

# [Internationalization strategies final report for sbarro economics essay](https://assignbuster.com/internationalization-strategies-final-report-for-sbarro-economics-essay/)

“ Sbarro’s roots go back to Naples, Italy where for Gennaro and Carmela Sbarro the art of crafting Italian cuisine was a way of life. The couple and their three sons, Mario, Joseph and Anthony, immigrated to America in 1956 to pursue their dream of owning a successful business in the U. S. Their Sbarro Italian Delicatessen in Brooklyn, N. Y. was well received by the local community”, and so it was that “ it led to the opening of additional locations throughout the New York City area.

In 1967, Sbarro opened its first mall-based restaurant in Brooklyn’s ´Kings Plaza Shopping Center’, marking the beginning of the modern Sbarro concept: Italian food in an open kitchen that allowed for fast self-service.(…) Over the last 50 years, the Kings Plaza business model has expanded throughout the U. S. and over 45 countries around the world.

In early 2007, Sbarro was acquired by MidOcean Partners, a private equity firm with offices in New York and London, and in 2008, Sbarro is rated the #1 Quick Service Restaurant in the Italian segment by Entrepreneur magazine for five out of the past six years.

Sbarro restaurants nowadays are located in shopping malls, airports, service areas, cinemas and college campuses. Sbarro today counts with 1, 064 locations in 43 countries around the world”, serving “ fresh, traditional Italian cuisine that their cooks prepare in exhibition kitchens while guests get relaxed in a casual atmosphere. Their famous pizza is only the beginning of the Sbarro culinary adventure. They offer sumptuous entrees, pastas, salads, sandwiches, and homemade desserts – tastes to fit every appetite.

Their contemporary Italian design, with sleek finishes, bright lighting, and an open kitchen is offset by cozy seating to create an environment that is interesting, lively and comfortable. Friendly, attentive service is what makes Sbarro the perfect place for social, business and group dining”.

## REASONS FOR THE COMPANY TO EXPAND INTERNATIONALLY

After analyzing the company´s position in the national and some international markets, we can conclude that SBARRO has all the possibilities to increase its position all around the world, due to the successes it has achieved in the markets it has conquered.

In order to explain it in a better way, there are some factors to analyze:

## Effect In The Home Market

The idea of the company to start a new restaurant, in which people could find a lot of options in their menus, the quality and flavors, and also the location in high traffic places, has made Sbarro a company that created a brand image and trust in its customers, giving the possibility to compete with companies such as Domino’s Pizza and Pizza Hut. Also the main idea of the restaurant created advantage for Sbarro against its competitors, as they say: “ The same Old World values that helped grow the company from a single location to 1, 000 restaurants are still present today. ” which makes the company one of the most famous restaurant in the American market.

## Competitor’s Activities

The main Sbarro´s competitors are Domino’s Pizza and Pizza Hut in the United States. Even if those companies share the same activity which is the Italian food, they do not focus in the same business idea as Sbarro does. In the Domino´s case, their main purpose is to offer a fast and effective delivery, but having little restaurants around the country; on the other hand, Pizza Hut offers its pizza and products based on the American style, different form the Sbarro’s Old Italian style.

## Customers Needs

The purpose of Sbarro restaurants satisfies the customer´s needs as they say: “ The Sbarro operating philosophy is simple: open attractive restaurants in high-traffic locations and serve the finest Italian food. No short cuts, just great service and great flavors” . By this they intend to satisfy their main public targets which are serving in high traffic locations, such as airports, malls, universities, casinos, rest stops, convention centres and others, through the buffet style, which characterizes them from any other pizzeria, for their speed and effective service to their clients.

## Potential Markets

Taking into account the franchise experience that Sbarro has demonstrated across the countries it has entered, we decided to open a subsidiary in the Colombian market, specifically in Medellín city, due to the great acceptance that people has had over other American franchises. Also the advantage of having a non Italian fast-food restaurant in the city, which would give the company a competitive advantage in this location, because of its exclusivity in the services offered. Not even Domino´s has entered in such way. They have focused only in offering pizza, but not all the variety of products that Sbarro offers.

## Potential Suppliers

Sbarro for obvious reasons is the one in charge of supplying correctly all of the products needed by its franchisees. These raw materials go from all the sauces, ingredients, and other implements necessary for the everyday production. As Sbarro assures in its webpage, they count with “ an established regional network of suppliers located in all four corners of the globe”, in order to have a better access to each of its restaurants abroad.

## Cost Differential

Even if Sbarro franchises give a big opportunity to expand the company by its low cost of the initial investment; “ Sbarro requires a minimum net worth of $300, 000 with liquidity of $150, 000 for domestic single unit development. This number will be adjusted upward depending on the number of restaurants to be developed.”

Colombia also represents a huge opportunity for the company to expand its brand, because of our country’s low costs on labour and the fast growth in the economy. These are two main factors that the company needs to consider, due to the importance of achieving economies of scale around the world.

## CAPABILITY OF THE INTERNATIONAL EXPANSION OF THE COMPANY

## Management

Sbarro company counts with a great management team conformed by experts in each area, creating a competitive advantage in terms of effectiveness, which is represented in the good management and direction that the company obtained in the last crisis, just by being affected in an small proportion in comparison of other similar companies, which had to close their doors because of the situation.

The team is also conformed by: Peter Beaudrault who is the President and CEO of Sbarro, Anthony Missano President, Sbarro Business Development, and John Brisco who leads the franchise operations team and directs the company’s international franchise development programs. The company also offers a good assistance for the franchisee in order to get better results in all their restaurants around the world.

## Financial Resources

The required resources for opening a Sbarro restaurant abroad are the following:

Minimum Net Worth: $300, 000

Total Investment: $250, 000 – $850, 000

Franchise Fee: $35, 000

Royalty Fee: $15, 000 – $45, 000 ($0 -$35, 000 to licensed concessions)

Ongoing Royalty Fee: 7%

Financing Available: No

Training Provided: Yes

Home Based: No

“ The franchise fee depends upon the population of your protected territory. The fee is $35, 000 for those territories with populations below one million residents and it increases up to a maximum of $70, 000, in increments of $5, 000, for each additional two-hundred and fifty thousand residents in the territory.

The ongoing royalty fee is 7%, which is taken from the adjusted gross sales”.

## Products

Sbarro counts with a huge variety of products divided in type of food or dishes such as pizzas, salad and others.

## PIZZAS

Cheese

Pepperoni

Sausage

Supreme

## SPECIALTY NEW YORK STYLE THIN CRUST PIZZAS

Pizza Blanca (White Pizza)

Chicken & Vegetable

Mushroom

Fresh Tomato & Basil

## PAN/DEEP DISH PIZZAS

Classic Pan Cheese Pizza

Mushroom

Meat Delight

Spinach, Broccoli & Tomato

## SPECIALTY GOURMET PAN PIZZAS

Hawaiian

Sautéed Fresh Spinach & Yellow Peppers

Sautéed Yellow & Red Peppers

Spinach & Mushroom

Fresh Tomato & Basil

## SPECIALTY STUFFED PIZZAS & STROMBOLIS

Spinach & Broccoli

Sausage & Pepperoni

Philly Cheese Steak

Pepperoni & Cheese Stromboli

Calzone

## SALADS

Garden Fresh

Caesar

Tomato and Cucumber

Fruit

String Bean & Cherry Tomato

Pasta Salad

Greek Salad

## PASTAS

Spaghetti

Baked Ziti

Lasagna

Rigatoni or Penne alla Vodka

Rigatoni a la Mama Sbarro

Pasta Rustica

Pasta Milano

Grilled Chicken & Penne

## ENTREES

Chicken Parmigiana

Chicken Francese

Sausage & Peppers

Meatballs

Chicken Vesuvio

Chicken Portofino

Chicken Taormina

Stuffed Eggplant

Sautéed Mixed Vegetables

Vegetable Rice

Chicken Tenders with Mixed Vegetables

## DESSERTS

The “ Perfect” Cheesecake

Carrot Cake

Black Forest Cake”

## Marketing

Sbarro’s company does not use a lot of publicity or advertisement to promote its products or restaurant. The strategy it applies is in its locations, by being in the most important strategic points if any city, such airports, shopping malls, universities, casinos, convention centres, and others.

In addition, the so called internet 2. 0 or the social networks, is a good field to promote the brand and sales. Much more at the first stage of consolidation of the brand in which will be determinant the young public between 14 to 28 years: people that are familiarized with North American culture, who speak English and have access to internet.

This market’s segment is determinant because is the one who will spread the voice among their families and friends.

In other hand, the traditional means of marketing such as flyers or voice-to-voice (V2V) will be used as well.

## Equipment

Because of Sbarro’s company strategy, it requires is franchisees to locate in a populated area with high traffic or movement of people to promote its brand. The required equipment counts with an investment that includes the following things:

“ Sbarro’s equipment package ranges from $50, 000 – $150, 000.

Opening Inventory – $2, 500-$5, 000

Training Expenses – $1, 500-$3, 000

Start-up Advertising Fund – $1, 000-5, 000

Construction costs vary depending on the size of the site.”

However the company requires a $300, 000 initial investment, with liquidity of $150, 000, Sbarro also allows third financial institutions to carry out the project.

## DESCRIPTION OF THE CHOSEN LOCATION

The potential market we chose for this company is Colombia, specifically Medellin, because it is an excellent opportunity for an Italian restaurant such as Sbarro, to enter into a market where it actually does not count with this specific type of restaurants, where pizza, pasta, salads and high meal quality is served in a buffet, in which people can take advantage of consuming healthy food without concerning about running their time in fancy restaurants, having extra costs due to waiters service, which clearly affects in some way the pockets and economy of regular consumers.

In recent investigations it is clearly proved that Colombian people prefer a lot the franchises originated from the United States, because of their excellent flavor, great worldwide recognition and variety of flavors and tastes. “ The 69% of the franchises in Colombia belong to businesses created locally, while the rest 31% are international. From the last percentage, 23% are franchises originated from the United States, and the 3% left from Spain.” This is why also companies such as Papa John’s Pizza are actually entering the Colombian market, because of the great success that other food franchises have had in the country, which gives them again a great opportunity to continue expanding worldwide.

Also Colombia has improved its economic growth, increasing the opportunities for some investors around the world that want to enter new markets and expand their companies. The country’s security has also bettered, due to the great emphasis of the current government, which has taken into account major issues such as: unemployment, trust for investors, FTA agreements, etc; which is traduced in a better business environment for all shareholders.

## 4. 1 Size

“ Medellín is a small but important city located in the northwestern side of Colombia. According to the census made in 2005 for the metropolitan area, the total population was around 3. 312. 165 inhabitants, which positions the city as the second most populated in the country”. This is an important issue to be taken into account for the internationalization of the brand, due to the fact that the first opening places must be located in the most important cities of a country, because of their high development, technology and a major possibility of the existence of finding customers that are already familiarized with the brand.

## Per Capita Income

The GDP in Colombia for 2009 had a growth of 0, 4 percent, due to the economic crisis occurring all around the world. Even though it seems to be a small number, it is colossal in comparison with other countries that obtained negative numbers in this important economical indicator. The income per capita for Colombia was around $8936USD for the past year, according to the IMF. This is an uncertain number, due to the great difference between social classes in the country, which leads to great income differences between its habitants. This number would not be representative for the purposes of expansion of Sbarro, since it does not represent accurate information in comparison of the reality of the country. Therefore we will have in mind the minimum wage for Colombia, which for this year is around $257, 5USD.

## Income Distribution

“ The Gini Index measures the degree of inequality in the distribution of family income in a country. The index is calculated from the Lorenz curve, in which cumulative family income is plotted against the number of families arranged from the poorest to the richest. The more nearly equal a country’s income distribution, the closer its Lorenz curve to the 45 degree line and the lower its Gini index. The more unequal a country’s income distribution, the farther its Lorenz curve from the 45 degree line and the higher its Gini index. (…) If income were distributed with perfect inequality, the Lorenz curve would coincide with the horizontal axis and the right vertical axis and the index would be 100.”

For Colombia, the estimated rate for 2009 was of 58, 5, which means that our income distribution is high, having no perfect distribution. This is due to the great amount of shortage of resources, which in 2008 were traduced in an impressive number of 46. 8% of Colombians below the poverty line, according to the CIA data information.

## Accessibility

Colombia has great accessibility, due to the great amount of ocean that surrounds the coasts of the country. This allows having five main ports, which are the Barranquilla, Buenaventura, Cartagena, Santa Marta and Turbo ports, which carry on more than 50% of the merchandise that arrives to the state.

In terms of roads the situation in not quite good. The Andean Mountains cross the country from north to south, which leads to multiple difficulties in the engineering and construction of the roads. Therefore the great land disparity make roads become longer and curvier, becoming even more difficult the labor of truck drivers and freight services, which must front this situation daily.

Also it exists some problems with land- security, due to the guerrilla’s attacks, which in some occasions rise the transportation costs, because of the need of hiring multiple insurances and other protection services, for the merchandise to arrive safely to each city.

## Degree of Competition and Incentives

“ Colombia experienced accelerating growth between 2002 and 2007, chiefly due to advancements in domestic security, to rising commodity prices, and to President URIBE’s pro-market economic policies.

Foreign direct investment reached a record $10 billion in 2008. A series of policies enhanced Colombia’s investment climate:

President URIBE’s pro-market measures;

Pro-business reforms in the oil and gas sectors;

Export-led growth fueled mainly by the Andean Trade Promotion and Drug Eradication Act.

Colombia’s infrastructure requires major improvements to sustain economic expansion. Because of the global financial crisis and weakening demand for Colombia’s exports, Colombia’s economy grew only 2. 6% in 2008, and contracted slightly in 2009. In response, the URIBE administration cut capital controls, arranged for emergency credit lines from multilateral institutions, and promoted investment incentives, such as Colombia’s modernized free trade zone mechanism, legal stability contracts, and new bilateral investment treaties and trade agreements.

The government also encouraged exporters to diversify their customer base beyond the United States and Venezuela, traditionally Colombia’s largest trading partners. The government is pursuing free trade agreements with European and Asian partners and awaits the approval of a Canadian trade accord by Canada’s parliament.

In 2009, China replaced Venezuela as Colombia’s number two trading partner, largely because of Venezuela’s decision to limit the entry of Colombia products. The business sector remains concerned about the impact of the global recession on Colombia’s economy, Venezuela’s trade restrictions on Colombian exports, an appreciating domestic currency, and the pending US Congressional approval of the US-Colombia Trade Promotion Agreement”.

## Cultural Aspects

## Ethnic Relations

“ Past relations with other regional cultures were based on the hierarchical society imposed by Spain, in which the upper group of “ white” Spaniards enjoyed wealth, power, and prestige while blacks and Indians were at the bottom of the socioeconomic hierarchy. After independence, Creoles quickly replaced Spaniards in the upper echelons of the new society. Qualified “ mestizos” and mulattoes also ascended to high positions, but their inclusion was based on their level of education, wealth, and “ whiteness.” Colombians continue to identify themselves according to their regional heritage, physical appearance, and socioeconomic status”.

## Religion

“ Colombia remains an overwhelmingly Roman Catholic country, even though the Colombian constitution guarantees freedom and equality of religion.

Based on various studies, more than 95% of the population adheres to Christianity, the vast majority of which (between 81% and 90%) are Roman Catholic. About 1% of Colombians adhere to indigenous religions and under 1% to Judaism, Islam, Hinduism, and Buddhism. However, despite high numbers of adherents, around 60% of respondents to a poll by El Tiempo reported that they did not practice their faith actively.”

## Food

“ Most middle-class families eat elaborate meals that reflect Spanish and indigenous traditions. A typical meal is identified by size rather than content, such as a light breakfast, a substantive midday lunch, and a lighter meal in the early evening. Dinner consists of fresh fruit, homemade soup, and a main dish with meat or fish accompanied by rice and/or potatoes. Lower-income people eat a more carbohydrate-rich diet. Meals usually end with a very sweet dessert, frequently made from panela, a type of brown sugar.

There are regional differences in foods. In the interior rural regions, a hearty breakfast consists of a strip of pork, rice and beans, sweet plantains, and a large steak with fried eggs. Dinner is similar, except for the eggs. In the coastal region, the emphasis is on seafood. In Cartagena, the typical lunch consists of rice with coconut, fried plantains, and shrimp. Colombians also enjoy a variety of national and international cuisines”.

## Classes and Castes

“ The massive urban migration that began in the 1950s saw a middle class emerge, resulting in a three-class system: upper, middle, and lower.

The upper class, which includes 20 percent of the population, accounts for about 75 to 80 percent of the gross national product. This group tends to be made up of individuals of unmixed European ancestry. Within this class, there is an elite referred to as the “ oligarchy” that enjoys wealth and financial security, political power, and education. This group may be considered a caste, since membership is largely due to birthright, not to individual ability.

A wide gap separates the elite from the masses. Unlike the elite, this group has few opportunities for social mobility. Social inequality is evident in the lower class, whose members are often malnourished, poorly housed, disease-ridden, and illiterate.

White people continue to dominate the upper class, while mestizos and mulattoes constitute the middle and lower classes. Blacks and Indians make up a significant portion of the lower class. Historically, blacks felt socially superior to Indians despite the fact that Indians occupied an officially higher position in society”.

## Resource Costs

Costs in Colombia become really low in comparison with developed countries. The minimum legal wage in the country is around $257, 5USD per month, which represents a great opportunity for any company to establish a subsidiary in Colombia, because they would reduce significantly their liabilities, therefore increasing their profits.

In comparison with the United States, living standards in Colombia are much lower, which allows these salaries to function according to each economy. In the US an average minimum wage is around $1280USD, therefore establishing in our country it would represent an 80 percent discount in salaries, which is an excellent factor for any company.

## Available Skills

Colombia, just as any other country, counts with great human resources from all areas, from engineering to chefs, business people and musicians.

Despite our high level of analphabetism (7, 88% of the population), which is around “ 3’546. 893 people between ages of 15 and 24 years old, who cannot read or write”, this does not leave the rest of the citizenship in equal conditions as them.

The Colombian people are characterized by their efforts and constant hard work, trying to retire from poverty, and aiming for a better life through education and more opportunities. In consequence, availability of people is what is found in Colombia.

## LEVEL OF RISK

## Economic Stability

Colombia has proved to be one of the most stable countries of Latin America, with increasing rates of the GDP in the last years. Until 2007, Colombia was having high growth rates, and then when the international financial crisis arose, it was one of the less affected countries of the region, and even of the world. In Colombia the unemployment rates decreased less than in the other countries, also the FDI was reduced in a minor percentage than in the neighbor states. Now the crisis is ending, “ the country is living a sustainable economic growth that just a few other Latin American countries are able to show. It is true that economies such as Venezuelan or Argentinean are growing faster, but it is caused by the oil boom and productive systems based on raw materials, not by a real growth of the capacity in terms of production, services, employment and economic growth”. Colombia has an economic growth rate of 7, 7% per year, and an increase of 17, and 4% in the industrial production, which is higher than in any other nation in Latin America. With the democratic security policy of President Alvaro Uribe, the country has been acquiring a good international image, this, and all the characteristics mentioned above demonstrate that Colombia is a country with a good economic stability and that has the necessary characteristics to attract foreign investment.

## Political Stability

“ The political history of Colombia has been dominated by two opposing parties: the Liberal Party (which contributed to the separation of the Church and the State, and universal suffrage to the political landscape), and the Conservative Party (which helped to create a strong centralized government). Even the country has a long history of party politics, usually fair and regular elections; it has been marked by extraordinary violence. Six interparty wars in the nineteenth century and two in the twentieth century, three presidential candidates were assassinated during the 1990 campaign, around 400. 000 people have been victims of political war, taking into account the war of a thousand days (1899-1902), the interparty civil war called la violencia, which lasted from 1948 to 1966, guerrilla insurgencies, terrorism, paramilitarism, narcoterrorism, etc.

The election of Cesar Gaviria in 1990 brought an opportunity for political peace. A new Constitution was written in 1991, and several guerrilla groups entered the political arena after being demobilized.(…) By that time, drug lords had come to replace guerrilla leaders as the main threat to political and social stability. After that started a period of scandals and problems, first the elected president in 1994, Ernesto Samper was involved in a scandal where he was supposed to be receiving money from drugs to finance his campaign. Then in the 1998, the elected candidate Andrés Pastrana ran on a peace platform, promising to reduce conflicts with guerrilla groups and drug cartels. Four years later, crime and violence had increased and the influence of cartels had grown in unimaginable ways”.

We can see the last case of political instability in 2005 when the president Alvaro Uribe made a plan to reform the constitution in order to be reelected, something that does not follow the regular course in a democratic nation, where according to the constitution it is not possible to be elected for two periods straight.

## Terrorism

“ In the early 1960s, leftist militant groups-such as the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN)-began to wage guerrilla war against the government throughout the countryside. After Colombia became the hub of the global cocaine trade in the 1980s, the violent Cali and Medellin drug cartels gained power and caused more havoc. The late 1980s and early 1990s saw the emergence of rightist paramilitary forces. Known as the United Self-Defense Forces of Colombia, or AUC, they were backed principally by drug kingpins and rural business leaders. Today, the FARC, the ELN, and the AUC-motivated by a mix of ideology, hunger for drug money, and desire for power-engage in terrorism and the narcotics trade.”

These groups (FARC and ELN) were originally created to follow and promote some left wing ideologies, but when they started to grow, they realized that they needed money to maintain all their members, they needed food, clothes, guns, etc. In that moment they started stealing cows, food, and charging a fee to the farmers and owners of lands in the region where they operate; they also started kidnapping rich people to obtain the necessary funds to operate, and there is when appeared the first ways of terrorism. After that, the people who was tired of having to pay those fees started to create a movement against them called the United Self Defense Forces of Colombia (AUC), and in that moment the FARC and ELN realized that they needed more ways to obtain the money to fight against the new group, so there was the moment when they started to work with the drug traffickers, taking care of the cocaine and marihuana crops. Then they started to take the control over the crops of the drug traffickers, and become the owners of the drug traffic in the country.

Most of the violence and terrorist attacks we see in Colombia are caused by these groups, in order to maintain the control of the drug traffic. In the 1998-2002 period, when Andres Pastrana was the president, these groups became very strong and grew a lot, because there was little control over them, but in the last 8 years, with the president Alvaro Uribe, these groups have been reduced and weakened dramatically because of the democratic security policy the President has implemented. Nowadays Colombia is recovering its good image and it´s showing that is a safe and good country where to invest.

## Restrictions, trade barriers and opportunities

Until now, there isn´t any bilateral agreement between Colombia and the United States, there is only one in process, but is has not been ratified by the United States yet. This agreement can be seen as an opportunity to improve the commercial transactions among these countries. “ The United States-Colombia Trade Promotion Agreement (CTPA) is a proposed bilateral free trade agreement between the United States and Colombia. Sometimes called the Colombia Free Trade Agreement, it was signed on November 22, 2006, by Deputy U. S. Trade Representative John Veroneau and Colombian Minister of Trade, Industry, and Tourism Jorge Humberto Botero. CTPA is a comprehensive agreement that will eliminate tariffs and other barriers to trade in goods and services between the United States and Colombia. Colombia’s Congress approved the agreement and a protocol of amendment in 2007. Colombia’s Constitutional Court completed its review in July 2008, and concluded that the Agreement conforms to Colombia’s Constitution. President Obama tasked the Office of the U. S. Trade Representative with seeking a path to address outstanding issues surrounding the Colombia FTA”

Until the agreement is ratified by the US parliament, the Colombian government is implementing some restrictions to products and services coming from the United States, almost all of them have to pay taxes and tariffs to enter the country. But as mentioned earlier in this paper, Sbarro has suppliers in the four corners of the globe, so it can export the necessary ingredients form other countries that have any agreement with Colombia.

## Government and business relations

“ Colombia – United States relations have evolved from mutual cordiality during most of the 19th and early 20th centuries to a recent partnership that links the governments of both nations around several key issues, including fighting communism, the War on Drugs, and especially since 9/11, the threat of terrorism.”

The United States has been not only an important ally in terms on fighting against terrorism and drug trafficking for Colombia, but also his most important commercial partner. In 2008 the exports from Colombia to the US were US$14. 052, 7 million which represented the 37, 7% of their total exports; at the same time the imports made from the United States were US$ 10. 740, 5 million, which represented the 28, 9% of their total imports.

There are some countries that do not like the relation among Colombia and the United States, but both of them feel good about it and are always thinking how to improve it.

## LEVEL OF INVOLVEMENT

## Attractiveness vs. Risk

Due to the Colombia´s economical stability, good relations between both countries, both in commercial and diplomatic