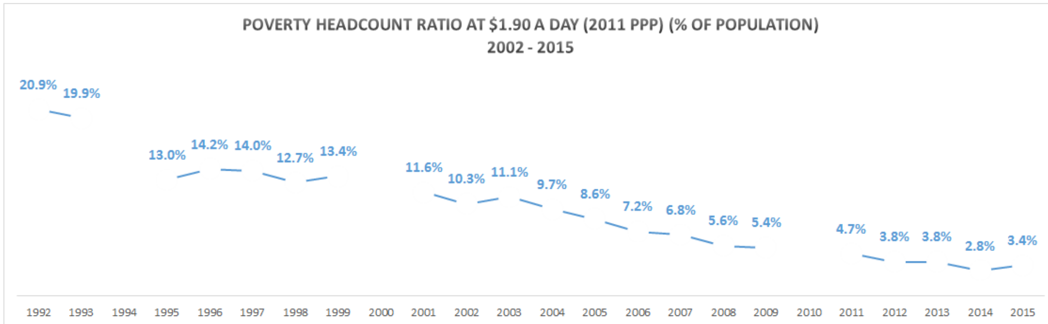



Figure 6 Poverty Ratio % of the population (World Bank, 2018)

The United States is the second biggest partner of Brazil's export and the first, with China, for import. That indicates that Brazil and the United States already have strong ties and a positive relation between the countries. Also, Brazil relies heavily on agriculture, which indicates that the country has no problem with food supply. The main product that Brazil exports is food, and it accounts for almost 30% of the exports (OEC, 2018).

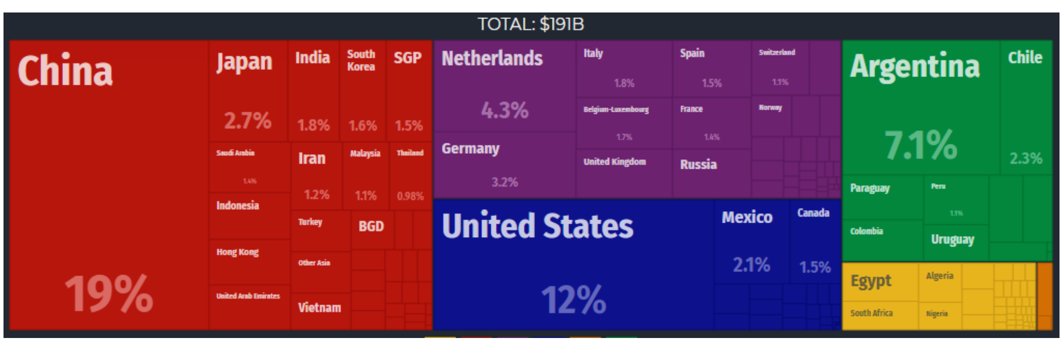



Figure 7 Export from Brazil 2016 (OEC, 2018)

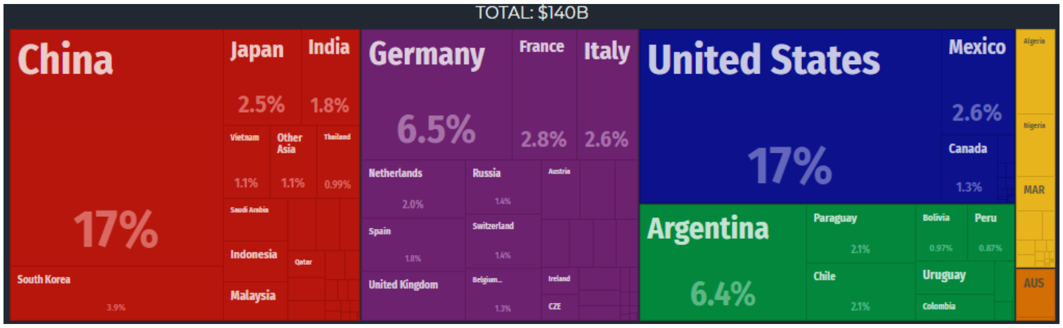



Figure 8 Import to Brazil 2016 (OEC, 2018)

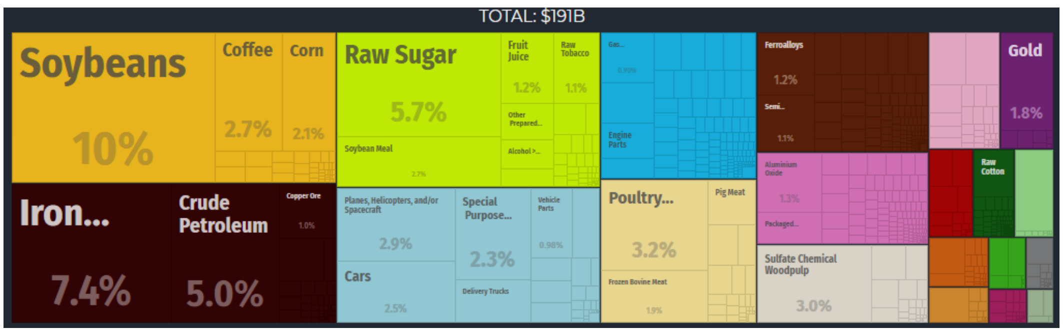



Figure 9 Breakdown of Export (OEC, 2018)

The fast casual industry is growing in the United States and the same can happen in Brazil. Both countries have growing populations and economics; furthermore, poverty has decreased in Brazil. By checking the data presented, it shows that Brazil has made several improvements in its economy and kept a constructive trade relation with the United States. This positive relation reflects on several American food chains internationalizing operations to the country. Furthermore, quick service food industry in Brazil target middle and higher consumers; therefore, Chipotle will probably perform better when the economy of the country is growing. This is the reason why understand economic indicators is important to this thesis.

*Fast Casual Market and Fast Food*

The global value of fast casual is valuated in $30 billion and more than $19 billion is accounted for by the international presence in this category (Passport, 2014). That means that all companies consider as fast casual for the Passport worth about $ 30 billion and $ 19 billion of this value is on international operations. The Figure 10 depicts the fast casual dining map value. It can be inferred that this market is large in the United States, and in a country such as Brazil there is still much room for growth.

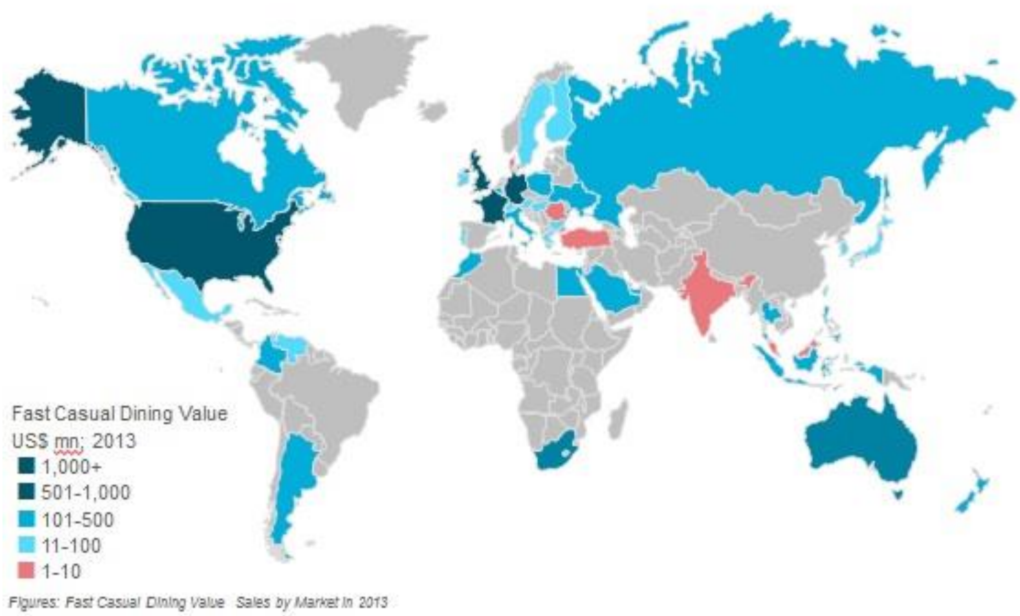



Figure 10 The Fast-Casual Dining Value (Passport, 2014), countries in grey were not consider for Passport.

The fast casual food has taken market share from traditional fast food restaurants, as well as regular restaurants. Fast casual restaurants offer this concept of healthy-eating focused on the slightly better quality of food. However, it is not only the healthy concept that drives this growth. Traditional fast food companies, such as Subway, that also offer light meal choices are losing market share, perhaps because of other factors, such as a better service and environment. There are several drivers that can be analyzed to understand the reason for that, and Chipotle perhaps faces same problem as Subway, but this is not the main concern of this work. Meanwhile, as the market share opens to fast casual dining restaurants, the other players already established in the food market are shrinking their position. The Wall Street Journal released an article that explains the problematic situation for fast food chains with the growing sector of fast casual chains. The author claims that the traffic for fast casual restaurants is growing faster than fast food restaurants, and thus companies such as Chipotle and Panera are gaining market share faster than regular chains such as McDonald’s (Jargon, 2016). The comparison provided by the author was about burger chains such as McDonalds, Burger King, and Wendy’s; however, that indicates how big chains are losing their market position to this new trend in the food industry.  In addition, the article focuses on McDonald’s struggling to improve its growth and the fight against this new trend.

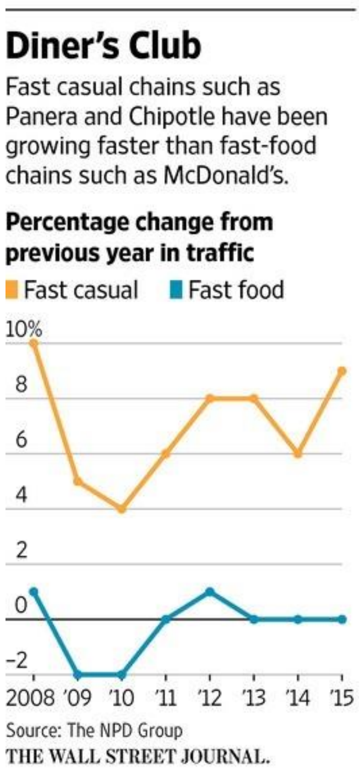



Figure 11 Growth relation in traffic of Fast Casual and Fast Food (Jargon, 2016)

*United States' Fast Casual Market*

The internationalization in this work focuses on the internationalization of the food business, as fast casual chains in the United States move to overseas operations in Brazil. Therefore, understanding the United States food market is significant to support the purpose of this work, which is to create information to support the internationalization of fast casual chains from United States to Brazil.

In recent years, the United States has faced a big increase of fast casual chains all over the country. Several companies such as Panera Bread, Chipotle, and others are receiving significant new visitors.

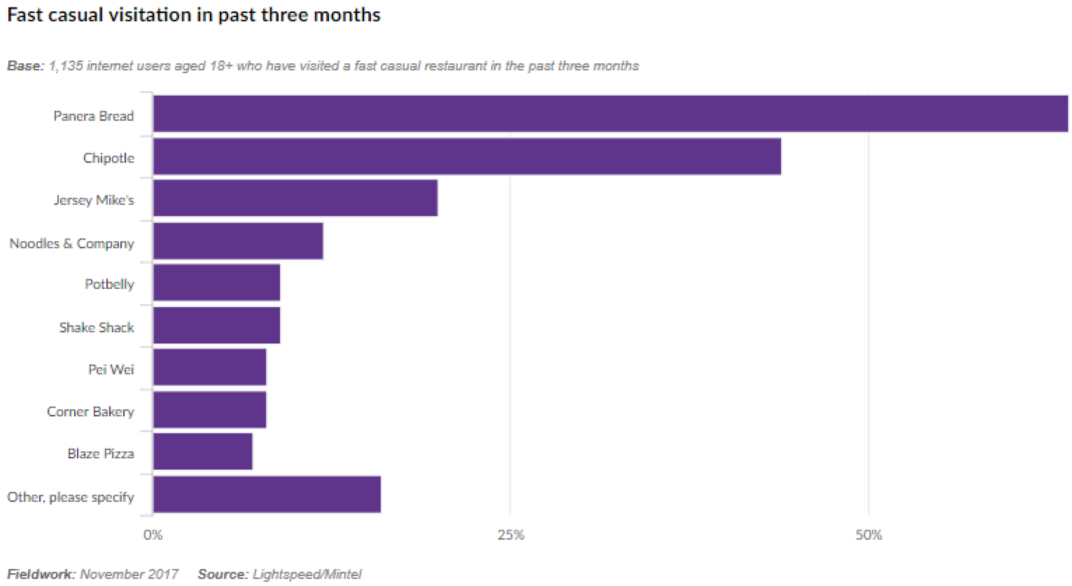



Figure 12 Fast casual main restaurant visits on three months (Mintel, 2018)

New companies and new divisions of old companies are emerging in the country because of the demand for the "healthy food" that the American population is asking for. The Washington Post published an article, which shows the sales growth since 1999 for fast casual food chains in comparison with the traditional fast food chain traditional:

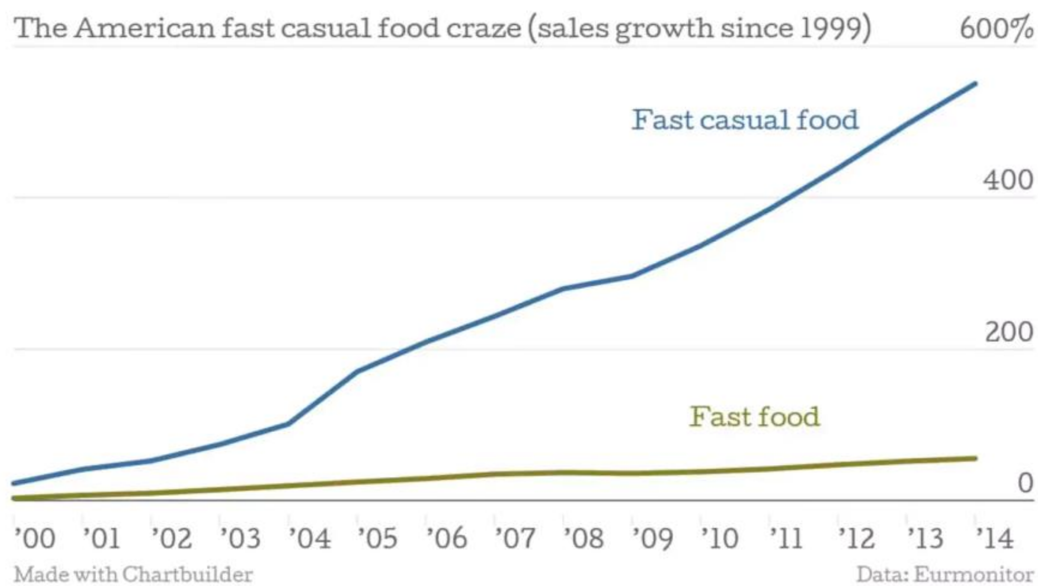



Figure 13 Fast Casual X Fast Food (Ferdman, 2015)

The figure above depicts the beginning of the shift from general food or from food with high fat percentage to the new trend of healthy food. The healthy concept can vary according with the reference, for the purpose of this work the healthy food is consider as light meals that contains protein, and/or salad, and/or vegetables, and/or grains. Fast casual food has seen a huge increase in sales even though fast food has remained rather constant. The difference is highlighted by checking the slope of the curves above, and it is easy to conclude that fast casual is the tendency for the market of fast food companies.

Figure 12 depicts frequency of people visiting fast casual restaurants has increased in 2018 about one fourth. It is the biggest growth for change affecting frequency of visits compared with similar competitors such as fast food, casual dining, and others.

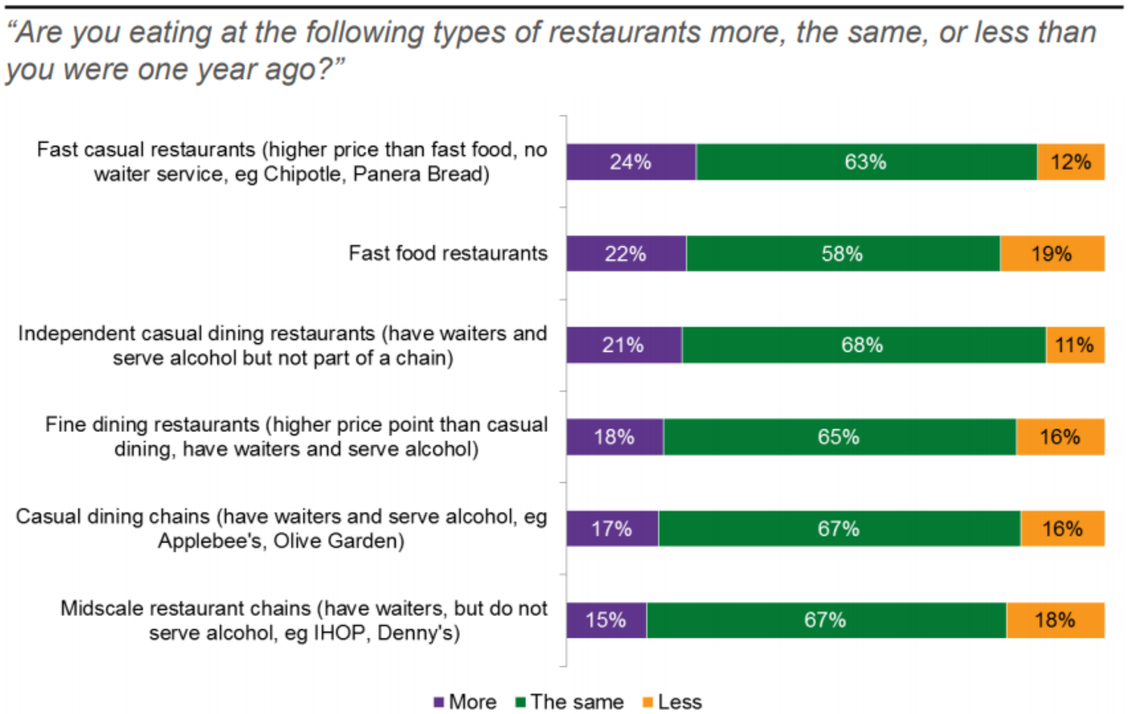



Figure 14 Growth of visits of different types of restaurants in the United States (Mintel, 2019) Base: *917* internet users aged 18+ who have eaten at midscale restaurant chains in the past three months.

Table 2 Demographics of Mintel's Survey

| **Age** | **Sample Size** | **Fast casual restaurants (higher price than fast food, no waiter service, eg Chipotle, Panera Bread)** |
|---|---|---|
| 18-24 | *247* | 64% |
| 25-34 | *375* | 65% |

Table 2 Demographics of Mintel's Survey Continued

| | | |
|---|---|---|
| 35-44 | *344* | 67% |
| 45-54 | *356* | 60% |
| 55-64 | *339* | 48% |
| 65+ | *339* | 44% |
| **Age and income** | **Sample Size** | **Fast casual restaurants (higher price than fast food, no waiter service, eg Chipotle, Panera Bread)** |
| 18-34, <$50K | *341* | 60% |
| 18-34, $50K+ | *281* | 70% |
| 35-54, <$50K | *167* | 43% |
| 35-54, $50K+ | *533* | 70% |
| 55+, <$50K | *130* | 29% |
| 55+, $50K+ | *548* | 50% |

Furthermore, there is a different behavior for distinct age groups. Young people represent a bigger portion of these customers visiting fast casual chains more often, according to Mintel (2019). It shows that the young generation is more likely to be customers at fast casual restaurants than older generation.

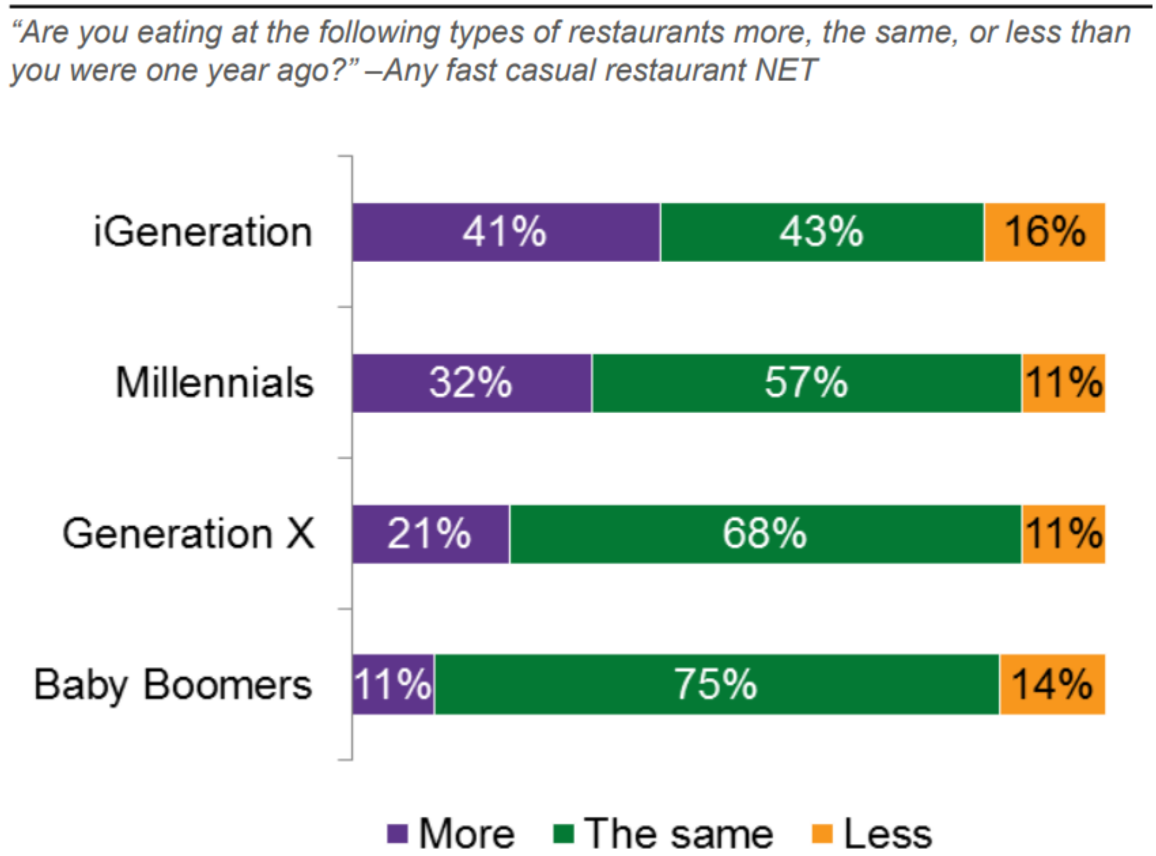



Figure 15 Change in frequency of visits to fast casual restaurants by age group in the United States (Mintel, 2019) Base: 1,161 internet users aged 18+ who have eaten at fast casual restaurants in the past three months.

## Fast Casual Impacts in the United States

The fast growth that fast casual companies are facing nowadays impacts the society in a positive way providing more jobs for the population. Furthermore, fresh food offered by these restaurants are mentioned as positive impacts for the population's health.

In 2016, Chipotle Mexican Grill Inc. had more than 64,500 employees, a big jump considering the 53,090 it had in 2014; moreover, the number of outlets increased from

1,971 in 2015 to 2,182 in 2016 (Passport, 2017). Compared to other fast casual businesses, only Chipotle provided more than 11,000 new job positions from 2014 to 2016. That means that fast casual firms are growing and providing new job opportunities to the United States' population. Also, there are several other companies in the fast casual industry that are generating jobs and impacting the country's economy in a positive way. It is important to raise the concern that these jobs perhaps are not new positions, but replacement of other chains: this is a further concern that this thesis does not explain.

Another positive impact of fast casual industry is its impact on consumer wellness and obesity. According to the Giuntella (2018), the United States' population accounts for more than one obese person for each three Americans. In his study, Giuntella focuses on obesity and the fast casual restaurants' impact on maternity and child health. The article found the positive relation of having a fast casual restaurant; it showed that in areas with fast casual restaurants, the chances of excessive weight gain among US-born mothers is 8% lower (Giuntella, 2018). The article studies pregnant women because of the direct relation of excessive weight gain during pregnancy period with long-term obesity; therefore, it analyzes one causal problem for obesity. This article shows one of the positive impacts on the population that live around fast casual restaurants.

# CHAPTER 4: METHODOLOGY

The methodology consists of a case study using qualitative interview, secondary data, and a qualitative interview. The case study is based on understanding the process of Chipotle internationalizing to Brazil. Fast casual is a relatively new concept for the business literature in the United States when compared to the country's well-known fast food. As the concept is relatively new, there is no similar case study that evaluates the internationalization of a United States fast casual firm entering the Brazilian fast casual market.

By using business strategy theories (Porter's Five Forces and Market Assessment) to understand the industry and understand potential approaches to enter the Brazilian market, this study will analyze the Brazilian fast food industry and present potential business models for internationalization of Chipotle in Brazil. By comparing the impact that fast casual firms have in the United States, this thesis will forecast what would be the impact if Chipotle decided to internationalize to Brazil.

The methodology of this work is qualitative, and it compares economic environments to politics and culture. Each area will be analyzed to understand a successful model of internationalization. The impact of this operation on Brazil will also be forecast at the end of the analysis. This thesis will present potential economic and social impact that this operation can represent.

## Market Assessment

It is necessary to analyze Brazil's food market; the theory of market assessment analyzes the overview of the country. This theory explains that it is necessary to understand factors that will directly and indirectly affect the business. The analysis covers basic needs for business, economic and financial conditions in the country, politics and law enforcement, cultural adaptations, and competition evaluation. It represents a complete and diverse analysis of Brazil.

Brazil is a big country in area and population; due to these big dimensions, it holds opportunities for investments. According to the economic overview presented by this thesis, the country has potential because the GDP is growing, the population and the urban area are growing, the CPI is under control, and the interest rate is at the second lowest level in the past 10 years. This is an attractive source to achieve money and start a business. These economic indicators point out one moment to invest in the country because the macroeconomic is market friendly currently.

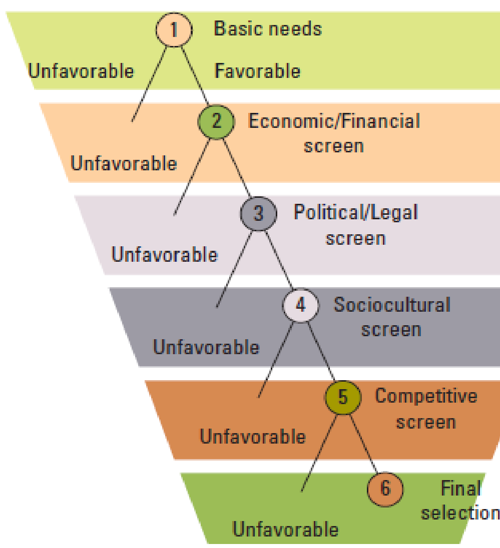



Figure 16 Assessment Steps: Foreign Markets (Ball, 2012)

Figure 16 depicts the process of assessment for internationalization of companies. The authors of the book “International Business: The Challenge of Global Competition” divided this in six main steps. Country Assessment will add more information to judge for a fast casual chain investment. In other words, it will be helpful to understand if the country will provide conditions for the business to thrive. First, it is necessary to define the target customer and the product that this study is working on and after that move on to the assessment’s steps.

## PESTEL: Political, Economic, Social, Technology, Environment, And Legal

The PESTEL analysis is commonly known as a framework or a tool, and this analysis is also known as PEST; it cuts off the ecological and legal variables for some authors. The focus here is to use that tool to understand the external environment that can affect the business in Brazil. This framework is widely used in analysis for business strategies because it helps to understand the macro-environment (Raszkowski, 2016). This analysis focuses on six main external factors for Brazil (Rothaermel, 2015).

## Porter’s Five Forces

Porter’s five forces is a model introduced by Michael Porter and published in “How Competitive Forces Shape Strategy” in the Harvard Business Review. The five forces model is commonly known as Porter’s five forces as well, because Michael Porter was the creator of this model. The analysis consists in identifying potential opportunities to get advantage and understand the competition threats. Examples like security brokers and airline companies represent industries that have great potential for this model, because of the high level of return on capital and the high level of competition respectively. The five forces are constituted by the threat of substitutes, the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, and the degree of rivalry among existing competitors (Marburger, 2016).

The five forces model helps managers to understand their own performance by looking at the unknown effects, the industry effects, and mainly on their own firm effect. The performance of a firm is mostly related to its strategic position and the ability to create value for its customer and operational cost control. Thus, by keeping the high value creation and low costs the firm will keep competitive advantage in the industry and achieving high level of profitability. The level of competition will influence directly in the capability to generate competitive advantage in the industry. The five forces model breaks down the competition in the five variables and the result of the analysis provide a better understanding of the industry profitability and the firm's position performance (Rothaermel, 2015).

## VRIO

To understand the framework Value, Rare, Imitate, and Organization (VRIO), it is necessary to base the assumptions that a firm has a unique bundle of resources and these resources are related to one firm, which tend to be in this firm and won't move out from there easily. The VRIO framework support the internal analysis industry and the firm and if one firm has a strong VRIO, it represents strong potential to keep a sustainable competitive advantage for this firm in the industry. VRIO is a tool used to evaluate the potential competitive advantage, according to the framework it is necessary to understand the product's value, rarity, imitation cost, and the firm's organization (Rothaermel, 2015).

# CHAPTER 5: ANALYSIS

## Country Assessment

### *Product*

Chipotle is the fast casual chain that this study is going to focus on, which has several combinations for different type of meals. Streaming the type of food in six categories, Chipotle provides burritos; bowls; crisp corn tacos; soft flour tacos; salads; and a kid's menu. The customer has the choice to build their own meal with options for vegans, vegetarians, those with allergens, and special diets (Chipotle, 2018). The restaurant's operation works fast, and the customer can have their meal on an average time up to 10 minutes during no rush hours and up to 30 minutes during rush hours.


Figure 17 Chipotle Products (Chipotle, 2018)

### *Target*

The target customer in Brazil is the people that are worried about their health, have economic conditions to afford about $7.00 per meal the average ticket for Chipotle in the US, have no time, and are in urban areas. This target is basically looking for a young, healthy Brazilian. Also, sports practices add value to this criteria class A, B, and C+ and eat out because it saves time. The definition for this thesis for classes C+, B, and A are based on income, according to IBGE (2019), Brazilians are divided by classes regarding income. The division follow below on Table 3 Population by income in Brazil Table 3.

Table 3 Population by income in Brazil (IBGE, 2018)

| Class | % of the population | Sample Size number of people | Average monthly income in Brazilian currency (R$ / month) |
|---|---|---|---|
| A+ | 4% | 7,276,295 | over 10 375 |
| A | 5% | 10,392,084 | 10 375<br>6 225 |
| B+ | 8% | 14,551,568 | 6 225<br>4 150 |
| B | 16% | 30,405,383 | 4 150<br>2 490 |
| C+ | 30% | 57,366,411 | 2 490<br>1 245 |
| C | 17% | 32,020,005 | 1 245<br>830 |
| D | 20% | 38,385,392 | up to 830 |
| **Sample total** | | **190,397,139** | N/A |

This definition is being used because this class would represent the public target with minimum financial conditions to buy on the restaurant in Brazil. Health oriented people are active and constantly on the go. These people will be looking for healthier alternatives to traditional fast food and will appreciate the fast aspect of Chipotle. The focus on the urban area population reaches as many customers as possible because normally in an urban area, people have less time to be able to prepare food than in rural areas. Fast casual food is usually a little more expensive that traditional fast food, so we are targeting middle to high class customers.

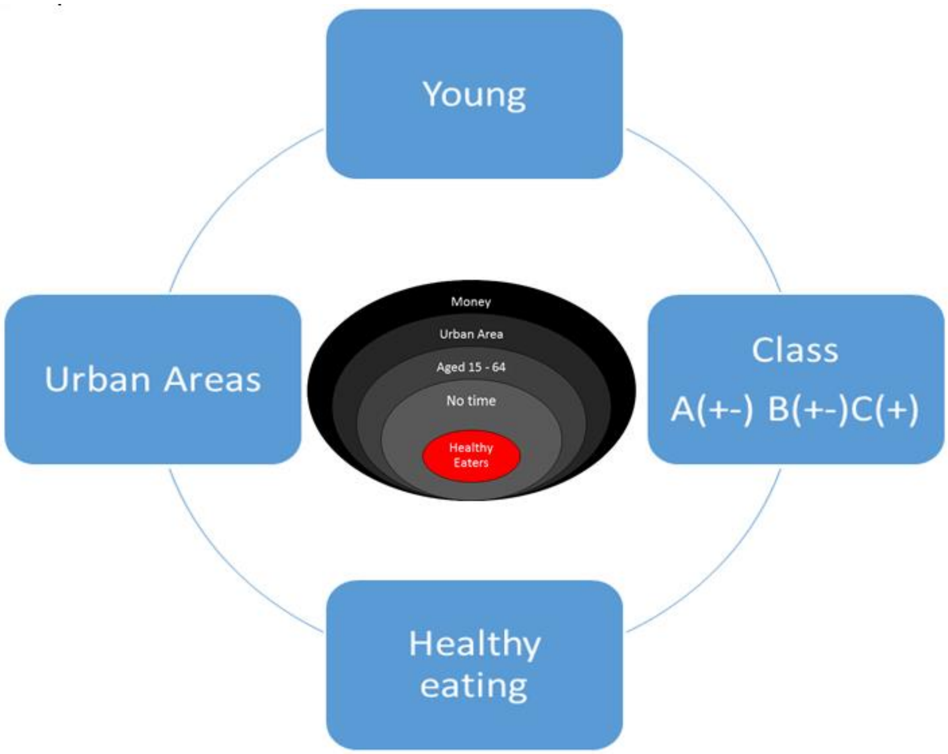



Figure 18 Target Customer

*1. Basic Needs Assessment*

When thinking about what kind of basic needs setting up Chipotle operations would require, it is necessary to analyze some aspects. The first is that since the chain offers fresh food, the climate must be favorable to grow this fresh food. Brazil has farming and tropical weather, and almost 40% of the country's exports relates to some type of food production (OEC, 2018). That can indicate that the country makes more food than consume; therefore, lack of food or even fresh food will not be a concern for basic needs in Brazil. Another basic factor in evaluation for this step will be analyzing basic conditions that keep a business working, such as infrastructure for transportation, healthcare, and water supply. The infrastructure in Brazil is competitive, and there is already a robust mash of transportation mixed by roads, train, maritime, and air. In the Southeast area in Brazil, all the urban areas have connections to these mashes of the transportation system. The healthcare in the country also holds a competitive position and does not represent a concern in order to eliminate any urban area in the country because of this criterion as well as the water supply in the urban areas. Brazil ranks 57th out of 144 countries evaluated in the competitiveness index, which considered several factors such as infrastructure (health care and transportation), economy potential, education, and others (WEF, 2014).

*2. Financial and Economic Assessment*

This step assesses the financial and economic situation of Brazilian population and try to understand if there is enough market place for a new business to enter. As mentioned, Brazil's GDP is projected to grow in 2018 and 2019 by 2.3% and 2.5% respectively. That increases the chances to enlarge the targeted public of customers; with a higher GDP the population will maybe have more money. The population in Brazil is large, accounting for more than 207 million citizens, which on average more than 85% of than are in urban areas (World Bank, 2018). The food consumption in the country indicates the amount of food that people eat per day. Further than the size of the potential market in the country, it is important to understand financial situation of the country, the financial situation of Brazilians (GNI and Unemployment rate), and the international relations with foreign investments. A fast casual restaurant caters to hungry people who want to go to a restaurant and buy their healthy food quickly. Brazil has big cities like São Paulo, Rio de Janeiro, Belo Horizonte, and Brasilia, which all represent massive urban populations with several other big chains of fast food already working there. These cities have a metropolitan area, which hold populations bigger than 20 million, 12 million, 5 million, and 4 million people, respectively (IBGE, 2017).

Table 4 Financial and economic assessment of Brazil

| Item | Indicator | Measure | Reference |
|---|---|---|---|
| 1 | Population | 209,288,278 | (World Bank, 2018) |
| 2 | Urban areas | 86.3% | (World Bank, 2018) |
| 3 | GDP, PPP (current international $) | $3.241 trillion | (World Bank, 2018) |
| 4 | Income per capita GNI (PPP) | $14,840 | (World Bank, 2018) |
| 5 | Unemployment rate | 11.4% | (World Bank, 2018) |
| 6 | Food Supply (Kcal/capita/day) | 3,263 | (Roser, 2017) |
| 7 | IPCA (Inflation, consumer prices) | 2.9% | (IBGE, 2018) |
| 8 | Selic (government's interest rate) | 6.5% | (CBB, 2018) |

With these eight indicators, it is possible to better understand the overview of the financial and economic situation of the country. The first one provides the size of the population, followed by the second that represents the urban population in relation to the total population, for 2017. The population grew 0.8% from 2016 to 2017, the urban population also grew 1.1% from 2016 to 2017 (World Bank, 2018). The third, fourth, and fifth items provide a macroeconomic view of the financial situation of the country's population, and all three data are from 2017. The third item has increased 2.8% from 2016 to 2017, and the fourth has increased 2.7%.

Table 5 Population size for the Size (IBGE, 2018)

| Class | % of the population | Sample Size number of people | Average Family Size | Number of Families |
|---|---|---|---|---|
| A+ | 4% | 7,276,295 | 3.30 | 2,204,938 |
| A | 5% | 10,392,084 | 3.47 | 2,994,837 |
| B+ | 8% | 14,551,568 | 3.48 | 4,181,485 |
| B | 16% | 30,405,383 | 3.42 | 8,890,463 |
| C+ | 30% | 57,366,411 | 3.38 | 16,972,311 |
| Sample total | | 119,991,742 | 3.41 | 35,237,730 |

The fifth had a negative performance, increasing one percentage point in the same period (World Bank, 2018). The item 6 has increased 0.5% from 2012 to 2013, which means food consumption per capita consumption in Kcal (Thousand calories) per day (Roser, 2017). That means that the population is eating more. The items 7 and 8 are macroeconomic variables too, but they're different from the initial variables that show the size of the market. These last ones are focused on the product prices, government's interest rate and external investments. Since January of 2016 to December of 2017 IPCA dropped from 10.7% to 2.95%, which represented one of the smallest rates in the history of Brazil (IBGE, 2018). The SELIC has also dropped in records levels in the last 20 years, which shows the interest of the Central Banking in providing a better condition for the small businesses starting in the country because of the easy line of credit. SELIC dropped from 13% January 2017 to 6.5% in August 2018 (CBB, 2018). The Foreign Direct Investment (FDI) had a negative impact dropping 10% from 2016 to 2017 (World Bank, 2018).

According to International Monetary Fund (IMF) (2018), Brazil's GDP will grow 2.4% in 2019; 2.3% in 2020; 2.2% in 2021; 2.2% in 2022; and 2.2% in 2022 (IMF Datasets, 2018). That represents an increase from $ 1.91 trillion to $ 2.35 trillion. According to Agriculture and Agri-Food Canada report (2014), the food service represented more than $146 billion in 2012. Specifically, the fast food sector was more than $ 28 billion dollars of this total (Agriculture and Agri-Food Canada, 2014). The GDP in that year was about $ 2.46 trillion. That means that Brazilians spend about 6% of the GDP with food services and about 20% of $ 146 billion is the share of quick services food. That shows that Brazilians spend a considerable amount of money on food service, and in special quick services food.

According to OECD (2019), the gross national income has not increased since 2011 until 2016 with the values of 14,738 and 15,065 dollars per capita, respectively.

That indicates the population faced a problem on income per capita, which represents negative indicator for the country.

The target population for Chipotle in Brazil is the young generation, they represented about 135 million people in 2017, according to the United Nations DESA/Population Division (2017).

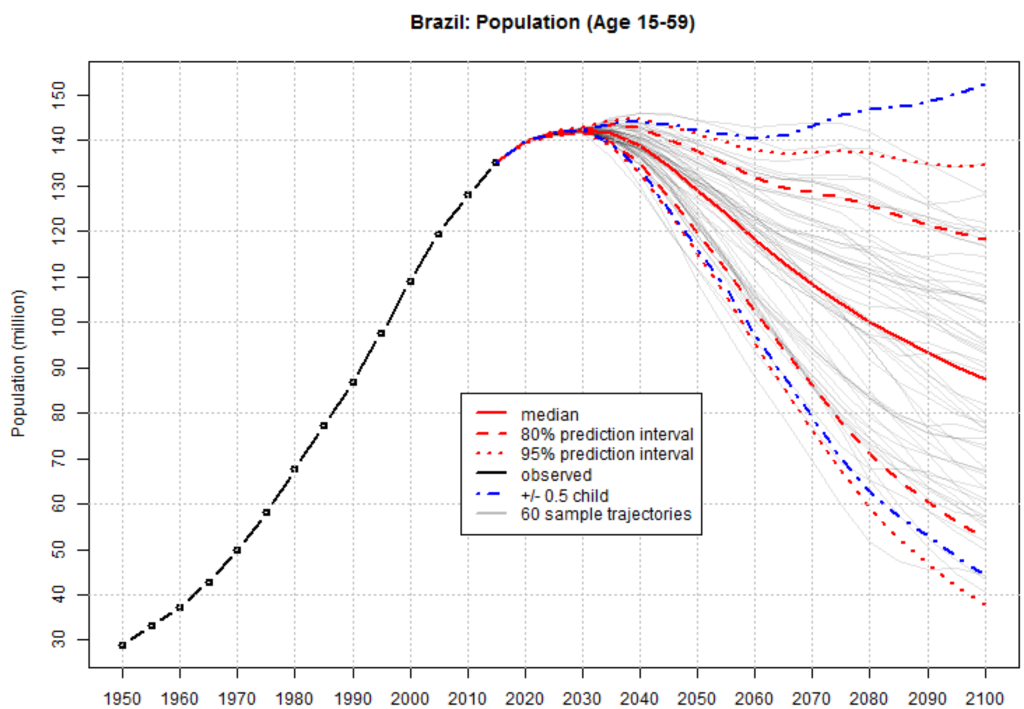



Figure 19 Target population projections (United Nations, 2017)

The graph depicts the observed population, before 2017, and the projection for the future. The median is expected according to variables pointed out in the graph. That indicates a negative variable pointing a decreasing in the young population in the country, aged between 15 and 59 year old. Although, it is still a considerable amount of people.

*3. Political and Legal Assessment*

The Political and Legal assessment can imply two main categories: costs and risks. The analysis of these criteria is to avoid the risk of future costs, and the criteria in this analysis is divided below into two main dimensions of cost and risk. On one hand, the image below depicts corruption, competition index, and law to all be potential costs, and on the other hand, considers policy stability and legality issues to be potential risks. This framework's aims to avoid these potential issues by analyzing the Political and Legal enforcement of law in Brazil.


Figure 20 Political and Legal assessment framework

Understand the law enforcement is important to start a new business, all business must follow rules and operate under law enforcements conditions in Brazil. Represented by 26 states, Brazil can have different taxes and rules according to each state, although all laws (federal, state, or city) must follow the country's constitution.

In the Southeast region (Minas Gerais, Sao Paulo, Rio de Janeiro, and Espirito Santo), capital cities request projects to approve any reform/construction to start a new business at any location inside the city. Belo Horizonte, Sao Paulo, Rio de Janeiro, and Vitoria each charges fee to evaluate applications to start new businesses in the city. Also, firms must pay federal taxes, which varies according to the legal registration (like the Employer Identification Number)

There are five main registrations for companies in Brazil: Microempresário Individual (MEI); Sociedade Limitada (LTDA); Sociedade Anônima (SA); Microempresa (ME); and Empresa de Pequeno Porte (EPP). For the MEI, the revenue is limited to R$ 60,000.00 yearly; for LTDA there is no limitation, however it is necessary to have at least two owners. For the SA, there is also no limit, but it is necessary to release part of the firm in the stock market. ME limits the revenue on R$ 360,000.00 and EPP limits the revenue on the range between R$ 360,000.00 to R$ 4,800,000.00. Each of the five types presented have their tax calculation and further regulations. The main tax from the federal government is the Imposto sobre a renda das pessoas juridicas (IRPJ), which is about 15% of profit, that will be presented on the budget section.

Brazil has special system that takes care of the workers law enforcement, the Consolidacao das Leis Trabalhistas (CLT), which covers all labor laws in the country. According to the CLT (1943), the employer must pay employees' wages and has further obligations to protect employees. Some of the obligations are: employers must pay 8% of the gross employees' wage to government founds that will ensure a savings for the employee, the Fundo Garantia por Tempo de Servico (FGTS). Also, it is necessary to pay 12 months of wage plus the 13o; in other words, the employer needs to pay 13 monthly salaries in one year to all employees. Furthermore, vacation represents at least 30 paid days plus one third of one month of wage; in other words, on vacation, employees receive

133.33% of their salary. After three months, in case employers terminate employee contracts without fair reason, according to law, the employer must maintain the employment of an employee for one extra month after they are warned of the termination of their contract. Moreover, it is necessary to pay a fee of 40% of the total FGTS (considering the last day of work plus provision of vacation) and the proportional of vacation plus proportional 13º wage.

According to Deloitte (2017), Brazil's government charges an accumulated tax rate (considering all government taxes paid by firms on average) of 34%. In other words, government tax is about 34% of taxable income of companies. It is important to point out that there is no tax on dividends (Deloitte, 2017).

Due to labor system that rules Brazil, it requires special government authorizations, partnership is a common practice for businesses, especially for foreigner companies investing in the country. Usually, foreigners' investors have local partners and both parties share equity of a new company. Furthermore, foreign companies can open divisions in Brazil without opening a new company; however, it is necessary to obtain special federal government's authorization (Secretaria da Receita Federal do Brasil) and state government's authorization as well. Moreover, the Brazilian Central Bank regulates international investments in the country; therefore, it is necessary to register all foreign investments within the Brazilian Central Bank.

Furthermore, the law number 8,137 from 1990 represents the crimes against tributary, economic, and consumer. By the crime against consumer, it covers the relation between food provider and consumer. If the restaurant provides a spoiled food to its customer, according to the law 8,137/1990 the restaurant may pay fee and the responsible for the restaurant may spend between two to five years in jail. In case of spoiled food consumed by the client, the restaurant has 10 days to appeal in defense after the client claims in court. Two options to solve similar problems immediately is to return the money to the client or provide another meal in better conditions.

According to the World Bank (2019), the indicator "time required to start a business in Brazil dropped from 82.5 days in 2017 to 20.5 days in 2018 (The World Bank, 2019). Furthermore, the country improved its position from 2017 to 2018 in the easy doing (The World Bank, 2019). Brazil improved its rank position due reforms through which politics are working to become business friendly. For instance, the time required to start a business is one example of such reforms.

Brazil is considered as a free democracy that provides civil liberties and political rights to its citizens (Freedom House, 2018). The elections work on a direct vote from the population where each person counts, and it is mandatory to vote for those citizens between the ages of 18 and 70. According to Globo (2018), there were more than 115 million voters for the last presidential elections in the country, electing Jair Bolsonaro as the new president for the period of 2019 to 2023 (G1, 2018). The new president selected as the minister of economy (head of country's economy) is Paulo Guedes, the minister has the goal of privatizing government companies and reforming working laws to become more market friendly.

Furthermore, according to Trench Rossi Watanabe (2018), the National Monetary Council (CMN) released the Resolution 3,844 of 23 March 2010 that allows foreign investment registration through the Brazilian Central Bank's system. This resolution permits remittance of dividends and interest on equity to foreign investor and repatriation of foreign capital invested in the country as well as profits (Trench Rossi Watanabe, 2018). Moreover, the tax on financial transactions for remittance of profits abroad is zero, in other words, there is no tax on profit by dividends for companies and no tax on remittance of money abroad.

*4. Socio Cultural Assessment*

Population's diverse culture according to several, and maybe unmeasured variables, such as the interactions of people within their society, type of food available for them, climate which they are submitted to, the ecosystem around them, and others. It is not possible to address exactly what would be the main driver which would define the population's culture. However, when thinking about the food that a determined culture eats, it is possible to approach as accurately as possible. There are several drivers that could help to understand what a population is more likely to eat.

Eating habits are in relation with the influence of sports, technology, music, fashion, type of food, and others. The Socio Cultural assessment can assist this paper in understanding better what the Brazilians would eat by analyzing diverse cultural drivers, and if it would be necessary to change or adapt any menu to the Brazilians eaters.

This analysis will try to ensure that Chipotle would be in high demand in Brazil and it would be in an environment that would allow it to succeed. The framework depicted in the figure helps to understand how this analysis works.

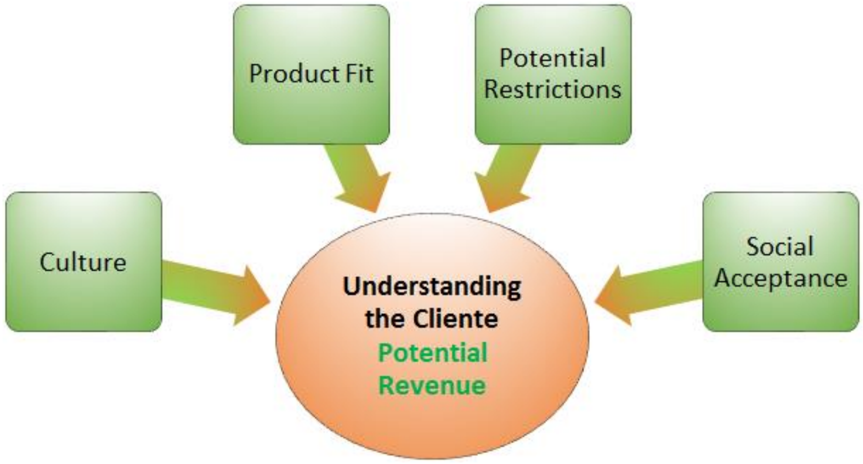



Figure 21 Socio Cultural assessment framework

Approaching factors that the image depicts above, will be crucial in determining if Chipotle is going to succeed in the country. This framework focuses on cultural drivers that effects society's eating habits. It is basically to check if what Chipotle offers is going to fit with the Brazilian's food culture.

Brazilians organize themselves with central powers and passive behaviors, the society works mutual help among groups, and it is based on personal relations and keep forecast flexibility for unexpected outcomes. These facts represent significant culturally different from the United States' culture. Americans are based on rules not in personal relations, the society works considering individual focus, not as groups in Brazil. In addition, Americans keep relatively distant and reserved human relations when compared to Brazilians that are close and emotive (Risner, 2001). Risner (2001) concluded that it is crucial to understand cultural distance and especial differences in order to achieve success by internationalizing to Brazil.

Brazilians eating habit is based on beans, rice, and meat, as well as the food production for the same products (Andrade. Louzada. Azeredo. Martins. Levy, 2018), thus, Chipotle's menu fits perfectly to Brazilians eating habits. Chipotle needs to adapt its menu with minor changes in the spicy and seasoning to reach Brazilians customers acceptation. Brazilians differ from Americans on the eating habits by having the biggest meal of the day on their lunch, meanwhile in the United States the biggest meal normally is on the dinner.

Brazilians' workout routine is relatively higher when compared to Americans, which is positive for Chipotle entering in the country. According to Santos (2013), sport practices influence adolescents to eat healthy (fruits and vegetables) (Santos, 2013), thus restaurants like Chipotle would take advantage by being fast and offering healthy menu. More than 97% of Brazilians in the IBGE's survey (2015) practice workout at least once in a week (IBGE, 2017). According to Statista (2016), the same rate in the United States is 89% (Statista, 2016).

Brazilians eat rice, beans, and meat, it is an attractive market for a fast casual chain like Chipotle, but Brazilians like different taste than the Chipotle version of the United States. It is necessary to change the way to prepare the food, change the amount of seasoning, and adapt the flavor with local seasonings used by Brazilians to season their own flavor. For example: it is usual in Brazil to cook beans with bay leaf, which is not practical in Chipotle in the United States; therefore, this is a crucial change. The main adaptation for Chipotle is the change for local flavor, the product will look the same as well as clients experience; however, beans, rice, and other food offered by Chipotle are important to Brazilians and adapt the seasoning is a critical point. The idea of adapting menu for local is only based on the assumption that Brazilians would rather eat their rice and beans taste instead of the American version. However, it is possible to keep the food with same cooking process and assume that customers will visit because it is an American brand.

*5. Competitive Assessment*

This stage looks for companies or restaurants that were already established in Brazil that would be considered potential competitors for fast casual firms, such as Chipotle. There are no fast casual chains currently located in Brazil which would benefit Chipotle greatly. There were some local fast casual restaurants.

The fast casual industry is consolidating its presence and there is a list with the main competitors in this market. According to Mintel (2018), there are couple main players in the United States' market:

Table 6 Fast casual chains in the United States (Mintel, 2018)

| |
|---|
| Panera Bread |
| Chipotle |
| Jersey Mike's |
| Noodles & Company |
| Potbelly |
| Shake Shack |
| Pei Wei |
| Corner Bakery |
| Blaze Pizza |

These are the main players identified by Mintel (2018) and these companies work in different segments with distinct products in the United States quick service market.

Differently from the United States' industry, the Brazilian quick service restaurants are mainly dominated by fast food companies. There are couple competitors in Brazil that dominate a small piece of the market share. According to the Passport (2018), the first 45 firms in the fast food market accounted to 25% of the market and 20% of this total is represented by only 7 of the 45 fast food chains:

Table 7 Fast food chains in Brazilian market share (Passport, 2018)

| Brand Name | Data Type | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| McDonald's | Market share | 09 | 08 | 07 | 08 | 07 | 07 |
| Subway | Market share | 02 | 03 | 03 | 03 | 04 | 04 |
| Burger King | Market share | - | - | 02 | 02 | 02 | 03 |
| Habib's | Market share | 03 | 03 | 03 | 03 | 02 | 02 |
| Bob's | Market share | 02 | 02 | 02 | 02 | 02 | 02 |
| Giraffa's | Market share | 01 | 01 | 01 | 01 | 01 | 01 |
| Spoleto | Market share | 01 | 01 | 01 | 01 | 01 | 01 |

The fast food market is very fragmented in Brazil; however, that is changing, since 2012 the four main players grew almost 3% in market share, average of 0.5% per year of the total value of the industry (Passport, 2018). In order to identify the main players and potential competitors, this work checked the fast food companies operating in the industry:

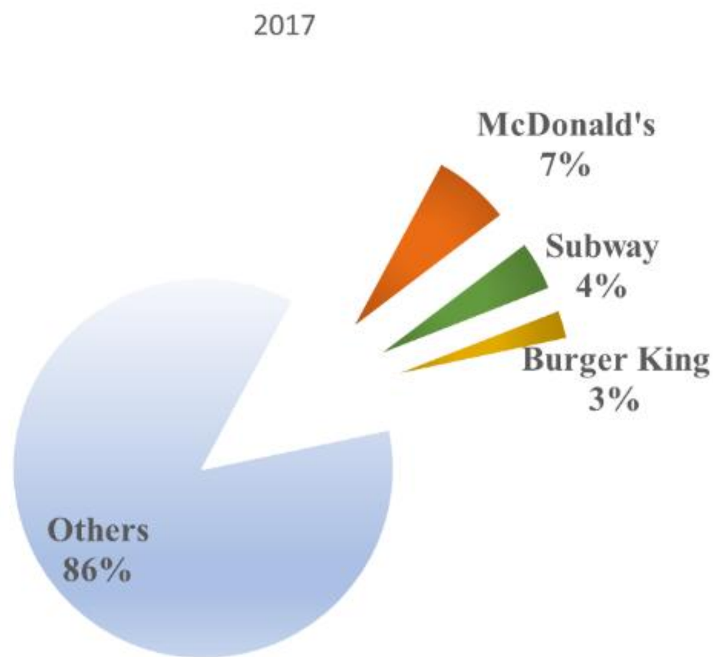



Figure 22 Fast food market share by brand in Brazil (Passport, 2018)

According to Burger King Brazil (2017), Subway is the biggest chain in number of restaurants with more than 2,000 restaurants in the country, followed by McDonald’s that holds 909. Burger King has 628 restaurants divided by franchising and owned, 136 franchised and 492 owned by the company. In the report, fast food service represents 21% of the total of the market (Burger King, 2017). These companies internationalize their operation to Brazil and did not change/adapt food taste, in other words they internationalize to the country with same standard.

Table 8 Number of Restaurants in 2016

| Fast Food | Number of Restaurants | First Restaurant |
|---|---|---|
| Subway | 2247 | 1992 |
| McDonald's | 909 | 1979 |
| Burger King | 628 | 2004 |

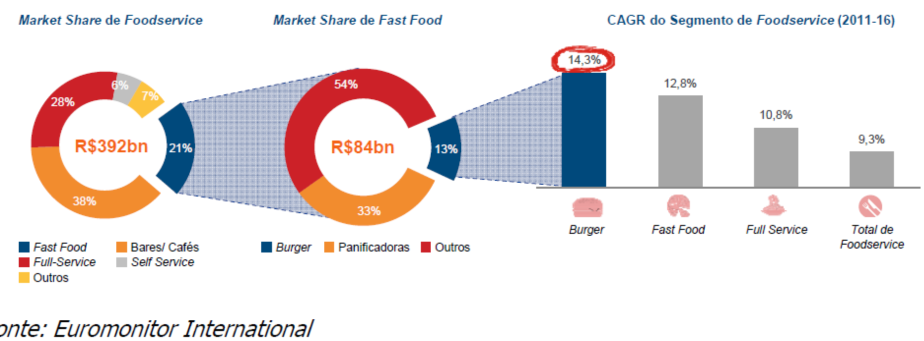


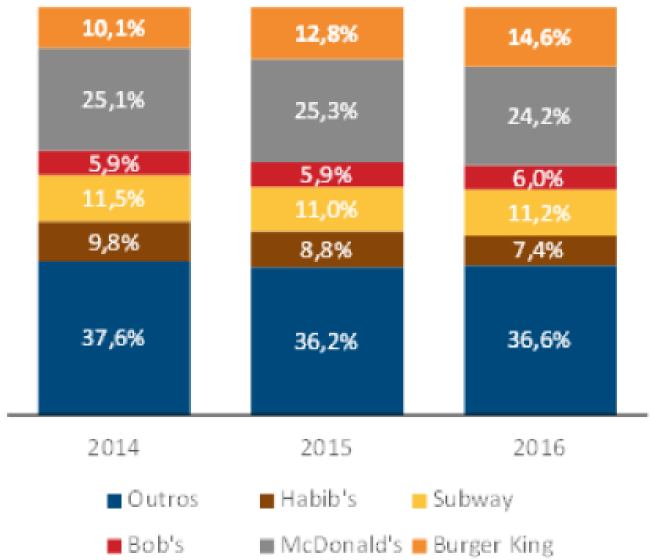

Figure 23 Burger King Brazil market share by food segment (Burger King, 2017)*

*Translate from Portuguese to English:

Panificadora = Bakery

Outros = Others

Fonte = Source




*Fonte: Euromonitor International, Passport Consumer Foodservice.*

Figure 24 Burger King Brazil market share by brand (Burger King, 2017)*

*Translate from Portuguese to English:

CARG do Segmento de Foodservice = CARG of Foodservice segment

Panificadora = Bakery

Outros = Others

Fonte = Source

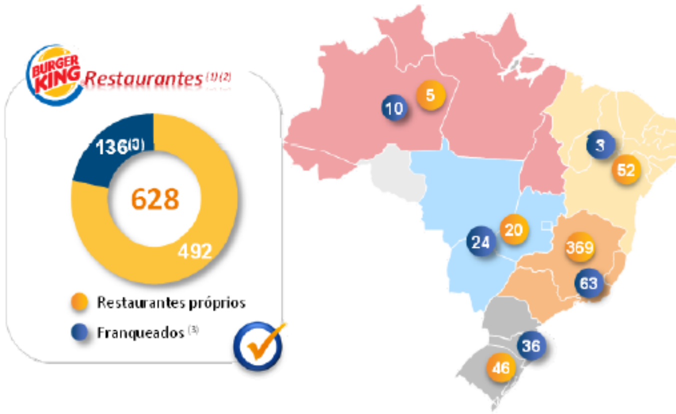



Figure 25 Burger King Brazil number of restaurants owned (restaurantes próprios) and franchised (franqueados) (Burger King, 2017)*

*Translate from Portuguese to English:

Restaurantes próprios = Owned restaurants

Franqueados = Franchised

The burger and sub menu offered by the main competitors in the market do not match with Brazilians eating habits. As commented in the Cultural Assessment, Brazilians eating habits are heavily based on rice, beans, and meat. Brazilians accepted these businesses and eat on these places eventually; however, it is not considered as the main meal for the population. That can be indicated as one potential reason of the market share of these chains being low when compared to the market share in the United States. The fast food of burgers and subs is based on traditional American food; however, it is not the same diet base in Brazil. There are several assumptions that can be used to explain reason of smaller market share for McDonalds compared to the operation in the United States.

Chipotle has a strong menu advantage in Brazil, that is due beans and rice offer in the restaurant. The three main players in market offer burgers or subs that are meals eat by the population often but not every day, meanwhile Chipotle will offer burritos and bowls, which are meals that Brazilians like to eat every day. The firm values high-quality ingredients classic cooking techniques, distinctive interior design, respect for the raising of the animals, farmers that supply the restaurants, and the environment (Chipotle, 2018). These are the firm's concerns and that is what the leader of the oversea operation must be concerned. The role of the strategic leaders will the to guarantee that high-quality food is being served as well as the design of the restaurants and work on building tie relationship with the supply chain. The analysis of the restaurant industry can be divided in full service and limited service, which would fit the category of fast food and fast casual because of couple variable such as: lack of waiters and the need to order the food directly with the person that makes that. The industry in Brazil is fragmented; however, it is changing as mentioned in the competitive analysis of the market assessment, the big players are growing.

Chipotle is a different chain fitted in the quick-service industry. The firm offers a relatively healthier food with a superior environment of the other regular competitor in the fast food chain. The company charges a premium price compared with the common dollar deals that the fast food chain offers (dollar deal = one food option for $1.00). The joint venture model in Brazil can follow the same strategy of differentiation of the product, because the main players in Brazil are like the main players in the United States (McDonald's, Subway, and Burger King).

The prices of United States fast food chains are normally standard in one city in Brazil, it can vary according to distinct cities. However, the locals differentiate their price according to the location. It is common to pay more in more expensive areas for local restaurants, likewise, pay less for less expensive areas. Chipotle must position as others United States fast food chains, that standard the price no matter the location in the city. That standard brings trust for the customer on the brand.

## Strategy

The business strategy helps to understand priorities, organization, and future by setting the track that organization wants to follow (Tracy, 2015). The business strategy analysis in this paper will use frameworks to evaluate food industry, external factors, and internal factors. To begin with the food industry, it is necessary to understand not only the market overview of the market food in Brazil, but also approach this market in a deep analysis that will output accurate information about this food market.

PESTEL focuses on political, economic, social, technological, environmental, and legal while five forces focus mainly on competition that rules forces in the market. Thus, competitive analysis has five forces: threat of new entrants, bargaining power of buyers, threat of substitute products, and bargain power of suppliers.

In order to understand the internal scenario, product and strategic organization will be evaluated. The framework in to support internal analysis is analysis VRIO (Value, Rare, Imitate, and Organization) that provide information about the internal industry.

## PESTEL

Internationalization overseas is a complex process and requires analysis of several factors. Oversea operation chains must consider PESTEL factors to understand better industries. All factors in analysis will be related to potential factors that would affect Chipotle, one fast casual food chain.

*Political*

The political factor has great influence on the costs of the firm. The political stability is necessary to indicate financial healthy for the firm in the long-term. A government unstable can change or impose taxes on import for primary ingredients like wheat that Chipotle maybe imports to make the tortilla, or quotes on the same item that can increase the restaurant's costs. Also, there is a risk of corruption that must count in the analysis, for example: there is a risk of bribes, which would affect the company costs too. Finally, the regulations if any healthy problem perhaps is indicated as caused by the food provided in one of the firm's product, for example: E Coli outbreak in the United States with Chipotle's around the country, the firm struggled during the period with several restaurants closed under inspections.

*Economical*

The country's economy indicates the financial situation that the population has, potential fluctuation in prices, and growth that the country expects. The inflation rate indicates the variation of the prices on average, the index for Brazil is the IPCA and as it shows on the Figure 9. The IPCA is the lowest in the history since 1998, the prices are under control, comparing to the historical timeline. The interest rate in Brazil, SELIC, also is in a very low point comparing to the timeline, credit to the population and businesses to expend more. The reduction on poverty can be converge on increasing of middle class; therefore, if that convergence actually happen, demand for fast casual restaurants are going to increase. There are expectations for economic growth in the next years, the country overcame a financial crisis in 2016 and the growth by recovering the economic is expected.

### *Social*

The social analysis provides an overview of the society's culture and values. It is necessary to understand the local habits to approach the internationalization and succeed in the new country. Factors such as population's eating habits (what they eat), customer's taste (the way to prepare the food), the environment of the restaurants, the geographic and demographic patterns of the new market, and the health conscious of the population. All these factors can represent the key to understand the cultural change that the firm can face in the new environment.

### *Technological*

The technology is present in almost all businesses today and it wouldn't be different with a new Chipotle in Brazil. Understand the technology available in the country will support the business to succeed. Chipotle's operation already has several technological implementations that the company used to improve its customer's experience. For example, flat panels to speed up the queues in the store or the self-check-out shelf in the stores provide the customer that uses Chipotle's app a faster pick-up to them food. It is possible to implement such technologies in Brazil, since several businesses already are practicing that in the industry, such as Burger King and McDonald's.

### *Environmental*

Chipotle supports the local suppliers and they have a program to educate and training the suppliers to develop partners, by doing so, Chipotle promotes farmers that respect the workers, animals, and the environment. Furthermore, there is a concern to promote organic farmers that would have a less impact in the climate change.

*Legal*

The law enforcement is a serious concern by the profitability of the business. Chipotle had a problematic case with the E Coli outbreak in 2016 and the firm faced several issues during the time. The law enforcements that the company must keep on its radar are the health and safety laws in Brazil. Brazil has a representative part of its GDP accounting with the agriculture and the government institutions regulate the suppliers and restaurants with strict rules.

Finally, Chipotle deals well with all the six variables in the analysis in the United States and it would not be a big gap of adaptation for the company to face the new market in Brazil.

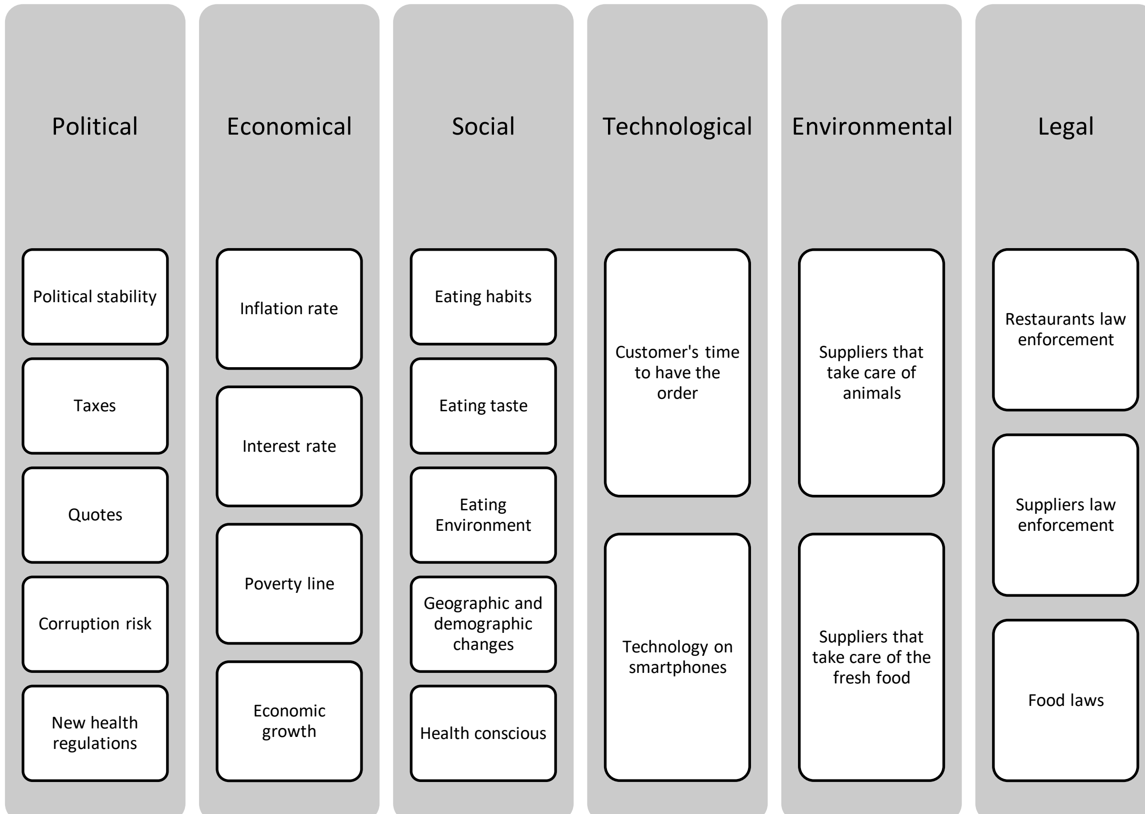



Figure 26 PESTEL framework

## Porter Five Forces

To examine competitive forces surrounding fast casual industry in Brazil, Porter's 5 forces was used. The main goal of using this framework is to identify industry attractiveness and potential profit.

The following framework was based on 42 questions about the industry and it can rank among:

Low = 1;

Low to moderate = 2;

Moderate = 3;

Moderate to high = 4;

High = 5.

At the end of each force analyzed, the result of the force is the average of the answers. For instance, on rivalry among competitors the sum of all 11 questions divided by 11 is equal to 3.18, thus this force is moderate.

*Rivalry among Competitors: Moderate*

The market assessment provided an overview of main competitors in market. The main players are growing; however, total market is still fragmented. Furthermore, fast casual chains have a direct competitor that would be fast food chains. The advantage of Chipotle is to offer high quality food and better environment, which perhaps is attractive to customers. Also, technology offered maybe provides another advantage due the small timing from ordering food and getting food. Number of competitors is low; however, substitutes is very high considering restaurants that can provide food.

Table 9 Factors affecting rivalry among existing competitors

To what extent does pricing rivalry or non-price competition (e.g., advertising) erode the profitability of a typical firm in this industry?

| | | **Characterization (Current)** | **Support** |
|---|---|---|---|
| **1.** | **Degree of seller concentration?** (If sales are concentrated among few large sellers, rivalry in price cutting is weaker). High → weaker (threat is low) | High (5) | The top 3 firms in market share control 14% of the market |

Table 9 Factors affecting rivalry among existing competitors Continued

| | | | |
|---|---|---|---|
| 2. | **Rate of industry growth or rate of buyer demand?** (If growing slowly or declining, rivalry stronger). High → weaker (threat is low) | Moderate to High (4) | The industry grows at 6.5% which is just 3% over the inflation. |
| 3. | **Significant cost and size similarities among firms?** (e.g., it has implications on competitive strength. If competitors are similar in size and cost, then rivalry is weaker. If not, the low cost firms have the tendency to lower prices, expecting high-cost rivals to exit). High → weaker (threat is low) | High (5) | High variation in (Cost of goods sold)/SALES and Sales for firms in the industry. |
| 4. | **Excess capacity and/or inventory?** (e.g., due to falling buyer demand. If excess capacity then high pressure to boost sales and steal business from rivals with price cutting, rebates, discounts, etc.). Low → weaker (threat is low) | Low (1) | Given the growth, there is no excess capacity |
| 5. | **Cost structure of firms: sensitivity of costs to capacity utilization?** (e.g., if industry has high fixed or high storage costs, then unused capacity leads to stronger rivalry). Low → weaker (threat is low) | High (5) | Firms do have high fixed costs (e.g., rent, labor in the short-run). |
| 6. | **Degree of product differentiation among sellers? Brand loyalty to existing sellers?** (e.g., identify if possible cross-price elasticities of demand among competitors in industry)? High → weaker (threat is low) | High (5) | People are not loyal to chains |
| 7. | **Buyers' costs of switching from one competitor to another?** (rivalry stronger if lower switching costs) High → weaker (threat is low) | Low to Moderate (2) | Put it Low if there is no brand loyalty. Otherwise Low to Moderate. |
| 8. | **Are prices and terms of sales transactions observable? Can firms adjust prices quickly?** (If firms can adjust prices quickly then price cutting will be matched quickly). High → weaker (threat is low) | Low (1) | Self-explanatory |
| 9. | **Small and/or frequent sales orders?** (A firm may be tempted to undercut its rivals if an order is large and/or infrequent since gains may more than offset any losses from future rounds of price cutting). High → weaker (threat is low) | Low (1) | Orders are small and frequent |
| 10. | **History of "cooperative" pricing?** (a history of cooperative pricing may assure industry members that each strives for a price that works to everyone's collective benefit) High → weaker (threat is low) | High (5) | Companies do compete in price. See for instance, the promotion run by Burger King. |
| 11. | **Strength of exit barriers?** (e.g., if rivals have emotional stakes in the business, contractual obligations, then rivalry is stronger). Low → weaker (threat is low) | Low (1) | Most contracts are short-run, no irreversible investments. |

*Threat of New Entrants: Moderate*

Threat of new competitors copying business model is moderate. However, bureaucracy in country helps businesses that are already working with the long process to open a new business, that can take on average 3 months plus time to reform and organize. There are barriers of entry, such as bureaucracy and high cost of investment to build a new restaurant and find a place to rent on a dining area. Also, development of suppliers can be a barrier as well as experience curve with the products offered by suppliers.

Table 10 Factors affecting the threat of entry

To what extent does the threat or incidence of entry work to erode the profitability a typical firm in this industry?

| | | **Characterization (Current)** | **Support** |
|---|---|---|---|
| **12.** | **Significant economies of scale in production, distribution, advertising, or other areas of operation?**<br>High → entry barriers are high → threat of entry is low | Moderate (3) | Depends. For a national chain this is High. But there are so many independent restaurants that are local. So Moderate |
| **13.** | **Importance of reputation (product differentiation) or established brand loyalties in purchase decision?**<br>High → entry barriers are high → threat of entry is low | High (5) | Same as item 6. |
| **14.** | **Entrants' access to distribution channels?**<br>Low → entry barriers are high → threat of entry is low | Moderate to high (4) | There are many prime locations available, then this is Moderate to high |
| **15.** | **Entrants' access to raw materials?**<br>Low → entry barriers are high → threat of entry is low | Low (1) | Do firms have access to raw materials easily? Yes. |
| **16.** | **Entrants' access to proprietary technology/know-how?**<br>Low → entry barriers are high → threat of entry is low | High (5) | High (technology is mature). |
| **17.** | **Entrants' access to favorable locations?**<br>**Low → entry barriers are high → threat of entry is low** | Moderate to high (4) | Similar to item 14 above. |

Table 10 Factors affecting the threat of entry Continued

| | | | |
|---|---|---|---|
| **18.** | **Experience-based advantages of incumbents?**<br>High → entry barriers are high → threat of entry is low | Moderate to high (4) | Learning curve effects, Moderate for local firms, and as Moderate to high for national distribution |
| **19.** | **"Network externalities": demand-side advantages to incumbents from large installed base or network effects?**<br>High → entry barriers are high → threat of entry is low | Low to moderate (2) | Low to Moderate. There is no major restaurant. |
| **20.** | **Government protection of incumbents or restrictive government policies?**<br>High → entry barriers are high → threat of entry is low | Moderate to high (4) | The government does favor existing firms relative to foreign new entrants. So Moderate to high |
| **21.** | **Capital Requirements?**<br>High → entry barriers are high → threat of entry is low | Moderate (3) | Moderate (Moderate to high for national scale) |
| **22.** | **Perceptions of entrants about expected retaliation of incumbents/reputations of incumbents for "toughness"?**<br>High → threat of entry is low | Moderate to high (4) | Moderate to high (see promotions of BK, etc.) |
| **23.** | **Industry outlook is risky and uncertain?**<br>(e.g., it discourages entry). High → threat of entry is low. | Low (1) | Low. Industry is growing and economy has stabilized. |

*Threat of Substitutes: Moderate to High*

There are several substitutes that would potentially take the customer of Chipotle. Competitors in general are substitutes by themselves, because the product is food, for Chipotle fast casual food, which can be substituted by fast food meals.

Table 11 Factors affecting or reflecting pressure from substitute products and support from complements

To what extent does competition from substitute products outside the industry erode the profitability of a typical firm in this industry?

| | | Characterization (Current) | Support |
|---|---|---|---|
| **24.** | **Availability of close substitutes?**<br>High → pressure from substitutes is stronger (threat is high) | High (5) | Substitutes outside the fast casual industry: any other type of restaurant, cook at home. |
| **25.** | **Price-value characteristics of substitutes?**<br>(e.g., substitutes are attractively priced and/or have comparable or better performance features).<br>High → pressure from substitutes is stronger (threat is high) | High (5) | Some substitutes are cheaper and potentially add more value (e.g., cook at home). |
| **26.** | **Price elasticity of industry demand?**<br>(e.g., if it is high, then rising industry prices tend to drive consumers to purchase substitute products)<br>High (elastic) → pressure from substitutes is stronger (threat is high) | Moderate to high (4) | Though that price elasticity of substation. |
| **27.** | **Buyers' costs of switching to substitutes?**<br>Low → pressure from substitutes is stronger (threat is high) | Low to Moderate (2) | Low to Moderate |
| **28.** | **Availability of close complements?**<br>(e.g., innovation in televisions may boost demand for home theater speakers).<br>Low → pressure from substitutes is stronger (threat is high) | High (5) | Complements are beverages, anything that goes together with food. Also, for restaurants complements are transportation (better transportation means that you will go to restaurant more often). |
| **29.** | **Price-value characteristics of complements?**<br>(e.g., complements may fail to boost demand if priced too high). High → pressure from substitutes is stronger (threat is high) | Low to Moderate (2) | Complements are attractively priced, and consumers receives high value. |

*Bargaining Power of Suppliers: Low to Moderate*

There are not several offers for partners that Chipotle develop as firm's suppliers, that provides the suppliers high power of bargaining. Also, demand at beginning of operation will start from the scratch, since internationalization is starting a new business in Brazil. Bargaining power will improve with growth with the business in Brazil; therefore, it is necessary attention to developing businesses well since beginning and focus on reaching more market share. There are several small farmers around big cities in Brazil, which is a positive factor and make industry attractive for this point. As well as, as Chipotle works by developing local farmers. Also, that will provide unique productors farmers focusses on Chipotle.

Table 12 Factors affecting or reflecting power of input suppliers

To what extent do individual suppliers have the ability to negotiate high input prices with typical firms in this industry? To what extend do input prices deviate from those that would prevail in a perfectly competitive input market in which input suppliers act as price takers?

| | | **Characterization (Current)** | **Support** |
|---|---|---|---|
| **30.** | **Is supplier industry more concentrated than industry it sells to? Is it dominated by a few large sellers?**<br>High → bargaining power of supplier is stronger (threat is high) | Low (1) | I would assume that it is low, unless the distributors of food are concentrated in Brazil. Is it possible to have a few firms handling the distribution from farmers to restaurants? |

Table 12 Factors affecting or reflecting power of input suppliers Continued

| | | | |
|---|---|---|---|
| **31.** | **Do firms in industry purchase relatively small volumes relative to other customers of supplier? Is typical firm's purchase volume small relative to sales of typical supplier?**<br>**(e.g., if suppliers are not dependent on the industry for a large portion of their revenues their power is stronger)**<br>**High (most firms in industry buy small volumes and their purchase is a small portion of suppliers revenues) → bargaining power of supplier is stronger (threat is high)** | High (5) | I would tend to assume that this is Low. Chipotle or distributor buys most if not all of the produce of the contracted suppliers. |
| **32.** | **Few substitutes for suppliers' input?**<br>**High (= few substitutes) → bargaining power of supplier is stronger (threat is high)** | Low (1) | You can't do without food. Beverages is another story since you can switch from soft drinks to water, but you must have soft drinks. So High. |
| **33.** | **Do firms in industry make relationship-specific investments to support transactions with specific suppliers?**<br>(e.g., industry members incur high costs in switching to alternative suppliers). High (most firms in industry have relationship-specific investments) → bargaining power of supplier is stronger (threat is high) | High (5) | No relationship-specific investments. So Low. Chipotle does not invest in their business to handle the product of one particular supplier. Their service works for all suppliers. |
| **34.** | **Do suppliers pose credible threat of forward integration into the product market?**<br>High → bargaining power of supplier is stronger (threat is high) | Low (1) | Low. The product of suppliers is a commodity (at least food). |
| **35.** | **Are suppliers able to price discriminate among prospective customers according to ability/willingness to pay for input**?<br>(e.g., supplier products/services are highly differentiated)<br>High → bargaining power of supplier is stronger (threat is high) | Low (1) | Maybe the organic producers and if they have scale. Given that they have contracts there is some negotiation.<br>So Low to Moderate. |

*Bargaining Power of Buyers: Low to Moderate*

The bargaining power of buyers will be low to moderate. Although Chipotle will need to invest on promotions and marketing to reach a place in the new market, since the business is not well known in Brazil, there is no negotiation on price from customer and restaurant.

Table 13 Factors affecting or reflecting power of buyers

To what extent do individual buyers have the ability to negotiate low purchase prices with typical firms in this industry? To what extend do purchase prices differ from those that would prevail in a market with a large number of fragmented buyers in which buyers act as price takers?

| | | Characterization (Current) | Support |
|---|---|---|---|
| **36.** | **Is buyers' industry more concentrated than industry it purchases from?** High (more concentrated) → bargaining power of buyer is stronger (threat is high) | Low (1) | Many consumers so Low is correct. |
| **37.** | **Do buyers purchase in large volumes? Does a buyer's purchase volume represent large fraction of typical seller's sales revenue?** High (e.g., most buyers purchase in large volumes) → bargaining power of buyer is stronger (threat is high) | Low (1) | Individual consumers purchase in low volumes. So Low. |
| **38.** | **Can buyers find substitutes for industry's product?** High (e.g., can easily find substitutes and costs of switching to competing products are low) → bargaining power of buyer is stronger (threat is high) | High (5) | High is correct. |
| **39.** | **Do firms in industry make relationship-specific investments to support transactions with specific buyers?** (e.g., relationship-specific investments involve the threat of holdup). High → bargaining power of buyer is stronger (threat is high) | Low (1) | Low is correct. |

## VRIO

### *Value*

Chipotle has a valuable product by focusing not only on the final product but also on the customer experience. The restaurants make sure that the atmosphere inside is appropriate with music and quick service. Moreover, the firm is trying to show that the restaurants offer fresh ingredients in their food and the trained staff that prepare the food; therefore, the higher and healthier food quality. The product it is basically what Brazilians want to eat in their everyday life: meals based on beans, rice, and meat.

*Rare*

There is no such a chain of traditional Brazilian food similar to Chipotle with fast service. The product fits perfect to the population and the firm adds great value to its customers, which ends up with customers positive experiences.

Chipotle is different from the other companies because the firm has the customer approval for their product as well as they approve the firm's sustainability (Ferdman, 2015). There is no register of such a success as Chipotle has achieved in the recent years in the fast casual segment of the industry. The strong connection that the company has with the farmers is one of the main forms to guaranty the fresh ingredients to the customer. The Local Grower Support Initiative is the example of Chipotle's concern about the farmers, this is the program that Chipotle names to provide attention to their farmers partners.

*Imitate Costly*

Chipotle's quality standard is not an easy process to imitate, the restaurant is well known to provide an excellent customer experience and it won't be different in Brazil. Also, the supplier's development program of the firm is another differential that the company has which will be hard to imitate once it takes place in the Brazilian's operations.

It is hard to create strong connections and keep control to several local suppliers since Chipotle operates with more than 2,000 locations worldwide. Chipotle's policy confirms the firm's concern in providing fresh ingredients from local farmers and communities in each of these locations. It is costly to imitate that capability from Chipotle because of two main factors: it is hard to find trustful local partners to cooperate with a big corporation because all the standards that these corporations must ask to attend the governments' regulations. Also, after find the right partners in each location, it is necessary to invest in training and pay higher value for the farmers, which would increase the price of the final product.

*Organization*

According to the Forbes (2018), Chipotle has reached the position #62 on the category "World's Most Innovative Companies"; #1370 on the "Global 2000 2016"; #162 on the "America's Best Midsize Employers 2016"; #435 on the "America's Best Employers 2015" (Forbes, 2018). It is a solid organization that is growing in a fast track and the firm has showing its value with all the rewards that has received. The organization is ready for the future and is investing more and more to guaranty that.

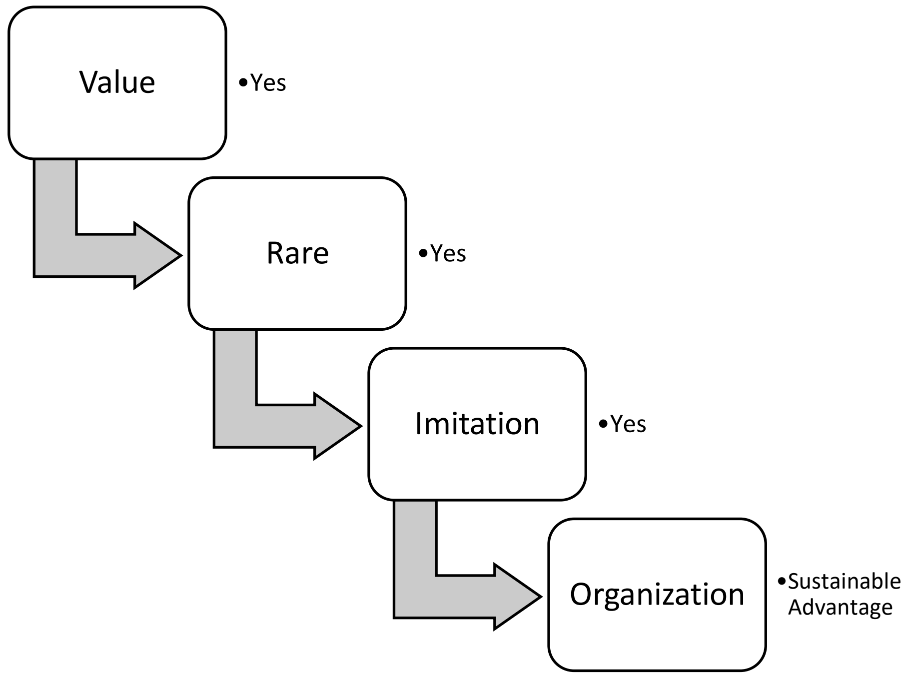



Figure 29 VRIO's framework

## Entry Choices

The entry strategy has several options of entry choices and it must evaluate the competition in the industry, the time to enter, how to enter, what type of entry, and where to enter, as the picture depicts.

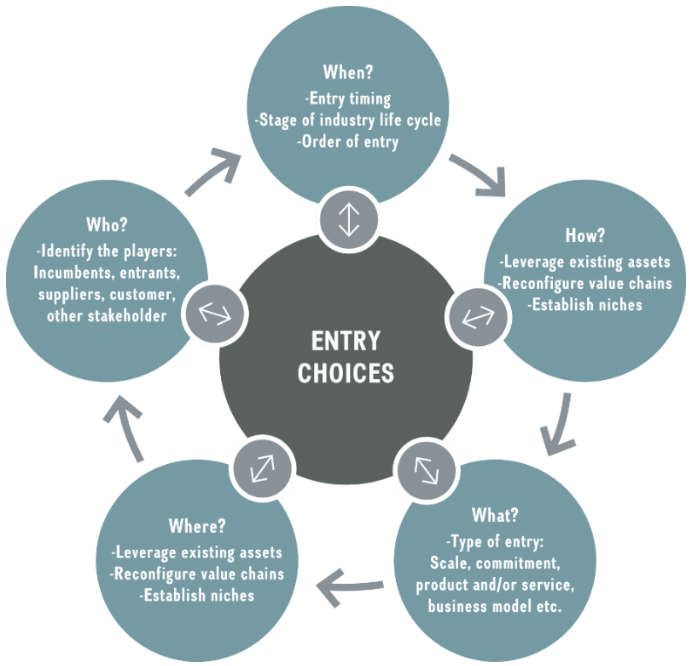



Figure 27 Entry Choices (Rothaermel, 2015)

The external analysis provides bases to understand the external environment and a deeper analysis on the competition, which is required to answer the first question “Who”. The second question “When”, which must understand the industry’s situation and potential growth in profitability that this industry can provide. The third question “How” represents the approach to the new market, in other words it studies the entry barriers and other potentials ways to entry in the new market. The fourth question “What” refers to the type of entry the company will have in the market, what will be the position of the company and what is the business type. The final question depicts “where”, which means to define the target market and after moving on to work on product positioning, pricing strategy, potential partners, and so on (Rothaermel, 2015).

The target market in this study is the Brazilian's food market, however it is necessary to define possible entry modes in this market. There are several modes of international market entry, such as international trade, export import, (direct or indirect); licensing; joint venture; acquisition or greenfield; and others. In order to approach the best entry mode and target market it is necessary to understand the institutional context, the competitive environment, and the cultural, administrative, geographic, and economic distance (de Kluyver, 2010). The entry strategy relies on this information and try to define potential attractive mode of entry. Each mode of entry has advantages and disadvantages, the decision of which mode to choose is a case of best fit. Kluyver (2010) mentions some modes of entry that can be broad defined, as followed below:

Export and/or import represent relative low risk, low exposition for the company's resource that choose this mode of entry, On the other hand, it typically represents the lowest quality control also typically the least profit margin.

Licensing and Franchising consist on the permission that the licensor provides to the licensee uses its expertise, patents, trademarks, and other variations. Commonly, the licensing is based on a fee the user pays for the owner of the license. Licensing also enjoys of relative low exposition and risk. The return is usually considered higher than export/import, however it still lacks control.

The strategic alliances and joint ventures are partnership that two businesses state to start an internationalization. It is basic a sharing business and investment that the foreign and home businesses make together, therefore becoming partners (the proportion depends of the negotiation between the companies). This mode of entry provides higher risk and exposition for the company, however there are several reasons that this strategy has become more and more population throughout the years. This mode of entry typically provides higher returns on investments, facilitate the market entry; risk is shared with the partner; technology sharing; facilitate operations adaptation. There are several disadvantages on the other hand too, like conflict of interest between the partners, cultural adaptation problems, and others.

Acquisition and/or greenfield investments represent the direct buy of one player in the market or start one investment from the scratch, commonly known as Foreign Direct Investment (FDI). It provides total control of the operations and typically the highest level of return on the investment. However, there are disadvantages such as high level of risk and high degree of commitment.

The economic similarities and market analysis. The Brazilian economy is starting a growth cycle with a market friendly politician group. Several economic indicators make the fast food industry in Brazil attractive, such as economic growth, fast food industry growing, and others. The country has also improved its control in the inflation rate (IPCA) since 2017, maintaining the IPCA with a year to date 3% on average for 2018 (IBGE, 2018). The decreasing in the poverty has affected the country by increasing its middle class, which would represent potential customers to Chipotle. Also, considering the success that fast casual chains are facing in the United States, it is possible to consider as optimistic the vision for a future fast casual chain in Brazil, if the Brazilian's population will respond in the same way as the United States' population.

The United States also represents a very strong partner for Brazil, as it is possible to check the trade balance of export and import in the Figure 7 and Figure 8. The strong embrace that Brazil has with the United States suggests that the business within the countries deal well. This considerable presence in the United States trade with Brazil, it can be concluded that it is favorable to United States business to internationalize their operations to Brazil, as several others already provide the example. Moreover, the country main business are primary products, in especial agriculture, which maybe will represent a potential favorable factor for a restaurant chain.

*Franchising X Joint Venture*

Two commons mode of entry to Brazilian fast food market are franchising and joint venture, companies as McDonald's, Subway, Burger King, and Wendy's have worked with both systems to enter in Brazil. According to the Passport (2018), together McDonald's, Subway, and Burger King hold about 10% of the market share for fast food industry in 2017 (Passport, 2018). Wendy's started its operation in the country recently, in 2016, by a joint venture, the joint venture is operating only two restaurants until the moment in the country.

Aguiar (2017) states that American has the biggest market for franchising as well as the most developed franchising. The author presents some methods to expand to a new market, the focus on discussion are franchise and joint venture (Aguiar, 2017). These two models are relatively different in levels of commitment, being joint venture the one that requires the biggest commitment and franchise the lowest one. By choosing any model, it is necessary to spend a considerable time choosing the partner to work with, it is also mandatory to fully understand the cultural distance between the countries, in this case United States and Brazil.

Chipotle considered franchising as a risk and does not operate with that model in none of the 2,467, Chipotle results (2018) restaurants around the world, according to

Chipotle's annual report (2017). The report explains that franchising can involve increasing firm's costs and there is no prepared area to take care of franchising model now. Therefore, the firm looks to fit better on joint venture mode to enter in Brazil.

The joint venture also requires time by choosing the right partner that understands the market and can deliver a profitable performance that follows the company values. In order to evaluate the best partner, it is necessary to understand several factors that can affect the firm such as where to locate the restaurant, what to adapt in the menu, how to face the law enforcement, and monitoring the capacity. The business model will discuss about these concerns.

## Interview

Pomar fresh food is a fast casual restaurant operating in Belo Horizonte, Minas Gerais, Brazil. The company was founded by two Brazilian entrepreneurs that were motivated to provide fresh food to their clients and easy environment to their partners (employees and suppliers). The company officially started its operation in 2018 with one store located in a commercial area in the city. The restaurant offers fresh food: salad, sandwiches, natural juices, wraps, and fruits. Also, the firm ensures training restaurant's staff to improve client's experience by creating a comfortable environment.

The demand of the company is about 110 pounds of salad per restaurants daily, it is about 175 meals sold daily. There is no fast casual chain operating all over the country, according to Eduardo, they consider competitors all other restaurants especially quick service firms, fast food. Eduardo identified two main competitors in Belo Horizonte, Green Station (operates in 3 states) and Horta31 (local competitor).

Even with competitions, Eduardo confirmed that in the peak hours, the restaurants are full, for Pomar the peak hours are the lunch (main meal for Brazilians) 12:00pm to 01:30pm and the rush hour (people living from work to home) 06:00pm to 07:30pm. The product for these two peak hours is distinct, for the lunch the focus is salads and complete meals, but for the rush hour the main product is acai (typical Brazilian fruit offered as cream) and snacks to take away. The company is under seasonal effects, such as winter and summer vacations, as the main customers are workers, vacation's periods affect the company's revenue, as well as the restaurants do not open on Sunday (holiday the week for Brazilians).

Company's target are young clients (25 to 30 years old) that work and do not have time to prepare their meals. Pomar fresh food offers Wi-Fi in the store, comfortable place for its clients, smartphone charger, and trained staff to improve the client's experience in the restaurants. Concentrating on developing delivery services today, Pomar is trying to develop the product and provide a better client's experience with the company's food.

The company is planning to increase its operation expanding the number of restaurants. One year after the first restaurant, the firm already operates with 4 restaurants in Belo Horizonte. Eduardo said that Pomar will expand its operations to other big cities like Sao Paulo and Rio de Janeiro soon, he also claimed that Pomar is no thinking about franchising for the moment.

# CHAPTER 6: BUSINESS

## Business Model

This section proposes an adapted business model for Chipotle operating in Brazil. Fischer (2010) suggests that a business plan should include eight topics: executive summary; business overview; expansion opportunity; products and services; industry overview; marketing strategy; operations; and financial plan (Fischer, 2010). In addition to all these topics, this work will a contingency analysis, which would understand different potential scenarios that could be from extremely negative to extremely positive.

### *Executive Summary*

Quick services restaurants enclose fast casual restaurants, for the market in the United States. The main players existing business in the United States are presented in Table 6, as mentioned in this work, the fast casual industry is not well stablished in Brazil; therefore, it is necessary to identify the existing business with the business in this market, as shown in Table 7.

Chipotle has a successful historic of new operations and it will not be different with a new operation oversea in Brazil. The product that the company has provide similar food ingredients that Brazilians eat every day and the quick service provided for the company will provide a growth position as other quick service chains faced in Brazil, such as McDonald's, Subway, and Burger King, which are growing in the country year by year.

The best entry mode for Chipotle would fit on joint venture, several competitors start their operations in the country by using this system, thus it could be a choice to Chipotle. The explanation of using a joint venture system is described on the section of entry choices. Wendy's is starting its operation in Brazil using the entry mode of Joint Venture with Infinity Services, which represents the local partner. Thus, it is reasonable to find a partner in order to succeed a new joint venture to Brazil.

The main choices are divided on Table 14 as well as the potential implications of these choices.

Table 14 Resume of choices to enter in Brazil

| Choices | Implication |
|---|---|
| Invest on employees with career plan | Better chance of positive client's experience |
| Invest on development of suppliers | Strong ties with suppliers |
| Adapt seasoning for similar Brazilian flavors | Increase the chance of acceptance with similar food taste |
| Keep operation fast | Chipotle will enter in the market as a fast food provider |
| Training | Prepare employees to provide fast food and the best experience to clients |
| Dining shopping areas | It reduces the costs on furniture and cleaning, and it places the restaurant under high demand, thus it provides fast awareness |

*Business Overview*

Chipotle was founded in 1993 by Steve Ells in Denver, Colorado, United States. Starting as a family business, Ells received a loan from his father of $ 85,000 to open the first restaurant near the University of Denver's campus. The success came fast and in the first month the company sold almost ten times more than expected (Daszkowski, 2018).

Today Chipotle is expanding rapidly, not only Chipotle, but also other players considered as fast casual restaurants. Recently, the firm suffered with the E-Coli crisis, there were several customers reporting problems after eating in Chipotle's restaurants. Since this outbreak started in 2015, Chipotle has intensified its efforts to fight against potential food problems, the restaurants redouble the attention to food safety. Changes are happening in the top echelon of the company. The firm has announced the stepping down of the CEO and founder Steve Ells in 2017 and in 2018 it announced the new CEO Brian Niccol (former Taco Bell CEO) (Daszkowski, 2018).

According to the company's announcement in June 27, 2018, Chipotle is focusing on the customer's experience, the company will invest in customer loyalty, changes in the menu items, digitalizing and modernizing the restaurants.

Chipotle has been growing on number of restaurants, sales, and other indicators, as shown below:

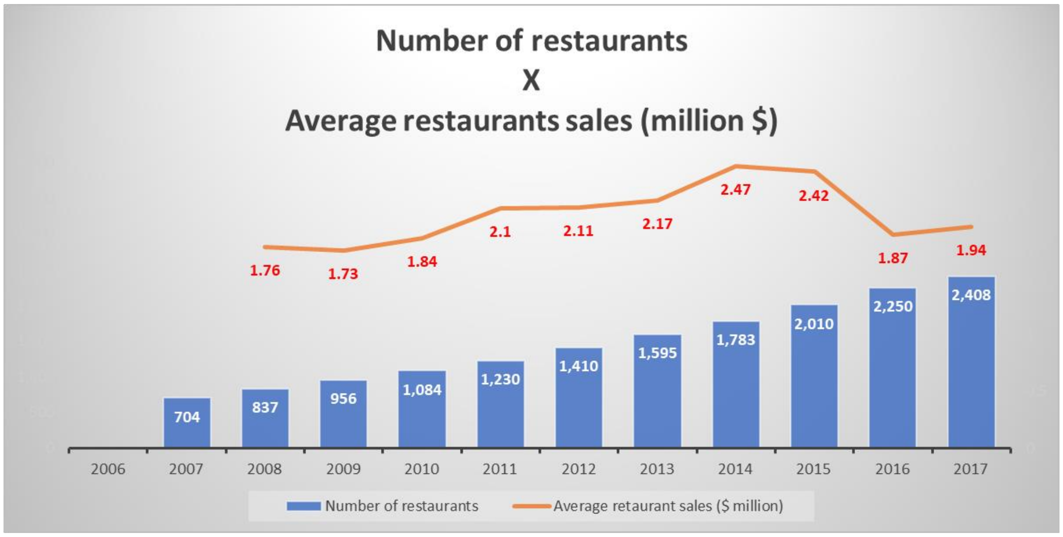



Figure 28 Number of restaurants and average sales from 2007 to 2017 (Chipotle, 2018)

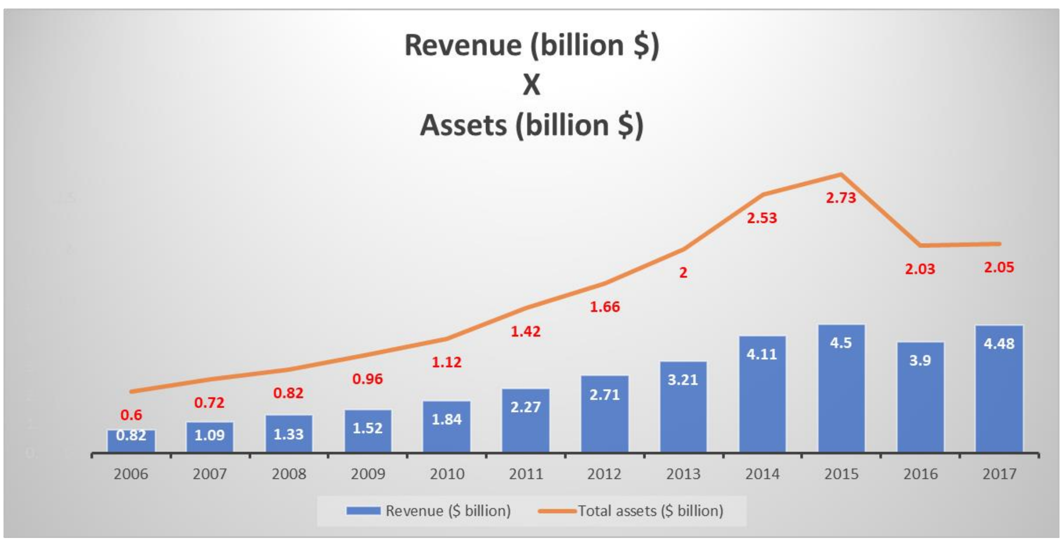



Figure 29 Revenue and Assets from 2006 to 2017 (Chipotle, 2018)

Table 15 Average yearly growth from 2006 to 2017

| | Average growth % yearly |
|---|---|
| Number of restaurants | 13% |
| Average retaurant sales ($ million) | 2% |
| Revenue ($ billion) | 17% |
| Total assets ($ billion) | 13% |

*Expansion Opportunity*

Brazilian population has three main food patterns: traditional meal, typical Brazilian breakfast, and ultra-processed food. Traditional meal is based on rice, beans, meat, roots and tubers, pasta, vegetable, and eggs. Typical Brazilian breakfast is based on fresh bread, margarine, milk, cheese, and butter. Ultra-processed food is based on food ready-to-eat and soda. Chipotle offers two of the main Brazilians eating patterns: Traditional meal and Ultra-processed food.

In addition, there is no dominant player when compared to the market in the United States:

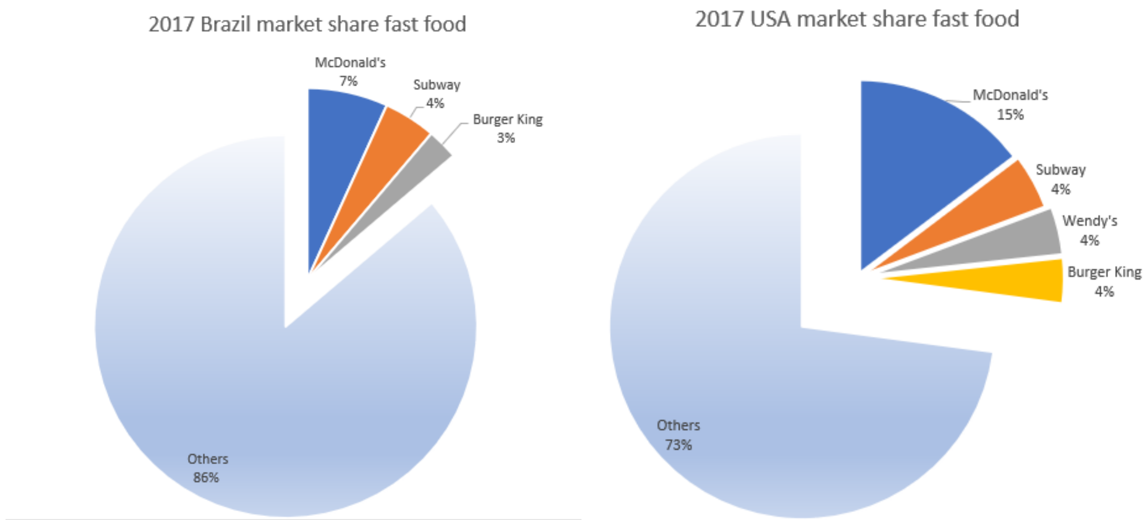



Figure 30 Market share fast food in Brazil compared to United States (Passport, 2018)

McDonald's is more than two times bigger in the United States, as well as Burger King. Chipotle is the perfect fit to achieve the dominance in the Brazilian market share not only by offering the fast and traditional meal to the population, but also because of the client's experience that Chipotle provide to its customers, as a fast casual restaurant, which is the segment with bigger growth in the quick service food industry.

By deciding to enter in Brazil, it is necessary to define one city and understand the potential of growth by checking the competitors. For instance, in Belo Horizonte McDonald's, Burger King, Subway, Bob's, and Giraffa's all together have more than 100 restaurants only in Belo Horizonte. Belo Horizonte is a reference because of the growing fast casual industry there, as checked in the interview in the previous section.

Table 16 Number of restaurants in Belo Horizonte

| Restaurant chain | Number of Restaurants in Belo Horizonte |
| --- | --- |
| McDonald's | 22 |
| Burger King | 15 |
| Subway | 43 |
| Bob's | 19 |
| Giraffa's | 7 |

*Product and Services*

Chipotle works based on the "build your own meal", which is the process of the client passing in front of the food and deciding what he/she wants to have in their meal. Ingredients and cooking pans are readily available.

The development of suppliers and happy employees perhaps are one of the keys of Chipotle's success in the United States and it can represent the same in Brazil. Chipotle is concerned with the farmers, animals, and the ingredients that the restaurants use. Therefore, the firm by will impact environment with best practices concerned with sustainable activities. Another crucial point is to focus on client's experience, Chipotle's customers visit the restaurants because they want to have fast healthy food. Employees should focus on get the food ready fast, it is necessary to create previous trainings that will prepare new workers to provide the best customer experience in the smallest time.

*Overview – Store Atmosphere*

Fast casual restaurants are defined by not only for the healthy food with a better quality in the ingredients, but also by the environment, which means friendly and smart employees and comfortable store. The store should keep the same standard that has in the United States, with the line for orders, trained crew to prepare the food fast, and a music environment. The system used in the United States for the environment will probably work in Brazil considering the young population and similarities in the culture that both countries have. Furthermore, it is easy to state that Brazilians like American music, thus it should keep the same play list for songs. Chipotle operates in similar way on within its international operations already; therefore, keep the same standard in Brazil would be prone to fit.

*Marketing Strategy*

Chipotle’s menu is a normal success for Brazilians who visit the restaurant in the United States. Type of menu products that Chipotle is offering is close to the food preferences of Brazilians. Also, Chipotle’s food is considered healthy, which is another attraction for Brazilians. In the United States, currently Chipotle offers 6 meal options: burrito, bowl, crispy tacos, soft tacos, salad, and kid’s menu. These meals have protein options of beef, chicken, pork, or soybeans; and additional of black or pinto beans, write or brown rice, lettuce, sour cream, green or red sauce, and tomatoes with a price range from $8.00 to $9.00 on average. If the customer wants to have extra meat, it is necessary to pay more $2.00 on average. Normally this type of menu with several variation attracts Brazilians; however, the population has one of the biggest meat consumptions in the world; therefore, menu for Brazilians should have large amount of meat per standard meal.

According to the Passport (2018), in 2017 the average price for a standard unit for salads, happy meals, cheese options, and meat meals were $8 in Brazil. The price expected to be charged by meal in Chipotle would be average for international fast food chains; however, it will be higher than regular local restaurants. Chipotle will need to follow a differentiation strategy to be able to charge higher than locals, the price of a meal in the operation should keep the current range of $6.00 to $9.00 per standard meal.

Meliuz is a marketing intelligence firm that offers cash back to customers and business analyzes. The company holds a data with more than 800 thousand customers registered for cash back offers. Meliuz offer a promotion advertising that notifies all users about cash back in one determined restaurant or store. It can be used by Chipotle as the marketing strategy to start awareness of the new product in the country. Therefore, provide cash back with a partnership with Meliuz is one way to consider investing on advertising. Also, when KFC entered in Belo Horizonte, the first marketing strategy of the firm was to provide cash back promotion with Meliuz.

The investment on marketing and advertising are going to focus on customer loyalty and social media. Besides the investment on advertising with Meliuz, the rest of budget can be used to pay loyalty programs that provide advantages to loyal customers that buy at Chipotle. The loyalty program is the same program that Chipotle already uses in the United States, where for each meal that customers buy at Chipotle, customers receive points to exchange to a new meal. Each dollar of purchase is worth about 12.5 points on average, it depends of each meal bought, and it is necessary to reach 1,250 points to receive a new meal. That motivates the customer consumption and increases the number of people visiting the restaurant.

*Operations*

According to the Chipotle Annual Report & Proxy Statement (2017), about 50% of the number of restaurants in the US located in six main states. The current number of Chipotle's restaurants is 2,467 according to the latest results (2018); however, the division from restaurants per state is still not available. Therefore, the 2017 data were used.

Table 17 Chipotle's operation main states (Chipotle, 2017)

| **State** | **Number of Restaurants** | **% of the Total (2,408 restaurants)** |
|---|---|---|
| California | 408 | 17% |
| Texas | 195 | 8% |
| Ohio | 174 | 7% |
| Florida | 149 | 6% |
| New York | 138 | 6% |
| Illinois | 134 | 6% |

Los Angeles, California; Houston, Texas; and Columbus, Ohio are the three most populated cities for each of these three main states of Table 17. These three main cities are within the 15 biggest cities in the United States, as well as they have three big universities (the University of California, Los Angeles; the University of Houston; and the Ohio State University).

These cities have 65 Chipotle restaurants, according to Chipotle's website: Los Angeles has 20, Houston has 29, and Columbus has 16 restaurants (Chipotle Website, 2019). These 65 restaurants are mainly located in housing areas (low density population area, while building areas are consider for this work as densely populated urban areas) and have peak hours on lunch times (11:00am until 02:00pm).

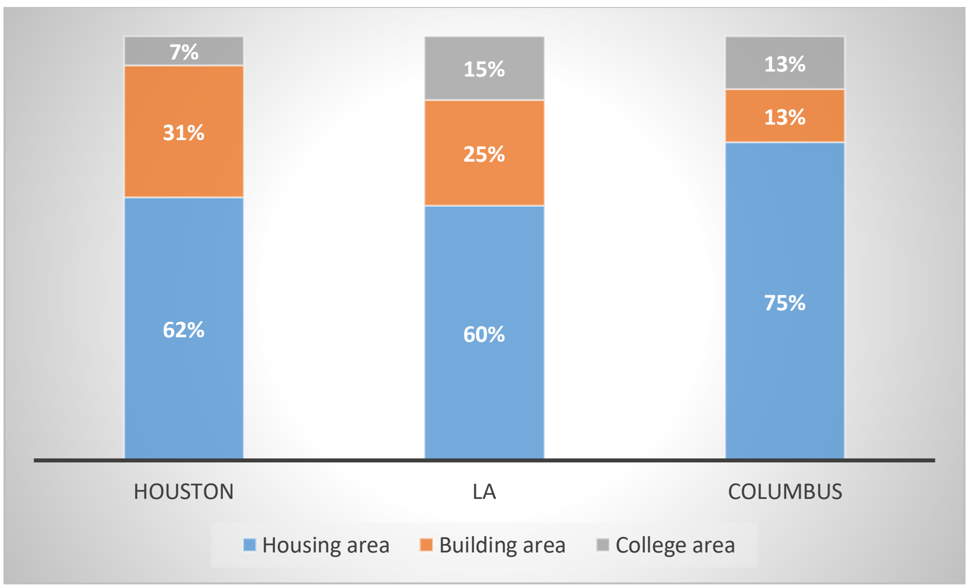



Figure 31 Chipotles restaurants in Houston, Los Angeles, and Columbus

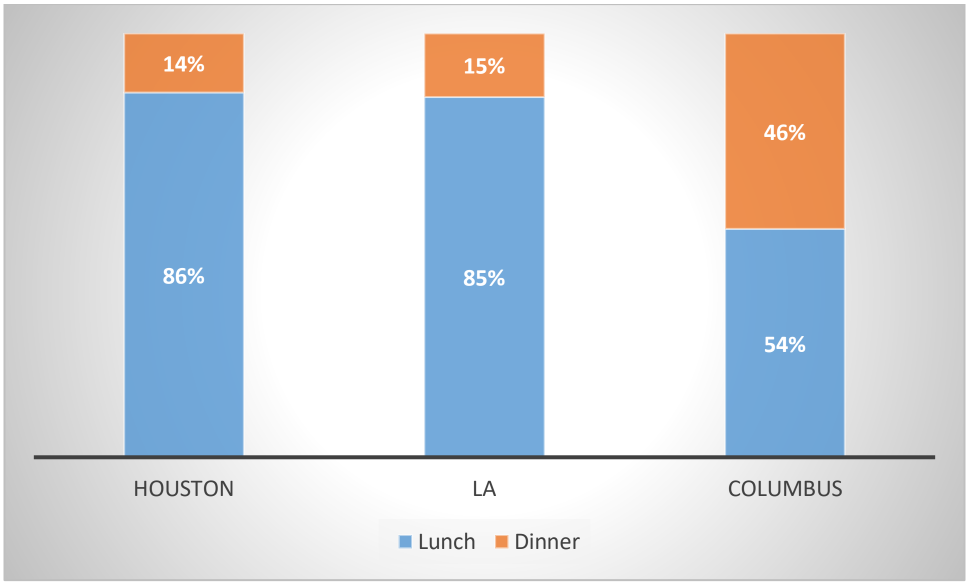



Figure 32 Peak hours in Chipotle's restaurants in Houston, Los Angeles, and Columbus

According to these charts, Chipotle focuses on residential neighborhoods and makes most of their sales during the lunch period. Although Chipotle operates in that way in these three main cities, it is delicate to choose this model to start a restaurant business like that in Brazil. By starting operations in Brazil, it is hard to forecast demand due no brand recognition in the new country. The best fit for Chipotle in this situation would be to start their operation in shopping malls in cities like Belo Horizonte, Rio de Janeiro or Sao Paulo, in that way the demand and increasing the brand's name will happen fast Shopping areas in Belo Horizonte, Rio de Janeiro, and Sao Paulo are mostly located in commercial areas where people around have habit to visit restaurants to have lunch and/or dinner.

Chipotle provides mainly lunch and dinner to its customers and they do not spend a long time in the restaurant. The target during the day are workers and during the night families. It is not a concern the timing for a restaurant located in a shopping area.

By choosing to locate in shopping centers in one main of the capital cities in the Southeast region, the working hours and infrastructure will be adapted according to the shopping. The biggest part of Brazil's population and the biggest share of GDP is Southeast region; therefore, it would represent the best area to start the operations. However, Chipotle will need help of consulting companies or local partners in order to define the management team and the restaurant's staff. Developing local farmers is Chipotle's practices to establishes new business; therefore, focus of the supply chain will be on developing a strong relationship with the suppliers. Dining area in shopping malls will expose the restaurant to high demand of customers. The concentration of people visiting the main shopping in Belo Horizonte are higher than regular streets locations.

Minas Gerais represents 10% to the total Brazil's GDP and it has a strategic position in South East region, in between Brasilia and Sao Paulo and Rio de Janeiro. In fact, Belo Horizonte's metropolitan area has more than 5 million people and several American food chains are present in the city. Therefore, Belo Horizonte is one potential city to receive first Chipotle's restaurant.

According to Chipotle's annual report 10-K (2017), average restaurant's size is 2,500 $ft^2$ (232 $m^2$ for metric system in Brazil), it is possible to find places to rent in shopping areas with this configuration; however, it is necessary to build adaptations inside the place to make a new Chipotle restaurant. For places with 2,500 $ft^2$ and for this type of buildings/reform normally takes 3 months after hiring the contractor.

It takes three months on average from the start of the hiring process until the restaurant is ready to open. The basic assumptions for this statement were: three weeks to find construction companies, receive budget, and set the deal. Six weeks to renew floor, wall, celling, and hydrology design. Three weeks to set up the place in the final restaurant. Meanwhile these weeks it is possible to proceed with the registration process to start a new business. Within the first week it will be necessary to send one person to delivery all files to open the new business according to the federal, state, and city's law. The process of registration will take also three months. The costs considered as upfront are: Extraordinary Equipment costs and Regulations and Taxes. The first one refers to equipment that will be used for the operations, such as cooking pane or commercial fridges. The second one involves taxes, regulations, and the building/reform in the restaurant spot. These costs are upfront, because without that it is impossible to run a restaurant; thus, only necessary items were considered in these two categories. In addition, the sales force and advertising will be used once in a month according to the schedule prepared.

Restaurant crew is divided in the table below:

| | # people | 1-Jan | 1-Feb | 1-Mar | 1-Apr | 1-May | 1-Jun | 1-Jul | 1-Aug | 1-Sep | 1-Oct | 1-Nov | 1-Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Crew member | 6 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 | $ 338 |
| Crew member cash | 3 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 |
| Cook crew membe | 6 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 | $ 372 |
| Service Manager | 2 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 |
| Kitchen Manager | 2 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 | $ 486 |
| Restaurant Manage | 1 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 | $ 608 |
| | 20 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 | $2,662 |

Figure 33 Labor cost by employees' position

| Laws enforcement: All employees | 1-Jan | 1-Feb | 1-Mar | 1-Apr | 1-May | 1-Jun | 1-Jul | 1-Aug | 1-Sep | 1-Oct | 1-Nov | 1-Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Tax FGTS | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 | $ 32 |
| 13 salary | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 |
| Vacation (1 month payment) | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 |
| 1/3 Vacation (bonus for vacation) | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 | $ 11 |
| FGTS on vacation | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 |
| FGTS on 13 salary | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 |
| Fee firing employee (provision) | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 | $ 33 |
| FGTS on fee for firing (provision) | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 | $ 3 |
| Fee FGTS (provision) | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 | $ 16 |

Figure 34 Tax payments for having employees in Brazil

| | # people | Total Wage | Total Fees | Total |
|---|---|---|---|---|
| Crew member | 6 | $ 24,324 | $ 16,092 | $ 40,417 |
| Crew member cashier | 3 | $ 13,378 | $ 8,046 | $ 21,425 |
| Cook crew member | 6 | $ 26,757 | $ 16,092 | $ 42,849 |
| Service Manager | 2 | $ 11,676 | $ 5,364 | $ 17,040 |
| Kitchen Manager | 2 | $ 11,676 | $ 5,364 | $ 17,040 |
| Restaurant Manager | 1 | $ 7,297 | $ 2,682 | $ 9,979 |
| | 20 | $ 95,108 | $ 53,641 | $ 148,749 |

Figure 35 Wage value and tax value in total

According to Chipotle's results, the number of people in the crew is on average 22 people, by following Chipotle's operation, the crew in the new restaurant is defined as 20 people. Law enforcements obligate employers to pay about 36% of the total or 56% extra of the base salaries for cover legal taxes, which is considered by the government as a protection to the worker. All these values of base payment were calculated based on Burger King and McDonald's salaries. Chipotle in the United States pays relatively higher salary than Burger King and McDonald's in order to build better crews. The base salary from Burger King and McDonald's for the same class employees were collected by https://www.lovemondays.com.br/.

The career in the company will be based on internal and external feedbacks, as well as the performance of the restaurant that the employee is allocated. The idea is to develop the employees to make them work happy. Employees also will have the right to eat one meal per shift that they work, which means one product of their choice, burrito, bowl, taco, etc. That costs for the firm about \$ 2.19 per meal, or \$ 48.23 per day, assuming that all employees will take this advantage and eat one meal every day.

It is expected to clients to spend on average 10 to 30 minutes at the restaurant. The clients will understand Chipotle as a fast food restaurant that provide healthy valuable food. The same length of time will be expected to Brazil, because the public that is expected to target in Brazil is similar to the target that Chipotle has in the United States.

The supply chain is the division of taking care of products to supply the restaurant. Each ingredient has expiration date and the restaurant has limited space for storage; therefore, the number that is the lowest in both is considered to make a new order of the item. The logistic plan forecast on days all products in the restaurant. Considering that the restaurant will be able to store about 1,000 Kg of products.

| | Expires after cooked/opened | Expires closed package | Freezer | Days | Daily use | Storage | Unit | Charge Use | Charge Expiration | Min time to Charge |
|---|---|---|---|---|---|---|---|---|---|---|
| Cheese | 1 | 30 | 240 | Days | 40 | 100 | Kg | 2 | 1 | 1 |
| GENUINE QUESO | 1 | 30 | 240 | Days | 10 | 25 | Kg | 3 | 1 | 1 |
| Guacamole | 1 | 120 | N/A | Days | 10 | 25 | Kg | 3 | 1 | 1 |
| Meat | 4 | 4 | 90 | Days | 55 | 100 | Kg | 2 | 4 | 2 |
| Sour cream | 4 | 14 | N/A | Days | 41 | 80 | Kg | 2 | 4 | 2 |
| Fajita vegetables | 5 | 14 | 240 | Days | 23 | 50 | Kg | 2 | 5 | 2 |
| Rice | 7 | N/A | N/A | Days | 41 | 120 | Kg | 3 | 7 | 3 |
| Beans | 5 | N/A | N/A | Days | 41 | 120 | Kg | 3 | 5 | 3 |
| Salsa, tomato | 7 | 30 | N/A | Days | 22 | 80 | Kg | 4 | 7 | 4 |
| Salsa, tomatillo-red chili | 7 | 30 | N/A | Days | 22 | 80 | Kg | 4 | 7 | 4 |
| Salsa, roasted Chili-corn | 7 | 30 | N/A | Days | 22 | 80 | Kg | 4 | 7 | 4 |
| Lettuce Romaine Lettuce | 5 | 10 | N/A | Days | 6 | 25 | Kg | 4 | 5 | 4 |
| Salsa, tomatillo green chili | 7 | 30 | N/A | Days | 18 | 80 | Kg | 4 | 7 | 4 |
| Taco Tortilla | 7 | 21 | 180 | Days | 79 | 500 | piece | 6 | 7 | 6 |
| Tortilla burrito | 7 | 21 | 180 | Days | 148 | 1,000 | piece | 7 | 7 | 7 |
| Chips | 60 | N/A | N/A | Days | 10 | 100 | piece | 10 | 60 | 10 |
| Drinks | N/A | 270 | N/A | Days | 10 | 100 | Liters | 10 | N/A | 10 |
| Packing products | N/A | N/A | N/A | Days | 492 | 6,750 | piece | 14 | N/A | 14 |

Figure 36 Logistic plan

Figure 36 was developed by checking deadlines for products that Chipotle offers, also considering raw ingredients. This table provided an idea of how the product cycle is going to work and it helps to create a logistic plan. It will be necessary to program daily trucks to deal with products like cheese, queso, and guacamole.

Standard the operations in almost all points, but the flavor of the food and minor other adaptations. Flavor will fit better once it adapts because operation's target is to achieve local customers and similar flavors are going to increase the chances of success. Chipotle's operation is predicted to keep in the same process as in the United States. Three main variables are fast food provided, happy employees, and fresh food. It is necessary to keep similar quality and the main focus of the partner and Chipotle representants in the new operation must be people preparation to serve other fast and provide a happy experience. Also, the managers must understand and control customer's feedback with IT systems, in that way Chipotle will be recognized in the market for the same reason and the quality will remain the same. Chipotle cares about the clients experience and the company invest on its staff to reach the best level of satisfaction. In Brazil it must be replicated, the customer satisfaction and competitive price are the main focus on Chipotle's operation, the customer must leave satisfied with the service and with all employees that served the food.

Addressing problems will require someone from Chipotle supervising the operation and feedbacks. It is necessary to dedicate time and effort of one Chipotle staff to guarantee the quality control and make sure that problems will be addressed on time. Solving problems addressed is based on communication and discussions between the two parts, Chipotle and its partners.

### *Financial Plan*

Foodservice in Brazil is the representation of the establishments that offer food as product to clients. Although the foodservice's sales grew only 6.5% in 2017, the sector has been growing 13% on average in the past 10 years (ABIA, 2019). It is reasonable to benchmark a beginning growth of 6.5% on sales on the first 2 years, like the average in the market. However, it probably will improve considering the past performance and the GDP growth of the country positive provisions, which is the expected for the next years according to the IMF (2018).

Burger King will be used as the benchmark for the financial projections as the company is relatively new, opening its first restaurant in the country in 2004:

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Burger King | | | | |
| | | Income Statement | | | | |
| | | for Jan 01, 2017 Ended Dec 31, 2017 | | | | |
| | R$ | 3.71 | $ | 1.00 | Total of 697 Restaurants | |
| | | 2017 | | 2017 | One Restaurant | |
| Sales | R$ | 1,932,800,000 | $ | 520,970,350 | $ | 747,447 |
| Deductions | R$ | (148,900,000) | $ | (40,134,771) | $ | (57,582) |
| Cost of good sold | R$ | (687,900,000) | $ | (185,417,790) | $ | (266,023) |
| Gross Margin | R$ | 1,096,000,000 | $ | 295,417,790 | $ | 423,842 |
| Operating Expenses | | | | | | |
| Sales Expenses | R$ | (935,200,000) | $ | (252,075,472) | $ | (361,658) |
| Administration Expenses | R$ | (95,500,000) | $ | (25,741,240) | $ | (36,931) |
| Net Income from Operation | R$ | 65,300,000 | $ | 17,601,078 | $ | 25,253 |
| Financing account | | | | | | |
| Interest Expenses | R$ | (84,700,000) | $ | (22,830,189) | $ | (32,755) |
| Interest Revenue | R$ | 28,400,000 | $ | 7,654,987 | $ | 10,983 |
| Total financing account | R$ | (56,300,000) | $ | (15,175,202) | $ | (21,772) |
| Income before tax | R$ | 9,000,000 | $ | 2,425,876 | $ | 3,480 |
| Deferred tax | R$ | (5,200,000) | $ | (1,401,617) | $ | (2,011) |
| Net income | R$ | 3,800,000 | $ | 1,024,259 | $ | 1,470 |

Figure 37 Burger King's results for 2017 (Burger King, 2018)

| Considering all expenditures and investment | | | |
|---|---|---|---|
| | | | % of the Revenue |
| Sales | | $ 885,600 | |
| Cost of Good Sold | | 323,583 | 37% |
| Gross Margin | | 562,017 | |
| | | | |
| Operating Expenses | | | |
| Rent and Utilities Expense | 64,504 | | |
| Sales force and Administration Expense | 88,560 | | |
| Building and IT Expenses | 23,430 | | |
| Labor Expense | 151,064 | | |
| Total Operating costs | (327,558) | | 37% |
| Net Income from Operation | | 234,459 | |
| | | | |
| Other Revenue & (Expense) | | | |
| Regulations and Taxes | (3,153) | | |
| Supply Chain | (5,595) | | |
| Extraordinary Equipment | (48,498) | | |
| Total Other | (57,246) | | 6% |
| **Income Before Taxes** | | 177,213 | |
| | | | |
| Taxes | | | |
| Federal Tax on Income 15% | (35,169) | | |
| Total taxes | (35,169) | | 4% |
| | | | |
| Net Income for the first year | | $ 142,044 | |

Figure 38 Chipotle costs and revenue, provision for the first year operating in Brazil

Assumptions: Sales: 410 bowls/burritos per day. 360 working days in the first year. Average ticket $ 6 or R$ 22.20. Daily Ticket Burger King 410, considering 365 days, $5.00 average ticket price ($5.00 is lower than regular price; however, Burger King 2017 operation spent more in promotion with aggressive campaigns; therefore, lower average ticket price. Average price would be in the range of $6.00 to $9.00 in regular years). Estimated about 10% of the sales will be considered as bad food for forecast; thus, this will be considered as loss for sales.

Table 18 Table of assumptions for market growth and calculation of present value

| | |
|---|---|
| Sales are from 1 restaurant | |
| Annual growth (in sales and ALL costs) | 0.065 |
| JV partner gets 20% of sales | 0.2 |
| Use CAPM to get discount rate: | |
| risk free rate in Brazil | 0.09 |
| Return on the market in Brazil | 0.1 |
| beta of Burger King in Brazil?? | 1 |
| Discount rate: r = rf + b(rm -rf) | 0.1 |

First year is for adaptation period of new operation, afterwards staff and suppliers will probably be working together providing positive results with any adaptation necessary worked out. First in Belo Horizonte, the city has 22 McDonald's and 15 Burger Kings, and both are growing. The city has capacity to receive fast casual restaurants and Chipotle can achieve at least half of Burger King in the next 5 years (7 restaurants). From the second to third year, Sao Paulo and Rio de Janeiro look attractive cities with high population and attractive income per capita. Growth to Sao Paulo and Rio de Janeiro are essential in order to keep developing the brand in the country. However, it is necessary to understand the market and make sure that the operation for the first city is working well before moving to another city, for example: Wendy's is still working with only 3 restaurants in Sao Paulo even after more than 2 years.


Figure 39 Expansion plan for 5 years operation

| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | 885,600 | 3,599,964 | 7,376,362 | 11,398,225 | 14,795,910 | 15,757,644 | 16,781,891 | 17,872,714 | 19,034,440 | 20,271,679 | 21,589,338 |
| Cost of Goods Sold | 323,583 | 1,195,787 | 2,443,516 | 3,765,262 | 4,873,622 | 5,175,114 | 5,494,819 | 5,833,802 | 6,193,180 | 6,574,137 | 6,977,919 |
| Rent and Utilities Expense | 64,504 | 262,210 | 537,272 | 830,212 | 1,077,689 | 1,147,739 | 1,222,342 | 1,301,794 | 1,386,410 | 1,476,527 | 1,572,501 |
| Selling, General and Administrative Expenses | 88,560 | 359,996 | 737,636 | 1,139,823 | 1,479,591 | 1,575,764 | 1,678,189 | 1,787,271 | 1,903,444 | 2,027,168 | 2,158,934 |
| Building and IT Expenses | 23,430 | 95,242 | 195,152 | 301,556 | 391,446 | 416,890 | 443,988 | 472,847 | 503,582 | 536,315 | 571,176 |
| Labor Expense | 151,064 | 614,075 | 1,258,246 | 1,944,287 | 2,523,858 | 2,687,909 | 2,862,623 | 3,048,693 | 3,246,858 | 3,457,904 | 3,682,668 |
| Supply Chain | 5,595 | 22,743 | 46,601 | 72,009 | 93,474 | 99,550 | 106,021 | 112,912 | 120,251 | 128,068 | 136,392 |
| Extraordinary Equipment | 48,498 | 197,146 | 403,954 | 624,205 | 810,274 | 862,941 | 919,033 | 978,770 | 1,042,390 | 1,110,145 | 1,182,305 |
| Regulations and Taxes | 3,153 | 12,816 | 26,259 | 40,577 | 52,672 | 56,096 | 59,742 | 63,626 | 67,761 | 72,166 | 76,857 |
| JV partner | 177,120 | 719,993 | 1,475,272 | 2,279,645 | 2,959,182 | 3,151,529 | 3,356,378 | 3,574,543 | 3,806,888 | 4,054,336 | 4,317,868 |
| Depreciation | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 |
| Income Before Taxes | -33,241 | 86,622 | 219,121 | 367,316 | 500,769 | 550,779 | 605,423 | 665,123 | 730,341 | 801,580 | 879,386 |
| Federal Tax on Income 15% | -4,986 | 12,993 | 32,868 | 55,097 | 75,115 | 82,617 | 90,813 | 99,768 | 109,551 | 120,237 | 131,908 |
| Net Income | -28,255 | 73,629 | 186,252 | 312,219 | 425,653 | 468,162 | 514,609 | 565,355 | 620,790 | 681,343 | 747,478 |
| | | | | | | | | | | | |
| Add back depreciation | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 | 33,333 |
| Cash flow | 5,079 | 106,962 | 219,586 | 345,552 | 458,987 | 501,495 | 547,943 | 598,688 | 654,123 | 714,676 | 780,811 |
| | | | | | | | | | | | |
| Initial cost to open the 1 restaurant | 1,000,000 | | | | | | | | | | |
| Discounted cash flows | | 97,238 | 181,476 | 259,618 | 313,494 | 311,389 | 309,299 | 307,222 | 305,153 | 303,092 | 301,037 |
| | | | | | | | | | | | |
| NPV | 1,689,019 | | | | | | | | | | |

Figure 40 Provision for 10 years to calculate the Net Present Value (NPV)

In order to calculate the Net Present Value (NPV), the assumptions were used as well as the restaurants growth provision, that Figure 39 depicts. Assuming high growth and expansion during the first 5 years, then working on internal process not focused on growth in number of restaurants.

Cost of Goods Sold: Considering supermarket and central warehouses prices for ingredients and quantity was calculated according to the demand, for example:

| Bowl | | average weight Kg 0.815 | 35% | |
|---|---|---|---|---|
| | Rice | arroz | 0.1 | kg per order |
| | Beans | feijao | 0.1 | kg per order |
| | Fajita vegetables | vegetais | 0.05 | kg per order |
| | Meat | carne | 0.15 | kg per order |
| | Salsa, tomato | tomate | 0.05 | kg per order |
| | Salsa, tomatillo-red chili | molho picante | 0.05 | kg per order |
| | Salsa, tomatillo green chili | molho verde | 0.05 | kg per order |
| | Salsa, roasted Chili-corn | milho | 0.05 | kg per order |
| | Cheese | queijo | 0.1 | kg per order |
| | Sour cream | crème de leite | 0.1 | kg per order |
| | Lettuce Romaine Lettuce | Alface | 0.015 | kg per order |
| | Packing products | Producto de empacotamento | 1 | per order |

Figure 41 Example of one meal's ingredients

| Bowl | 0.82 Kg | R$ 3.92 / unit | 93,763 | R$ 367,782 | $ 99,400.50 |
|---|---|---|---|---|---|
| | $ 0.04 | R$ 0.14 / unit | 5,166 units | R$ 713 | $ 192.68 |
| | $ 0.11 | R$ 0.40 / unit | 5,166 units | R$ 2,066 | $ 558.49 |
| | $ 0.00 | R$ 0.01 / unit | 2,583 units | R$ 26 | $ 6.98 |
| | $ 0.28 | R$ 1.03 / unit | 7,749 units | R$ 7,999 | $ 2,161.97 |
| | $ 0.00 | R$ 0.01 / unit | 2,583 units | R$ 34 | $ 9.08 |
| | $ 0.01 | R$ 0.05 / unit | 2,583 units | R$ 116 | $ 31.41 |
| | $ 0.02 | R$ 0.06 / unit | 2,583 units | R$ 155 | $ 41.89 |
| | $ 0.00 | R$ 0.01 / unit | 2,583 units | R$ 17 | $ 4.54 |
| | $ 0.39 | R$ 1.46 / unit | 5,166 units | R$ 7,522 | $ 2,032.89 |
| | $ 0.20 | R$ 0.73 / unit | 5,166 units | R$ 3,754 | $ 1,014.58 |
| | $ 0.00 | R$ 0.02 / unit | 775 units | R$ 12 | $ 3.14 |
| | $ 0.01 | R$ 0.02 / unit | 51,660 units | R$ 1,033 | $ 279.24 |

Figure 42 Example of one meal's ingredients Continued

Rent and Utilities: Average renting price for shopping considering a restaurant of 2,500 $ft^2$, it represents 7.3% of the revenue.

| Location | R$ 238,666 | $ 64,504 | Shopping | | | |
|---|---|---|---|---|---|---|
| 7.3% Rent | | | Aluguel | ft2 to m2 | 2,500 | 232 |
| Utilities | | | Contras de luz e agua | Monthly payment | | |

Figure 43 Rent and Utilities information

Sales Force and Administration: Considering 10% of sales investing on sales force and administration.

Building and IT: Small reforms to prepare restaurant - 3 months on average. Implementation of Chipotle system (online orders and others). Part paid only in the first year to start the business. Prices were found by searching companies' contractors on https://www.habitissimo.com.br/ to reform/building and others installations. The internet, phone, and similar were collected on https://assine.vivo.com.br/.

Labor: Costs with people - hiring, legal laws, and training (the labor cost is explained above in the operation section).

Regulation and Taxes: Regulations and permits fees. Paid only in the first year to start the business. Estimation of 3 months for the whole process - timing including the restaurant reform meanwhile follow the legal process.

Supply Chain: Logistics costs by weight based on total amount of sales.

Extraordinary Equipment: Costs to buy assets for the restaurant. Paid only in the first year to start the business. The list of equipment was mainly found on https://www.americanas.com.br/.

Tax: First year estimated tax considering all costs included on the income statement.

It will be required down payments for items such as regulation and equipment and other costs will be paid in bigger amounts at the beginning but decreasing throughout the year.

| Cash back forecast | | | | |
|---|---|---|---|---|
| 100% Cash back | 1/1/2020 | $ | 2,381 | Jan-20 |
| 100% Cash back | 2/1/2020 | $ | 2,381 | Feb-20 |
| 100% Cash back | 3/1/2020 | $ | 2,381 | Mar-20 |
| Sub Total | | $ | 7,142 | |
| 50% Cash back | 4/1/2020 | $ | 1,190 | Apr-20 |
| 50% Cash back | 5/1/2020 | $ | 1,190 | May-20 |
| 50% Cash back | 6/1/2020 | $ | 1,190 | Jun-20 |
| Sub Total | | $ | 3,571 | |
| 25% Cash back | 7/1/2020 | $ | 595 | Jul-20 |
| 25% Cash back | 8/1/2020 | $ | 595 | Aug-20 |
| 25% Cash back | 9/1/2020 | $ | 595 | Sep-20 |
| Sub Total | | $ | 1,785 | |
| 10% Cash back | 10/1/2020 | $ | 238 | Oct-20 |
| 10% Cash back | 11/1/2020 | $ | 238 | Nov-20 |
| 10% Cash back | 12/1/2020 | $ | 238 | Dec-20 |
| Sub total | | $ | 714 | |
| Sub total All | | $ | 13,213 | |
| Company fee | 3% | $ | 396 | |
| | Total | $ | 13,609 | |

Figure 44 Provision of expenditures with sales for 2020

The SG&A has budget to afford this $ 13,609 in the year:

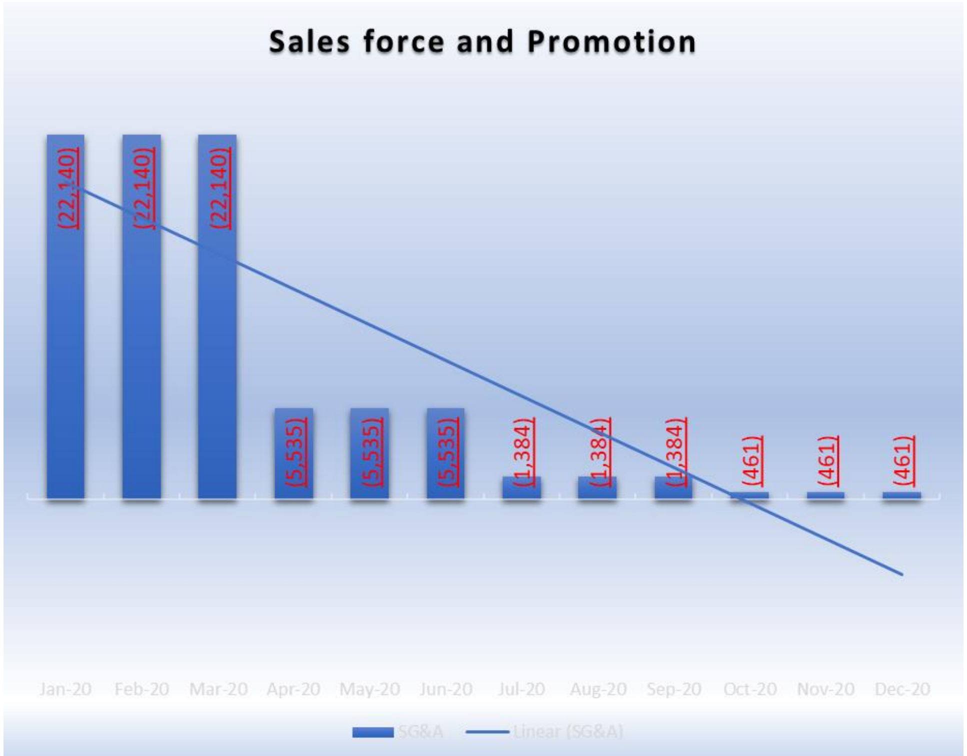



Figure 45 Budget for expenditures with sales force and promotion

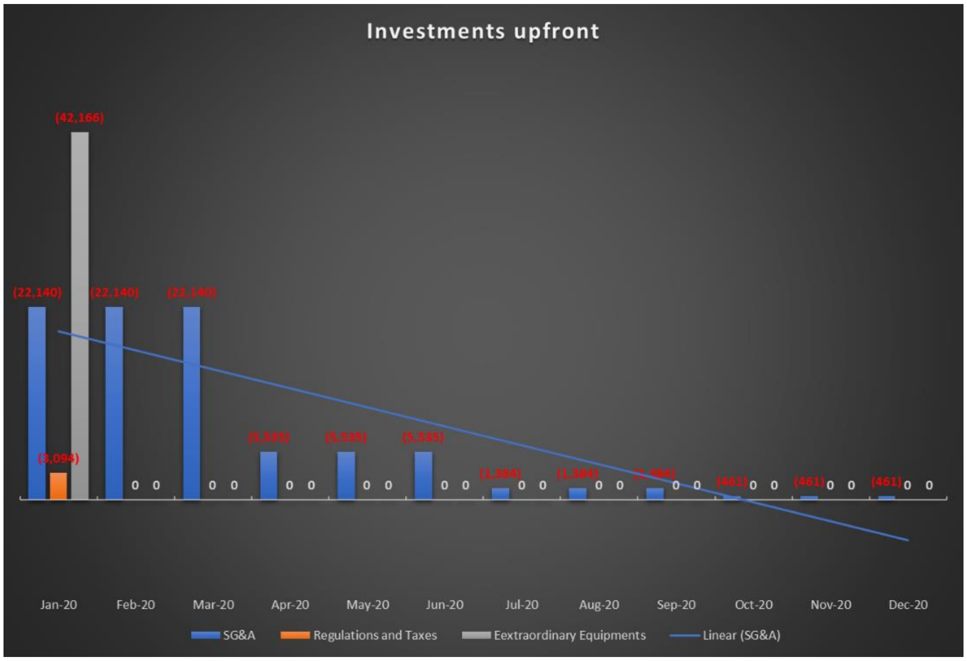



Figure 46 Investments paid before and at the beginning of the business

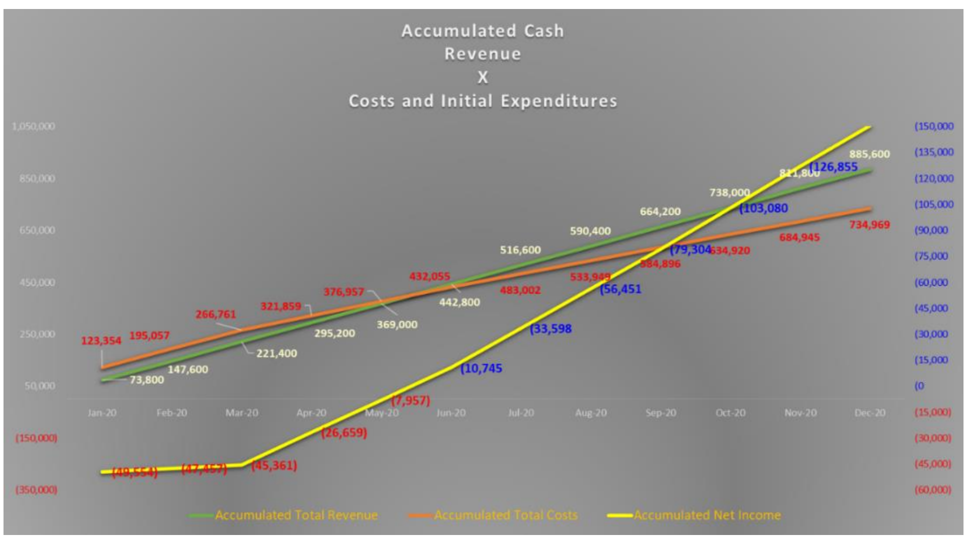



Figure 47 Revenue, costs, and profit throughout the first year

Future Forecast for the next 5 years after starting operations in the country:

Assuming that the restaurant can growth 8% on sales yearly as well as cost of goods sold, growth of 10% on rent 5% sales force and administration costs, and 10% to labor costs.

Local restaurants will try to copy the business model by serving the same food for a cheaper price. However, it should not be a concern because what Chipotle offers is not only the good food, but also the experience of being served in a good environment that will provide happiness to clients. The product itself can be copied, but the employees training routine, career path to improve employee's motivation, and strong ties with suppliers are not easy to copy.

The client's experience and the ties with suppliers are going to define the competitive advantage for Chipotle in the quick service food in Brazil. Chipotle became successful in the United States because of the excellent service and fresh tasty food, this is the main factor that will provide differentiation to Chipotle in Brazil.

Throughout the years, the turnover is expected to decrease gradually that is because the company needs time to find fit employees that will be happy working for the company. Burger King, for example, had turnover decreasing since 2014 until 2017: in 2014 it was 102%; 2015 it was 67%; 2016 it was 64%; and 2017 it was 42% respectively. However, Chipotle has a different business model and the turnover also will be different due the investment that the firm will make with its employees. Thus, the turn over expected in the first years can be half of Burger King's turnover (51% for the first year and so on).

Working the internal environment and career opportunities will keep employees happy and provide good customer experience for Chipotle's clients. Brazilians work a regular base of 48 hours weekly in the food service industry. For Chipotle, the employees will work on 2 daily shifts to provide then a better work space and less working hours, about 36 to 42 hours weekly per person.

### *Contingency Analysis*

The contingency analysis will evaluate eight different scenarios considering sales and volume. The initial price and volume of sales were $ 6.00 per meal and 410 meals in one day, this is considered as base scenario. As Chipotle is a new operation the risk level considers of the business environment in the first year is set up as 40%, in other words, the price changing 40% lower and above the $ 6.00 base and the volume also varying from 60% to 140% of 410 meals in one day.

| Scenario | Extremely negative | Negative Price | pessimist | Negative Volume | Base | Positive Volume | Optimistic | Positive Price | Extremely negative |
|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | | 5 | 6 | 7 | 8 |
| Price | - | - | - | = | = | = | + | + | + |
| Volume | - | = | + | - | = | + | - | = | + |
| Explanation | Price and volume lower than budget | Price lower, but volume equals budget | Price lower, but volume higher than budget | Price equals, but volume lower than budget | Both price and volume equal budget | Price equals, but volume higher than budget | Price higher, but volume lower than budget | Price higher, but volume equals budget | Price and volume higher than budget |
| Price | $ 3.60 | $ 3.60 | $ 3.60 | $ 6.00 | $ 6.00 | $ 6.00 | $ 8.40 | $ 8.40 | $ 8.40 |
| Volume | 246 | 410 | 574 | 246 | 410 | 574 | 246 | 410 | 574 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sales | $ 318,816 | $ 531,360 | $ 743,904 | $ 531,360 | $ 885,600 | $ 1,239,840 | $ 743,904 | $ 1,239,840 | $ 1,735,776 |
| Cost of Good Sold | 194,150 | 323,583 | 453,017 | 194,150 | 323,583 | 453,017 | 194,150 | 323,583 | 453,017 |
| Gross Margin | 124,666 | 207,777 | 290,887 | 337,210 | 562,017 | 786,823 | 743,904 | 1,239,840 | 1,735,776 |
| Operating Expenses | | | | | | | | | |
| Rent and Utilities Expense | 64,504 | 64,504 | 64,504 | 64,504 | 64,504 | 64,504 | 64,504 | 64,504 | 64,504 |
| Sales force and Administration Expense | 31,882 | 53,136 | 74,390 | 53,136 | 88,560 | 123,984 | 74,390 | 123,984 | 173,578 |
| Building and IT Expenses | 23,430 | 23,430 | 23,430 | 23,430 | 23,430 | 23,430 | 23,430 | 23,430 | 23,430 |
| Labor Expense | 151,064 | 151,064 | 151,064 | 151,064 | 151,064 | 151,064 | 151,064 | 151,064 | 151,064 |
| Total Operating costs | (270,880) | (292,134) | (313,389) | (292,134) | (327,558) | (362,982) | (313,389) | (362,982) | (412,576) |
| Net Income from Operation | (146,214) | (84,357) | (22,501) | 45,076 | 234,459 | 423,841 | 430,515 | 876,858 | 1,323,200 |
| Other Revue & (Expense) | | | | | | | | | |
| Regulations and Taxes | (3,153) | (3,153) | (3,153) | (3,153) | (3,153) | (3,153) | (3,153) | (3,153) | (3,153) |
| Supply Chain | (3,357) | (5,595) | (7,833) | (3,357) | (5,595) | (7,833) | (3,357) | (5,595) | (7,833) |
| Extraordinary Equipment | (23,967) | (35,413) | (46,859) | (31,818) | (48,498) | (65,179) | (39,670) | (61,584) | (83,498) |
| Total Other | (30,476) | (44,160) | (57,844) | (38,328) | (57,246) | (76,164) | (46,179) | (70,332) | (94,484) |
| **Income Before Taxes** | (176,690) | (128,518) | (80,345) | 6,748 | 177,213 | 347,677 | 384,336 | 806,526 | 1,228,716 |
| Taxes | | | | | | | | | |
| Federal Tax on Income 15% | - | - | - | (6,761) | (35,169) | (63,576) | (35,455) | (82,991) | (130,528) |
| Total taxes | - | - | - | (6,761) | (35,169) | (63,576) | (35,455) | (82,991) | (130,528) |
| Net Income for the first year | $ (176,690) | $ (128,518) | $ (80,345) | $ (13) | $ 142,044 | $ 284,101 | $ 348,881 | $ 723,535 | $ 1,098,189 |

Figure 48 Contingency analysis

Each scenario has a different configuration of decisions and actions plans to take place throughout the year, in order to avoid scenario one, two, and three. There are several reasons that can justify scenarios one, two, or three happening: for example, competitors started offering similar Chipotle's meals with more affordable price. Such a situation would require action that would imply differentiating Chipotle's product, by investing on improving the clients experience in the restaurant and take advantage of technology that Chipotle already has in the United States and bring to Brazil. For example: invest on Chipotle's app Brazilian version.

## Economic Impact And Potential Healthy Influence

There are several impacts on the economy with internationalization of companies. First, it will increase the external investment in the country, it will open new jobs for local community, it will bring new process and know-how for the industry, it will increase the demand for primary products, third-party contracts such as cleaners and maintenance, and several other trade-offs.

This type of operation has a positive impact for the local community and customers because offer increases and competition increase; therefore, the customer enjoy the benefits of the high level of competitions. Chipotle operates with more than 2,000 outlets in the United States, in contrast for comparison, Subway Brazil operates 1988 restaurants in the country. If fast casual companies would have similar growth in Brazil, the chains would generate several new jobs positions for the Brazilian population.

According to Burger King results released (2017), the company holds 10,722 jobs positions, not including the outsourcing positions. This represents about 17 employees per restaurant, which is relatively lower average comparing to Chipotle with an average of 22 workers per restaurant. Therefore, starting the operation is going to generate jobs and it will bring a positive impact for Brazilian economy.

In the United States, studies and academic researchers are showing that the fast casual is improving the health of the population around the restaurants. For example, for a poor neighborhood with a Mexican restaurant the likelihood of excessive weight gain among American mothers is 8% lower (Giuntella, 2018). The study shows the connection between proximity with fast casual Mexican restaurants and reduced excessive weight gain during pregnancy period, which is related to long-term obesity. With this positive effect on the United States, it is possible to infer that the fast casual chains would add value for the healthy in Brazil too.

In the interview with one of the entrepreneurs of a fast casual chain in Belo Horizonte Eduardo Fonseca, founder of Pomar Fresh Food, he claimed that to provide happiness and a better day to Pomar's clients is a part of the mission of his restaurants. The healthy restaurants are growing fast in metropolitan areas in the south east, also he believes that his restaurant will bring positive impact for the society in the future, not only providing fresh and healthier food, but also doing fair trade with local farmer suppliers.

# CHAPTER 7: CONCLUSION

Considering the analysis, there is room not only for Chipotle, but also for other fast casual firms in Brazil. According to the founder of Pomar, Eduardo Fonseca, demand for the fast casual industry exists and it is growing. Although, the country has just elected a new president as commented in the marketing assessment, which increase political risks and uncertainty in the future, the country has been considered as a democracy and the level of political freedom is good. The main risk for the fast casual chain by executing this operation is to manage adaptations on operations to the new customer. These adaptations will require Chipotle's attention to understand how the client react to its product, which in the basic concept already matches with Brazilian's eating habits. Also, the competition is fragmented composed mainly for small players that are substitutes for Chipotle's products, if the internationalization happens, it will be necessary to capture the market by offering a distinct experience to its customer. The provision for Chipotle's internationalization is positive, even considering the risks and the contingency analysis.

This thesis strives to assess fast casual chains from United States internationalizing their operation to Brazil. Understand the market in distinct factors, such as economic, legal, cultural, and competitive, and study the impact that this internationalization can have in the country.

Brazil's population is facing a period of economic growth with positive forecasts for 2018 and future, according to the IMF (2018). The population already has an income per capita higher than $14,000 yearly, according to the World Bank (2018). The country has several processes and bureaucracy to open a new business, taking about 90 days to start one new business in the country. The culture looks similar and the eating habits are favorable to Chipotle's menu, Brazilians eat high quantity of rice, beans, meat, and salad every day. According to Eduardo, fast casual entrepreneur in Belo Horizonte, Brazil still does not have an established fast casual chain; moreover, there is no study about such a chain operating in the country, that means that Brazil is a potential market for the new fast casual product.

Chipotle is well established in the United States and the company has several positive impacts for the population. Promoting local farmers, generating jobs, and providing fresh food the firm impacts the country in a positive way. Bringing Chipotle to Brazil would be positive in several ways for Brazil. The internationalization represents a positive economic impact by generating new jobs for the population, fair trade to suppliers and a healthy impact for the eating habits of Brazilians.

In conclusion, Brazil is a potential market to receive fast casual restaurants like Chipotle. As mention above, joint venture model would follow the example of another American corporations operating in the country, American competitors used this process to internationalize their operation to Brazil and it worked. There are several impacts that this operation can bring, but the focus of this work was to understand better the impact that fast casual companies have in the United States and forecast the potential similarities in Brazil, such as economic and healthy impacts.

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# APPENDIX

Interviews: POMAR restaurant in Belo Horizonte, MG, Brazil.

Owner's name: Eduardo Aladim Fonseca

## Interview Questions

Understand the industry

How big is the demand, in terms of average meal sold per year?

*About 50 Kg salad daily or 1.5 tones salad monthly / 175 ticket sales/ restaurant * daily*

With who you are competing directly?

*Two main competitors Green Station (RJ, ES, MG) (franchising) and Horta 31(local player) work mainly with salad in a build your bowl by yourself*

With who you are competing indirectly (similar products)?

*All restaurants – quick service or full service*

*There is no national reference in the fast casual industry*

Understand the company and the customer/product

How is the profile of your customers you?

*Each restaurant has the specific profile*

*60% to 70% of the customer are women within 25 to 30 years old*

*Up to 40 years old*

*Young professionals that work around the restaurant*

What type of food your restaurant offers (rice, beans, chicken, pork, etc.)?

*Salad (with sauce): 30 options - Protein - Grains*

How do you consider your company's strategic position in the fast casual market (differentiation w/ higher price or coast leader w; lower price)?

*Distinct environment with beautiful restaurants, comfortable place, Wi-Fi, plug in to charge the phone.*

*Young staff trained to build strong connection with the customer*

*Plans to invest in bulk – future to growth the amount of food bought from the suppliers to decrease the price*

*Partners of the suppliers – training and developing local farmers*

Where are you planning to invest (employees' trainings, improving customer service, marketing and sales, etc.)?

*Currently focus on the customer delivery*

*Product development – diversity on the menu*

What do you think that are the main drivers of your menu that the customers appreciate the best (for example: your restaurant sales more bowls with rice and beans than salads bowls)?

*Salad is the main product for sale / Sauce 100% prepared by the restaurant (fresh concept) → Also, juices are prepared in the restaurants*

What time of the day your customers normally buy food (peak and normal hours)?

*Two main peaks for salad – lunch and dinner*

*12:00 to 13:30 main / 18:00 to 19:30 second*

*Working demand – afternoon break*

*15:00 to 16:00 – acai and snacks*

Which days on week are the fullest and the emptiest?

*Monday to Wednesday / Friday is the worst day in the week / Sunday does not work*

Are there any seasonal effects in between seasons of the year (like summer the restaurant sales more)?

*Winter hurts the business – Rain the ticket drops considerable*

*Also, vacations (end of 20 December and beginning of 14 January)*

*Also 15 to 30 July*

<u>Understand where enter in Brazil</u>

How many cities are you operating now?

*Only one: Belo Horizonte*

Why are you operating in this/these city/cities?

*New firm (proximity/easy to manage)*

Do you plan to expand? If yes, to where?

*Go to capitals (Sao Paulo, Rio de Janeiro) – urban areas, size of the population, size and number of commercial centers. Commercial density (local workers in the area).*

*The fiscal problem imitates the growth – if they expend their operation to interstates, they will need to change the taxes system*

<u>Understanding the potential impact</u>

How many employees your company has per store?

*8 employees per restaurant*

Does your company have any concern about fair trade, organic products, vegan products, etc.?

*Fair trade is a concern for Pomar – provide opportunity to farmers, training the local farmers.*

*Organic products are the vision; however, there is not enough supply from the farmers.*

Do you consider your company with a positive health impact in your customer?

*People that eat in Pomar have a healthier life. Feeling better about their life, better feeling on their life, better life balance, personal feedbacks telling histories of improvements.*

Risk and future

What is your expected growth rate in terms of number of stores in the next 5 years?

*No way to have less than 20 restaurants in the next 5 years*

What could represent a problem that could treat your company?

*The entrepreneur Eduardo stated a very optimistic view for the healthy food market in the future and he think that the only risk for this industry in the future will be related to internal capabilities, or lack of ability with administration and logistics.*