h3, New Hamburgology Case Study ADAPTING TO THE CONTEMPORARY CONSUMER: HOW PLANT-BASED LIFESTYLES AFFECT THE FAST FOOD INDUSTRY

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Abstract

Dissertation Title: h3, New Hamburgology adapting to the contemporary consumer: How plant-based lifestyles affect the fast food industry

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It was in 2007, when Portugal was facing a severe economic downturn that h3 opened its first restaurant in Lisbon. H3's sales soon surpassed the most optimistic predictions which allowed the brand to spread to food courts across the entire territory. Despite the tightening budgets consumers welcomed the new "not so fast food" chain that provided quick, yet healthy and complete meals at an affordable price.

This thesis will analyze h3's strategies to overcome the market saturation experienced in Portugal as of 2010, due to the fact that the once unexplored healthy fast food sector has now given entry to multiple players, also highlighting how the company´s objective to become the biggest burger chain in the world is being pursued.

Reflections on critical aspects regarding h3's future are provided – Is h3's objective realistic given its current mono-product strategy? Is h3 meeting the changing needs of its target customers? How can h3 adapt to maintain its national success and gain customers from competitors?

This thesis' objective is to provide insights on how the food consumer's needs are changing and how the blooming healthy fast food sector can adapt to these new dietary trends and lifestyles to maintain high margins. H3 is the target of the case study because it is a successful company i with an innovative culture and targets health concerned consumers, many of which are changing their dietary habits and are expecting the brand to keep up with their new needs.

Resumo

Título da tese: h3, New Hamburgology adapting to the contemporary consumer: How plant-based lifestyles affect the fast food industry

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Foi em 2007, quando Portugal estava imerso numa profunda crise económica, que a h3 abriu o seu primeiro restaurante em Lisboa. As vendas da h3 ultrapassaram as previsões mais optimistas permitindo que se espalhasse por todos os centros comerciais no território Português. Apesar dos bolsos apertados, os consumidores acolheram a nova cadeia de "not so fast food" que oferecia refeições completas e saudáveis de forma rápida e com preço justo.

Nesta tese são analizadas as estratégias utilizadas pela h3 para ultrapassar a estagnação de crescimento experienciada desde 2010, principalmente porque o sector antes pouco explorado deu entrada a novos concorrentes.. Aborda ainda como o objectivo da empresa de se tornar a maior cadeia de hambúrgueres do mundo está a ser concretizado.

Nesta tese são feitas reflexões sobre o futuro da h3– Será o objectivo da h3 realista tendo em conta a sua actual estratégia de mono-produto? Está a h3 a corresponder às necessidades em mudança do seu público-alvo? Como pode a h3 adaptar-se para manter o seu sucesso e ganhar consumidores aos seus concorrentes?

O objectivo desta tese é estudar as necessidades em constante mudança do consumidor e como o sector de fast food saudável se pode adaptar às novas tendências de alimentação e estilos de vida para manter crescimento de vendas. A h3 é analizada pois tem como público-alvo consumidores preocupados em ter uma alimentação saudável, muitos dos quais estão a mudar a sua alimentação e esperam que estas cadeias se adaptem às suas necessidades em mudança.

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List of Abbreviations

STP – Segmenting, Targeting and Positioning

4 Ps – Product, Price, Place and Promotion

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1. Introduction

H3 was a product of a shared dream and passion of three very different friends. Its beginning was as Café 3 and soon expanded into a concept of healthy "not so fast food" spread throughout shopping centers all over Portugal and even a street restaurant at Parque das Nações (Lisbon).

H3 experienced unbelievable growth throughout its first years. However, soon growth rates of around 100% began to stagnate to 30% and less.

Concerned about the Portuguese market saturation, the company has tried different internationalization strategies and is now starting to enter the Brazilian market but it is still too soon to tell how business there will develop.

The fact is that Portugal still remains the most critical and stable market and source of revenues for the brand. Therefore, the new question became – how can h3 overcome the growth stagnation and increasing competitiveness in the Portuguese market?

Throughout this thesis, the h3 case study will be analyzed in detail, providing insights on its history and marketing strategies. Subsequent market research will be carried out in order to understand the Portuguese food consumer and shed a light on what path can be next for h3, namely concerning the introduction of a vegetarian option to increase sales and customer base and offset competition.

1.1 Research Problem

The thesis' focus will be on understanding if and how healthy fast food companies should adapt to the increasing vegetarian/less meat consuming lifestyle trends (focusing on the particular case of h3) by introducing vegetarian options and how this adaptation can affect their sales, promotion and brand positioning.

1.2 Key Research Questions

The following questions aim to provide insights on h3's critical factors for success, approaches used and to additionally offer strategies on how the challenges ahead can be faced and overcome by the company in order to surpass the growth stagnation in its key market – Portugal.

1. What are h3's key success factors that led to its current position in the Portuguese market?

2. What kind of attempts has h3 followed to surpass the stagnant growth rate in the Portuguese market?
3. What kind of competitive landscape does h3 currently face in the Portuguese market?
4. What is the demand for a vegetarian option and what marketing mix strategy should h3 implement?
5. In order to offset market saturation and increasing competitiveness should h3 follow the trend of other fast food chains worldwide and include a vegetarian option on its menu in the medium/long-term?

1.3 Methodology

The key research questions will be answered with sources from primary and secondary data.

Regarding secondary data, information from academic journals will be collected to create a theoretical foundation and provide critical insights that can be applied to h3. Additionally, in order to create an insightful case study, sources will include h3 itself to gather information about the company, strategies and relevant numbers.

Secondly, both qualitative and quantitative research to gather primary data will be conducted.

The statistical research through an online survey aims to understand if the introduction of a vegetarian option is expected by consumers and if including this option is aligned with the company's brand image and positioning. In this sense, results of the survey will aim to aid in answering key research questions 4 and 5.

Additional qualitative data will be collected through meetings with the company in order to construct a detailed case study and get further insights about h3 in particular in the Portuguese context and shed a light on h3's future strategies.

2. Literature Review

The literature review elaborates on the fast food sector's background and how it has evolved responding to consumers' change in needs and behavior.
Consumer lifestyles and marketing topics (namely the importance of the marketing mix and STP strategies) are mentioned as a way to provide a strong theoretical background that will allow better understanding of h3's case study and building upon the company's possible future marketing strategies.

2.1 The fast Food industry: Adapting to increasing health concerns

The concept of fast food arose in 1950s and it has been redefined over the years. What began to be a revolutionary industry with overwhelming public acceptance and growth soon became target of criticisms from concerned consumers and lawsuits that kept increasing throughout the years (Gregory, McTyre and DiPietro, 2006; Ashe et al., 2003). These concerns were based on the swelling medical research and findings regarding the bad effects of eating fast food on people's health, concerns that mainly arose due to the outstanding increase of child and adolescent obesity rates and several studies relating it with increasing body weight and heart problems (French, Harnack and Jeffery, 2000; Jeffery and French, 1998; Gregory, McTyre and DiPietro, 2006; Vroom, 2005). In countries outside the U.S. research also unveiled alarming rising rates of diabetes and high blood pressure related with this type of food (Chinn and Rona, 2001; Chu, 2001; Tremblay and Wilms, 2000).

The study carried out by Gregory, McTyre and DiPietro (2006) evidenced that although fast food sales continued to rise even after the increasing criticism, companies felt the need to fight the persistent negative views that the public had regarding fast food. Anti-fast food movements continued to spread throughout the XXI century aligned with an increasing obsession for healthier food habits. Responding to political pressures and these criticisms (Block, Scribner and DeSalvo, 2004; Ashe et al., 2003) fast food chains began to adapt, which led to a paradigm shift from the initial quick high fat meals to an increase in healthier options in the fast food chains' menus. The study concluded that in addition to introducing healthy options in their menus (such as low fat, salads and healthier desserts), most fast food chains have directed their marketing efforts based on promoting their new "healthier" options through media such as television, internal marketing and by having nutritional information available on their websites or at the restaurants themselves.

2.2 How the healthy orientation by fast food chains influences consumers' consumption habits

The fact that companies have adapted by offering healthier options has had an impact on the way consumers perceive their meals. In fact, a study by Chandon and Wansink (2007) showed that when consumers were asked to estimate calories on chains' meals, they estimated sandwiches and burgers to have 35% fewer calories when the restaurants providing it claimed to be healthy, as opposed to when they were provided by restaurants that did not had a healthy positioning, such as McDonald's. In fact, customers tend to underestimate up to 52% of calories from "healthy" meals, choosing frequently very high calorie side dishes and only underestimating 7% of calories from "unhealthy meals".

Additional studies from Hwang and Lorenzen (2008) have also concluded that when restaurants provide nutritional values information, namely about healthy menu choices, it increases the probability that consumers will select these meals over unhealthy ones. It also appears that customers are more willing to pay higher prices for healthier options and that the most effective menus include nutritional information regarding calories, macronutrients and fat, reinforcing the growing importance that nutrition has for consumers.

2.3 Consumer behavior, attitudes and beliefs: the XXI century customer

Research about the new customers' attitudes and beliefs has been evidencing the growing concern for healthy diets and the origin (local) and nature (organic, nonprocessed) of the products eaten (Robinson-O'Brien et al., 2009).

Aligned with the increasing concern with health and source of food issues, there is also the increasing trend to look for diets with meat reduction or fully vegetarian. The number of individuals considering themselves to be vegetarian has greatly increased over the last twenty years, which aligned with the developing of less meat consuming habits has led marketers to increase the number of vegetarian offers (Trocchia and Janda, 2003). Several studies have been conducted as a way to understand how customers can adapt their eating habits to guarantee public health, since animal products, with special emphasis on red meat and processed meat, have been identified as a high risk factor in causing cardio vascular disease, some kinds of cancers, and type 2 diabetes (Friel et al., 2009; Boer, Schösler and Aiking, 2013; McMichael, et. al., 2007).

Responding to the special attention that these issues are starting to have (mostly because of the gigantic growth of industrialized animal production during the 20th century) the study by Boer, Schösler and Aiking, (2013) concluded that 81% of individuals replaced meat by something else in several meals throughout the week, with substitutes ranging from eggs or meat replacers a.nd other substitutes like legumes, seitan and tofu. The research further concludes that the idea of making a positive impact by having one or more meatless meals per week was familiar to most consumers and most of the ones that already eat meat in only few days per week view initiatives such as the “meatless days” as extremely positive.

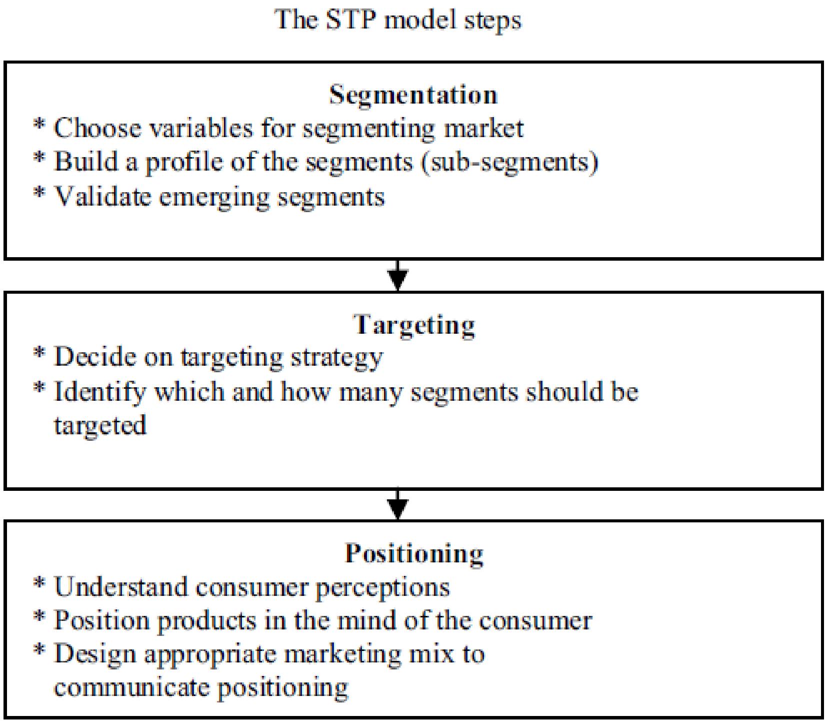
2.4 Efficient STP Strategies in the Fast Food Market: The relevance of positioning

Positioning has become a key defining factor for any brand. It allows the customer to create a simple mental structure with the intrinsic values of each brand to avoid constant reevaluation of products and allow for easier decision-making. Offering products with a clear identity that is oriented to the company’s target segments enables organizations to get higher customer loyalty and sales (Ostasevičiūtė and Šliburytė, 2008).

2.4.1 Building an effective STP model

Before the positioning process, the company must segment the market and define its target segments. Scholars Grancutt, Leadley and Forsyth (2004) describe the STP model steps in the table below (Ostasevičiūtė and Šliburytė, 2008).

Figure 1 – STP Model Steps



Source: Grancutt, Leadley, Forsyth (2004)

Segmenting and targeting is particularly relevant for fast food restaurants, particularly if companies adopt a healthier positioning. There are several different aspects to have in mind, not only regarding demographics but also different conceptions, lifestyles and views about what is “healthy”. Studies from Trocchia and Janda (2003) have suggested an approach using the distinction between vegetarian and “meatarian” consumers. Taking in mind different characteristics ranging from concern for animals, environment and health, aligned with demographics such as age, gender and level of education provides further insights on the type of customer brands want to reach.

This particular study resulted in six different segments (or clusters) of consumers concluding that organizations such as food manufacturers, retailers, and restaurateurs can use this specific segmentation to better develop food products, promotion plans and pricing strategies adapted to the particular behavioral aspects of the segments they wish to target.

2.4.2 From Targeting to Positioning: Steps and critical attributes

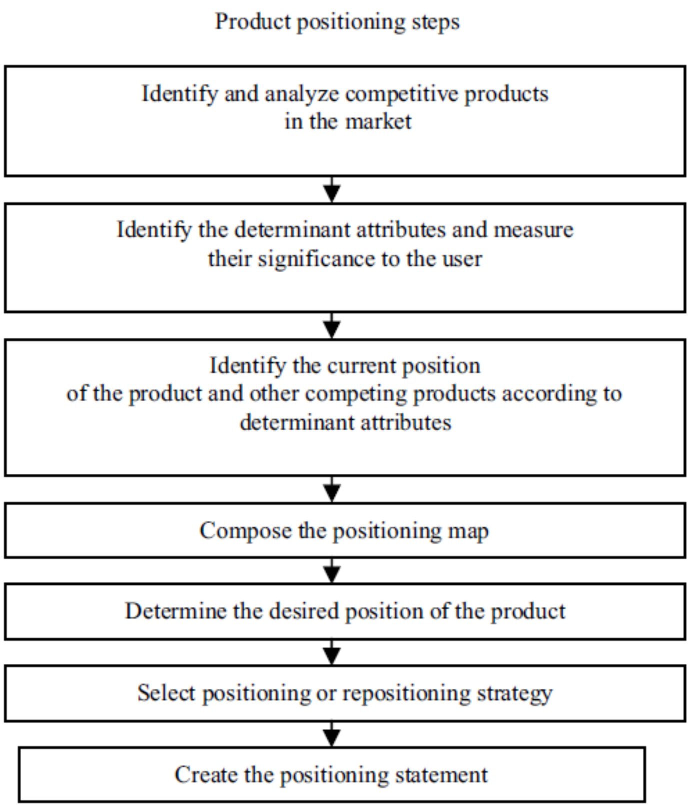
According to Kotler, Armstrong, Saunders and Wong (2003), determinant attributes are valuable if they are: important, distinctive, superior, preemptive, affordable and profitable.

The positioning map positions the product in relation to its competitors and usually represents two different attributes and each brand or product is positioned along the graph. Most selected attributes are, amongst others:

1. Product features
2. Price/Quality
3. User
4. Competitor
5. Benefit
6. Heritage or cultural symbol
7. Attributes
8. Application
9. Product Class

Lastly, the article by Ostasevičiūtė and Šliburytė (2008**),** defined product positioning steps based on models of several authors presented in the table below:

Figure 2 – Product Positioning Steps



The table provides a conceptual framework based on work from distinguished scholars which can be applied by companies to design effective positioning and repositioning strategies throughout the product lifecycle.

2.5 Marketing Mix in the healthy fast food sector: The critical roles of product, place and promotion

Research conducted by Kozup, Creyer and Scott Burton (2003) has showed that when restaurants or packaged goods have favorable nutritional information or health claims, consumers develop more positive attitudes towards the brand. This influence on attitudes and evaluations is noticeable in the particular case of restaurants' menus leading to strong effects on consumers' actual purchase intentions. Brands can largely benefit from their health claims using the healthy attribute as a promotional element.

Regarding product, Berger, Draganska and Simonson (2007) have highlighted the importance of variety. Their study showed that a brand's product variety may be used as a quality cue and it will have an influence on which brand consumers choose to buy from. The findings conclude that a greater variety of options impacts consumers' opinions about the brand, signaling that it has higher core competency in that particular category and it may also directly influence the actual product experience and post-experience perceptions of taste (e.g., Levin and Gaeth, 1988; Nowlis and Shiv, 2005). The six studies that compose this article conclude that not only does variety affect brand choice by allowing the company to fulfill consumers' particular needs as it can influence perceived brand quality in a positive manner (Draganska and Jain, 2005) and these results hold even though variety makes the choice harder and frustrating. Offering a higher variety may provide the organization with long-term high trial rates and higher likelihood of repeated purchase. Additionally, buyers of line extensions are often previous buyers of the parent brand and line extension is more regarded as an addition to the portfolio than a substitution for the pre-existing products, thus not always resulting in product cannibalization (Lomax and McWilliam, 2001).

When it comes to pricing, the study conducted by Kalnins (2003) has showed that price promotion strategies have been mostly ineffective when it comes to market share as there was no evidence of a relationship between a price at one outlet and price of nearby restaurants. These results show that products in different restaurants are not close substitutes for the majority of consumers. Consistent with those findings, also Richards and Padilla (2009) show that price promotion mostly increases customers' demand but has a marginal effect on restaurant market shares as they do not attract customers that prefer other food chains.

Regarding the relevance of the marketing mix for effective marketing actions in the long-term, research has been carried out in order to understand the importance of 4Ps beyond advertising and price promotion, which have been the targets of most attention. Results from Ataman, Berk, Harald , Van Heerde and Mela (2010) showed that the total sales elasticity is 1.37 for product and .74 for distribution while elasticities for promotion and price discount are much lower, with values of .13 and .04, respectively. Highlighting the strategic importance of product and distribution for a brand's sales, research showed that for the long run, product (60%) and distribution (32%) have a large relative effect on brand sales when compared with discounting (2%) or advertising (6%).

In a study highlighting the relationship between products positioning and the marketing mix, Knox (2004) discusses the traditional 4Ps approach**.** The author argues that this view must be transformed in order to create a broader vision of customer value across the firm. Additionally, provides a framework for creation of superior customer value based on branding and positioning through business processes.
Based on his approach, the author states that in order to remain competitive, companies must focus on building value added concerning four different components when developing the brand's positioning:

1. Its overall reputation.

2. Product/service performance.

3. Product and customer portfolio.

4. Networks.

In the particular case of franchises in fast food, contributing to the brand's success are its effective supply chains and supply partnership (the McDonald's example is provided).

Knox (2004) concludes that although many of the company's departments are not directly related with the marketing department, marketing and positioning strategies should not only be closely aligned as they should also be present and well-known across the entire organization and its processes should be lined up with the defined marketing approach.

3. CASE STUDY

In 2005, António Cunha Araújo (lawyer), Miguel van Uden (consultant) and Albano Homem de Melo (publicist), the three founders of what would eventually become h3 took a bold step that would change their lives and revolutionize the Portuguese fast food market. Following their childhood dream of having a restaurant, the three friends decided to open Café 3.

3.1 H3: From Café 3 to Nationwide Success

Café 3 was a restaurant at Av. Da Liberdade (Lisbon). What at first looked like just any other restaurant, soon became a huge success especially at lunch time, so much so that customers had to make reservations in advance to eat Café 3's burgers. However, at night, Av. Da Liberdade was practically empty and therefore there were few customers at dinner time. The three friends got together and thought about strategies to attract customers to come to that part of town especially to eat at Café 3.

After a lot of careful consideration about how to attract people to come for dinner, along with the head chef of Café 3, Vítor Lourenço, they had an idea for a new concept in the Portuguese restaurant market. The "*hamburgueses*" concept was created, which consisted of simple burgers with a more sophisticated twist. To provide the meal with that gourmet status, the burgers were served with many different side dishes and extras from sautéed spinach to poached eggs, porcini mushrooms and several other options. This new concept was a novelty in Portugal and it was an immediate success that led customers to come to Av. Da Liberdade at night just to eat at Café 3. However, soon that one small restaurant was not enough for the three partners who began to commit their whole lives to this new business.

Eventually they started to idealize a new concept based on Café 3 that would be extended to food courts in shopping centers across the entire territory. The entrepreneurial spirit of the three friends would soon be responsible for the creation of the h3 concept, which opened its first store on 7/7/2007, during one of the most critical economic crisis experienced in Portugal.

H3 was established during a time where no one in Portugal was doing big investments. The profound economic crisis that still persisted in the following years had made companies extremely budget tight and new ideas or risky investments were hard to make. Not only that, also the food courts were seen as saturated and the fast food sector was regarded as an already mature segment with no room for new players to get in. However, against all odds and after many legal complications and time trying to convince shopping centers that their idea was innovative and worth the investment, the first h3 opened at Monumental (Lisboa) and, just like Café 3, was an immediate success. The founders attributed this triumph mostly to the three core concepts that made h3 stand out amongst all other options available at food courts in shopping centers: *New Hamburgology*, *Not So Fast Food* and *Real Food Real People*.

3.2 H3's Targeting and Positioning: the rise of the healthy fast food concept

After careful analysis of its market, having in mind the weak state of the Portuguese economy and related social factors, h3 found a specific segment to target that would have the right characteristics in terms of wants and needs and would have the necessary willingness to pay that matched the quality meals h3 provided. This segment did not concern the customers who used to eat fast food at lunch and were now bringing food from home, but customers who used to lunch out at restaurants and had now shifted to eat in shopping centers in order to save some money on meals.

This target proved to be the right one as h3 experienced almost immediate acceptance. Evolving from that first segment, h3 soon targeted a more specific type of consumer. Demographically, this segment consists of young-adults and adults; both male and female, with some purchasing power (can be considered to be in the middle class or upper middle class of society). In psychographic terms, these young-adults/adults are educated and informed customers who are looking for a healthy and complete meal option. These are customers who, adopting stronger health concerns at an earlier age than their parents or grandparents, look to eat balanced and complete meals. This segment is also characterized by having a tight schedule to lunch, and therefore needs to meet its health needs with the needs of having food served fast. Although when looking at one of the long lines outside an h3 restaurant one finds people from all age ranges, both at lunch and dinner time, this remains the core target for h3 and constitutes the majority of customers that regularly eat at one of their stores.

With this target in mind, h3 positioned itself as a healthy "not so fast food" restaurant that provides quick service without compromising food quality and freshness. Clients see h3 as the healthy high-quality fast food option that provides complete restaurant-like meals at a fair price and fast-food timing. H3 opted for a higher price than most fast food competitors (like McDonald's, Burger King, KFC and so on) to complement the superior, restaurant-like quality of its meals, thus adopting a "More for More" positioning strategy.

Nowadays, h3 is the first Portuguese brand on top of mind and it is in the top 3 of consumer confidence brand.

3.3 The Innovative Marketing Mix Behind the h3 Concept

The immediate success and acceptance of h3 was mostly due to its unique marketing mix, which strongly differed from the typical fast food marketing mix of other players, particularly in terms of product, price and promotion. Most players until then focused on offering the lowest prices possible, sacrificing nutritional quality of their meals for appealing options based on deep fried extremely salty and sweet ingredients. Fast food was associated with burgers and French fries, pizza slices or chicken wings, accompanied of very sweet sodas, food with low nutritional value that did not require the use of cutlery and mostly served to indulge salty and sweet cravings or to provide a quick meal for busy customers. In order to counter the increasing negative connotation of fast food, some chains had adapted by offering salads or fruit and some new brands were introduced with a highly healthy positioning offering a variety of salads to its customers.

Most promotion strategies in this segment are based on television advertising, billboards and special price promotions that promise not so much on quality but more on the typical fast food flavor at extremely low cost. When one thinks about McDonald's, for example, one thinks about colorful billboards, TV adds with the "*I'm lovin'' it*" slogan and special prices that are practiced every few weeks or months. Having these strategies in mind, it is interesting to analyze h3's marketing mix as the basis upon which the company built its strong image and differentiation, being able to register outstanding sales numbers opting for extremely different tactics than its fast food competitors.

The first element of h3's marketing mix is the center of all work – the burger.

3.3.1 The Two Building Blocks of h3's Product

(1) New Hamburgology

The main challenge when establishing the brand was to understand how to stand out in the already filled food courts. It was necessary to convince customers to try h3 instead of going to any of the other familiar options available. The question was "how do we get customers to forget about McDonald's and come try h3's burgers?" With this problem in mind, the three friends envisioned a new way to present the traditional burger, based on the "*hamburgueses*" back at Café 3.

To show how the h3 burger stands out from the other available options, they established an ID of a burger that was unlike any other (Exhibit 1). The burger is the core business of h3 and therefore it has high quality standards that must be fulfilled at all times. The h3 burger was created in order not to have any unhealthy binding ingredients such as additives, preservatives, starch and so on. Together, all of these characteristics made up a totally new idea of a fast food burger in the Portuguese food courts that revolutionized the concept of fast food itself (Exhibit 2).

Understanding the importance of having a flawless product and guarantee that each burger obeys to all quality standards, grillers are obliged to grill them in a consistent interval from 8 to 10 minutes and are instructed not to, under any circumstances, splatter the burger, as it would compromise its consistency and flavor. Any burger that is good for consumption but does not fulfill high quality standards is later donated to *Re-food* (Exhibit 3). In addition to the healthy and innovative side dishes offered, the customer can still order a side of salad with seasoning prepared by h3 itself. To drink customers can find a pioneer product in Portuguese fast food restaurants: real lemonade made with real lemons. To finish there are still a variety of desserts which are made according to original recipes and served fresh to their customers.

The high quality of products is tightly controlled and looked after beginning with the choice of suppliers. To guarantee full quality at all steps in the supply chain, frequent internal audits are carried on to make sure that suppliers fulfill all necessary standards and conditions imposed by h3.

In Nuno Costa's words, member of h3's Marketing and Communications Department, *"The burger is so important that the company has a whole department dedicated to it."* This development team was not only responsible for the creation of the initial burger as it also works closely with chefs to continuously develop new portfolio of burgers, drinks and desserts that will attract more customers and satisfy their needs. Once these recipes are approved, all launching campaigns are developed, which allows h3 to introduce seasonal products and to test novelties in order to understand if the product should be permanently sold or not.

An atmosphere of constant renewal and novelty effects provides h3 with high potential for continuous sales growth. This innovative and dynamic nature is maintained because the stores are ready to rapidly change their communication and implement new procedures and operations.

The h3 proposition was to introduce healthy high-quality fast food always evolving to correspond to customers' needs and until today it regularly launches new products to tempt their customers.

(2) Not So Fast Food: "Bom, rápido e barato" (good, fast and inexpensive)

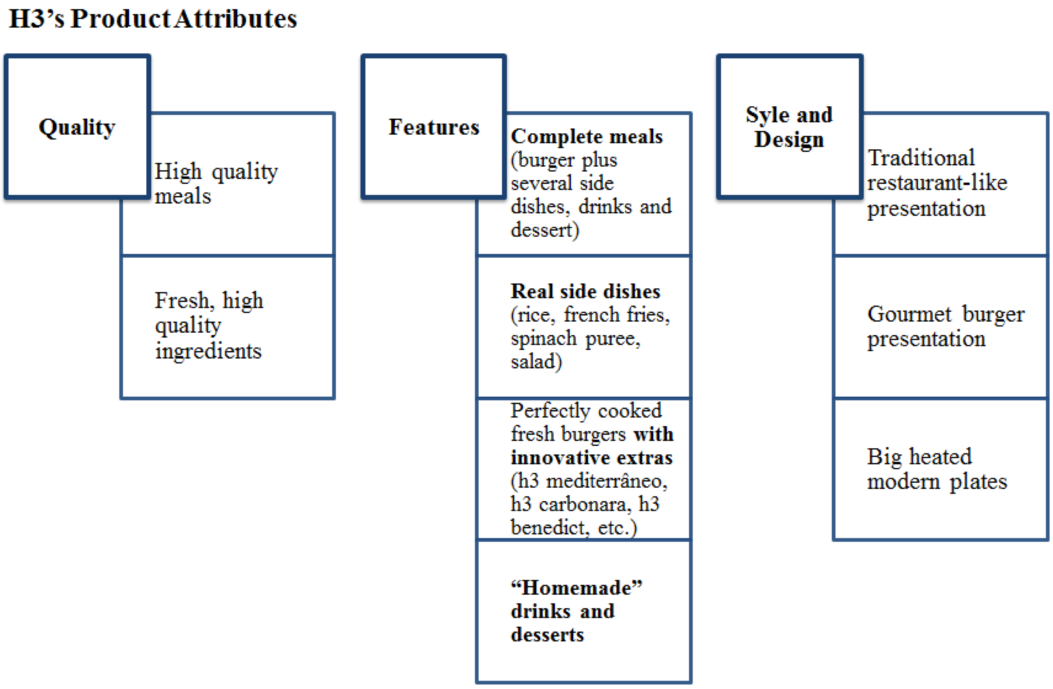
The premise was "*We never hear a customer say: "I am in a hurry and I really want to eat low quality food."* With this idea in mind, the founders idealized meals with real, fresh ingredients and that resembled the meals one would prepare at home.

Aligned with the idea of good food there was also the need for the meals to be delivered to the consumer fast, since most working customers have tight schedules when it comes to lunch time. At rush hour, each customer, since the moment he orders, should have his meal ready in 30 seconds. Although this is an ambitious goal, the fact is that often h3 has beaten this time, being its record to have served 258 meals from 1pm to 2pm, which gives an average serving time of 13.9 seconds. According to Nuno Costa, this is possible not only due to the highly trained grillers but also to the carefully thought and designed store layout that allows the whole cooking, serving and paying process to last the least time possible. The fact is that many times h3 is even able to serve complete meals faster than their "junk" fast food competitors, which emphasizes how well this system has been implemented (Figure 3).

3.3.2 H3's Mono-product Strategy

H3's strategy has always been of mono-product. In their stores there is only one type of burger being sold: the typical 200 grams beef burger. This is the base for all the different h3 menus, which are distinguished through the different extras that complement the burger.

Figure 4 – h3's Product Attributes



H3 has supported the mono-product approach because it allows the company to achieve higher margins. Providing only beef burgers allows h3 to cut back on costs as they can order the ingredient at a larger scale and a smaller variety of the complementary ingredients.

In order to provide customers with some choice when it comes to menus, h3 tries to make some differentiation with the extras that come with the burgers, so that the customer does not get saturated of eating the exact same meal over and over again.

3.3.3 The Gourmet Fast Food Option at a Competitive Price

Another important aspect of h3's marketing mix is its price which was markedly different from the expected cheap fast food that was found at the food courts at that time. The "not so fast food" concept also included the inexpensive factor. Although h3 is, on average, 20% more expensive than McDonald's, the matter of fact is that, given the quality and nature of the meals they serve, this is not a fair comparison. H3's prices must be compared to the ones charged in restaurants that serve complete meals, which provides the brand with a very competitive price.

In fact, h3 has meal options that vary from the simplest (h3 Grelhado) with a price of 6.10 euros to h3 French which costs 9.90 euros. Although the charged prices are higher than other fast food chains (McDonald's, KFC, Burger King, etc.) these are competitive prices for a fresh high-quality complete meal, with real side dishes and drinks. The benchmark is not so much other fast food competitors but other restaurants even outside the food court that serve complete meals. More recently, the increasing number in competitors in the healthy fast food sector with similar price ranges has highlighted the importance pricing has when it comes to customers to distinguish between typical fast food meals and healthy “not so fast” meals. Customers realize that to get healthier options they may pay more, but the high demand in this sector has also showed that customers believe they are getting good value for their money.

3.3.4 One h3 in each Food Court Across Portugal & the *h3 Method*

Ever since its first store in 2007, h3 took the risk of opening 6 stores in 2008 and 13 stores in 2009. This remarkable growth was accompanied of an extremely high acceptance rate which allowed the creation of more 12 stores in 2010. H3 is now present in food courts of shopping centers across the entire Portuguese territory and, more recently, in Brazil and Angola. Additionally, h3 also has its own street restaurant at Parque das Nações (Lisboa). Although h3 is known to be a player in the food courts across shopping centers in Portugal, its street restaurant still follows the same principles and standards, striving for fast service and high quality.

In order to allow consistency of operations and control, h3 in conjunction with IT experts developed the *h3 Method* which is systematized in a management control systems program that is applied to all franchises from the ones in locations such as Azores and Madeira to the international ones. The *h3 Method* is constituted by a set of principles and tools that allow h3 to keep its high standards and image consistent across all stores and locations. This method includes:

- Excellence centers
- Operation Tools
- Continuous in-store training
- Control and Audit systems

(Appendix 1)

The *h3 Method* aligned with the *Real Food system* (similar to the Balance Scorecards methodology) is crucial for h3 to maintain its consistent positioning and differentiate from competitors. The concern not only for high quality, consistent speed and flawless presentation but also for happy employees that convey the friendly image for h3 allows all stores, franchised or not, to keep consistent standards and to maintain the strong brand image that has been built. A customer eating at Oporto will most likely have the same experience as eating in Lisbon, which allows the brand to maintain its positioning and notoriety across the whole territory.

3.3.5 Promotion: Not so traditional

Lastly, h3 invested in promotion strategies that highly differed from its fast food competitors. As Nuno Costa puts it "*Nem só de comida se faz um restaurante"* (A restaurant is more than just food) which is why h3 highly invests on its image. Ever since its beginning, h3 emphasizes marketing actions that have as an objective to bring people to the stores, as the goal is that once a customer tries their product and service, he will become an ambassador that will always come back and recommend the brand. Everything from the choice of colors to the store layout was carefully thought in order to allow h3 to build its desired image. The blue color was chosen to represent the brand for one and only reason – because, at the time, there was no other competitor on the food courts with that color. Just think about McDonald's, Burger King, KFC, Pizza Hut and many others, whose color palette consists of a lot of red colors aligned with yellow or white. The idea was to stand out, and their choice of blue made it possible for them to be immediately identified by consumers. The matching with white counters was included to convey a clean light image.

When launching new burgers h3 looks to get consumers' attention by including a picture of the meal and a fun or catchy sentence to describe it at the store. This irreverent young message is complemented by the playful names given to some of their products, such as the ice cream *Everydae h3 (*Exhibit 5) which is a spin-off of the typical ice cream sold by fast food chains such as McDonald's called *Sundae*. Aligned with all the tempting photos of their menus, their overall store design allowed h3 to really stand out from its competitors and it was critical for their success (Exhibit 6).

When it comes to promotion, h3 has also decided not to invest in advertising. The initial low marketing budget is maintained until today and its strategies do not include any kind of street advertising, TV commercials or billboards, unlike McDonald's and such. According to Nuno Costa, the main marketing strategies used are two.

First of all, word of mouth. The high investment on fast service and product quality aims not only at satisfying its current customers but also to make them talk about it with their friends, family and colleagues. H3's fast success was largely due to the high word of mouth and buzz around the brand.

Secondly, h3 also opts to a few times a year send its employees outside and have them deliver invitations to customers to visit their restaurants – yes, that simple – just a piece of paper that invites individuals to come and try their food. This strategy has also proven to be very successful and it has already been used also in Brazil with similar positive results.

H3 has an integrated communication policy, which includes Public Relations and social media, with guidelines created by the h3 team composed of marketing and communication specialists that are available to all stores, including franchisees.

On the interactive side, h3 launched the *App h3* to better reach and satisfy its tech-using customers. In the first months the app was on top of the most downloaded app's Portuguese ranking, having achieved 100.000 users in its first three months and already accounts for 250.000 daily users. Providing options such as being the "mystery client", the app does not send any kind of spam nor does it collect information on customers. The h3 motto is *"we do not do to our customers what we do not want other app's to do to us."* Another interesting feature of this app is the "Appy Hour" which was first created in continuation of h3's manifesto *Tuga Resiste* (the Portuguese endure). The restaurant sector was faced with an increase in restaurant taxes a few years back and h3 saw an opportunity to compensate their customers for having to pay more for the meals. Therefore, it created this manifesto which allows customers to pay for nine meals and get the tenth one for free, thus getting back the extra money they spent because of the tax. This was such a success that even with the new government's announcement of reducing the tax again, h3 intends to keep the manifesto (Exhibit 7).

With the app, customers also get challenges and prizes after they complete them. One of these challenges is called "O maior fã h3 no Brasil" (H3's greatest Brazilian fan) where the customer who eats more times at h3 in a month gets 10 free meals. In the news' area of the app users get first hand all h3 related news.

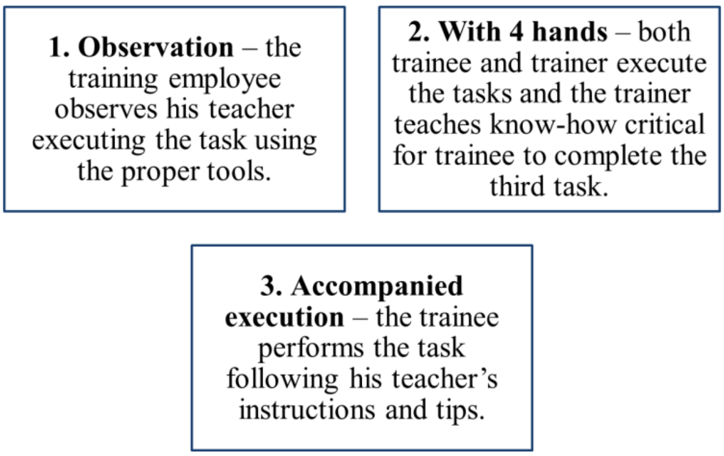
H3's presence in the app world allows the company to stay up to date with its young adult target and to increase communication and build a stronger relationship with them. Smart phone app's have been an increasing trend in recent years and brands can successfully connect with their customers in an innovative and personalized way, at any time and any place.

3.3.6 P is for Real People

Along with the introduction of a brand with outstanding high quality meals, the founders were also concerned about creating a good environment and corporate culture for its employees. As cliché as it may sound, h3 truly believes its success is only possible because of the people inside of the organization. A proof of this importance was the implementation of the Say C.H.E.E.S.E. program. It began in 2011 by suggestion of the current Human Resources director. The Say C.H.E.E.S.E. (Commitment to the Highest Employee Empathy and Service Efficiency) is a holistic program that deals with all issues regarding all employees, ever since they are hired. It includes career programs, education plans, health insurance, incentive systems, guidelines on how to treat your colleagues, sharing of experiences, parties, and more. As stated by Nuno Costa, *"For h3 people really are what matters the most."*

A particularly important aspect of this program is training which all employees in their stores must carry out ever since they are hired. The *h3 School* is where all employees are instructed about procedures and expected behaviors and are evaluated on 72 parameters to perfectly grill an h3 burger. The school of customer service is where store employees aside from cooks learn how to be the nicest and most helpful to customers.

Figure 5 - H3's Real Training: 3 Steps



Lastly, reflecting the playful and out of the box thinking that characterizes its founders, h3 also plans the *Out of the Blue* parties, which are included in this program. These occur two times a year and all employees with no exception are invited and encouraged to come. Nuno Costa states that "*The most important part of these parties is to put names together with faces.*" This allows building a sense of group and cohesion inside the company. Nuno Costa emphasizes the influence these parties have by revealing that the days after the parties are the days with less absent employees.

This emphasis on providing the best training and culture for its employees also transpires to h3's customers. H3's staff is known to be extremely friendly and helpful and meals are usually perfectly executed with great presentation, similar in virtually any h3 store one visits. The human resources investments complement h3's marketing strategy as its employees are the face of the company and providing a friendly face aligned with impeccable cooked meals with good consistent presentation leads to the more satisfied customers.

3.4 Markets: Past, Present and Future Strategies

Since 2007 h3 has enjoyed unprecedented success in the Portuguese sector, which is attributed to its unique business model and positioning. A clear example of this success is that nowadays h3 already has opened 46 stores in Portugal (17 of those are franchised).

In 2013 h3 in Portugal alone already accounted for sales around 24.5 million euros. In 2014 sales achieved almost 26 million euros. These are outstanding numbers in the Portuguese market, although the sales' growth pace has been diminishing when compared to the first years of activity, which indicates the maturity state the company is reaching (Exhibit 8).

3.4.1 H3 beyond the National Success: Going international

One cannot talk about h3 without mentioning its internationalization strategies. Since the beginning, the three friends António, Albano and Miguel expressed the desire for h3 to become the biggest burger chain in the world. Given their outstanding success in the Portuguese market, they expected the business concept to be successful in countries that shared similar consumption habits as Portugal.

The need for internationalization was also based on the fact that h3, although an immediate success, soon experienced two problems in the Portuguese market. Firstly, h3 in 2012 already had stores in all shopping centers across the Portuguese territory, which really limits the potential of growth it once experienced due to first mover advantage in initial years. Secondly, the fact is that h3's concept, although revolutionary in 2007 was easy to imitate and replicate. Although there are no concepts exactly similar to h3 in Portuguese food courts the fact is that creating the healthy “not so fast food” segment in the market gave way to the rise and introduction of many competitors that offer restaurant-like complete quality meals which is also what h3 aims for.

In order to react to the growth stagnation in the saturated Portuguese market, internationalization plans soon arose. The first country’s choice might seem counter-intuitive but it seemed like the right path for h3 at the time.

(1) Poland

The country chosen by h3 as the first international experience was – oddly enough – Poland. H3 chose this country because it believed it was a market that would respond well to the brand. This was a country experiencing high development with a “shopping center culture”, just as Portugal, an increasing population of 40 million inhabitants and high economic and political stability. This led the company to in 2011 open the first h3 restaurant in Warsaw. The Polish h3 restaurant served meals with a pricing higher than the typical fast food restaurant, and the same products as Portuguese h3 although a special Polish burger was to be introduced.

Although h3 entered the Polish market with high expectations, this internationalization step failed. Many reasons for this failure of internationalization were appointed, including the fact that the Polish fast food market was not yet matured, and therefore to introduce a fast food restaurant that differed from the traditional idea of fast food chains was too risky and Polish customers did not associate the value of the meals with the premium price of the products.

(2) The intuitive step: Spain

Besides the risky and ambitious project of moving to Poland, h3 also saw in Portugal’s neighbor country, Spain, a huge growth opportunity. To increase the motivation of expanding into the Spanish market was the expressed interest of Vips Group, the market leader in the restaurant industry in Spain, to partner with h3. Despite the promising potential that this partnership represented for h3, the fact is that, like in the Polish case, the Spanish market was in fact not similar to the Portuguese one at all and expanding the concept to a totally different country ended up not having the desired acceptance.

H3 still tried to adapt to Spanish preferences by opening a street restaurant more similar to its Café 3 roots as Spanish customers prefer to eat in street restaurants. The fact is that soon, in 2012, h3 realized this step had failed.

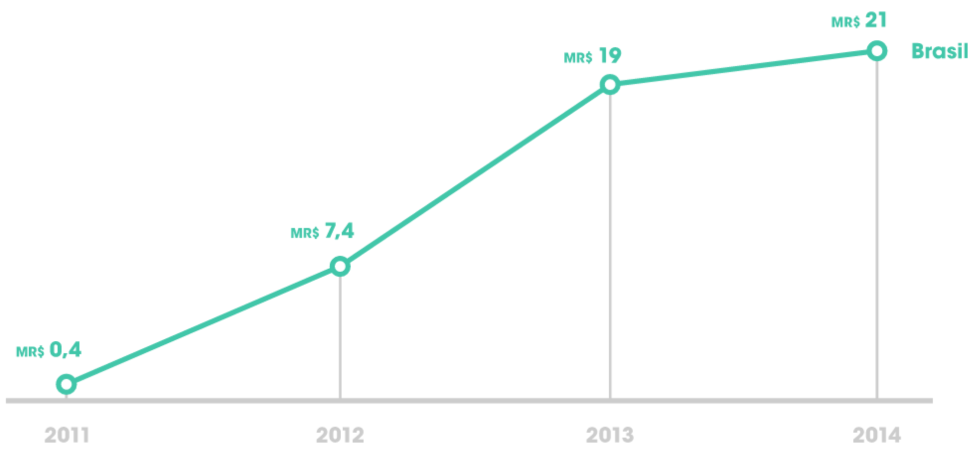
The second failure of internationalization was attributed to a wrong analysis of the Spanish market and a failure of h3 to pass its core message to that public.

(3) New internationalization Steps: Brazil & Angola

Although the first internationalization steps did not go as expected, the fact is that h3 still pursued its dream to become the biggest burger chain in the world. H3 concluded that the shopping center culture of Brazilians was extremely similar to the Portuguese culture, and therefore a mature fast food market in this context. The fact that there is no language barrier and the large nature of the Brazilian population, with an increasing number of individuals entering the middle class category over the last years, made of Brazil an ideal market to enter, although some negative numbers namely regarding GDP growth and the political instability have been indicating a more negative prospect for Brazil's economy (Exhibit 9).

H3 has opened 16 stores in Brazil. The evolution of sales has also been positive. From 2013 to 2014 sales still registered significant growth, surpassing the initial goal of 18 million Brazilian Reais by the end of 2013, although the growth was much less impressive than in previous years (Exhibit 9).

Exhibit 9 b) – h3's Sales in Brazil



Source: h3.com

The company has also opened its first store in Luanda at Belas Shopping, in the end of 2014 and expects to open more stores in the territory soon.

Nowadays h3 is thinking about further expansion, with special emphasis in China where it intends to open several stores in the long run and one store in Lichtenstein

3.4.2 Competitive Landscape in Portugal

Although when launched, in 2007, it did not face many competitors in the healthy fast food context, which provided the company with a significant first mover advantage, the truth is that nowadays h3 does not stand completely alone. Inside shopping centers h3 faces significant competitors, which although do not have the same business model, are already serving within the sector of healthy fast food. Examples of this are restaurants like Go Natural, Vitaminas, Loja das Sopas, Prego Gourmet, Portugália (which previously only owned restaurants), several Asian themed restaurants like Wok to Walk, amongst many others. More recently, also responding to new trends in terms of lifestyles, Saldanha Residence hosted the first 100% vegan fast food restaurant, Vegana Burgers, placed at the extreme opposite side of the h3 store, which also aims to be a healthy fast food player amongst the sector and has experienced success beyond expectations on its first months.

Numbers are not clear to show exactly how the introduction of these new competitors directly affects h3 but the truth is that the healthy trend continues on the rise and h3 faces emerging challenges in this area (Exhibit 11).

Outside shopping centers h3 has indirect competitors that follow similar business models. Examples are Hamburgueria de Bairro, Honorato, Gutsy, Ground Burger and many more. These restaurants (often located close to shopping centers where h3 operates or, in the case of Hamburgueria de Bairro, close to the h3 Restaurant at Parque das Nações) provide a bigger variety of burgers (including vegetarian options) while also targeting a young adult/adult crowd who is looking for a satisfying quality meal. Hamburgueria de Bairro has experienced remarkable success in this sector. The restaurant provides similar options as h3 when it comes to drinks (homemade lemonade, for example) and traditional desserts. Additionally, it introduced several seasonal vegan burgers, which soon became a permanent and successful part of their menu. This adaptation was also followed by several other mentioned competitors.

These kind of restaurant chains gain customers from h3 once they provide a larger variety of options that fit different tastes and lifestyles. Also, providing meals relatively fast (although slower than the promised 30 seconds by h3), with similar prices as the ones charged by h3, their spaces have young and trendy atmospheres, many times with seats outside, and situated close to busy parts of town as opposed to being inserted inside food courts (Exhibit 12).

Whether it is restaurants adding a "vegetarian" title to a menu that only had "meat" or "fish" listed, whether it is fast food chains allowing customers to make their own vegetarian options or simply offering them on their menu (like Wok to Walk who allows to create vegetarian dishes, Go Natural or even Burger King who recently re-introduced the bean burger in their Portuguese menu), the fact is that the food sector is changing and adjusting.

3.4.3 Challenges and the Future: Adapting to ever changing needs

Although h3 has been highly focused on internationalization as a way to offset the now stagnated growth in the Portuguese market, the fact is that Portugal is still the number one market where it operates. Not only is h3 spread across the entire Portuguese territory as the brand experienced full acceptance in this market and it is well known amongst virtually all consumers.

As of previous years, the competitive landscape has become fiercer, as the demand for healthy meal options has increased particularly in the young adults and adults range. A sector that was once unexplored in the Portuguese market has gained attention from multiple new healthy fast food chains which compromises sales growth and margins for h3 and requires companies to stay up to date with new customer demands.

As statistics show, the meat consumption habits have drastically changed and predictions are that mainly red meat consumption will register significant decreases over the next ten years, particularly in Europe[1]. The decline in red meat consumption is also aligned with the adoption of vegetarian/vegan diets as well as meat reducing diets that have experienced unprecedented growth, also in Portugal. For example, according to data collected by Nielson for Centro Vegetariano, it was estimated that 30.000 Portuguese people, in 2007 were vegetarians.[2] In the Portuguese market there has not been further research on this matter, although the Associação Portuguesa de Medicina Preventiva (APMP) estimated that in 2014 around 200.000 Portuguese people already followed meat-free diets.

[1] Retrieved from:
http://ensia.com/articles/these-maps-show-changes-in-global-meat-consumption-by-2024-heres-why-that-matters/
http://www.globalmeatnews.com/Industry-Markets/EU-economist-predicts-fall-in-meat-consumption

[2] http://www.centrovegetariano.org/Article-451-Portugal%253A%2B30%2B000%2BVegetarianos.html

Additionally, the rising of movements that are based on healthier lifestyles aligned with a concern for ecological matters, such as the *meat-free Mondays* or *flexitarianism* again reflects the increasing number of people looking to drastically reduce the quantity of meat on their meals. To complement the this trend, scientific reports have been correlating red meat with the increase of heart diseases, diabetes and some types of cancer, which leads more customers, especially health concerned individuals or adults with heart problems, to look for meals that do not include this kind of product.

The world trend seems to be of a "*growing population of vegetarians, semi-vegetarians, meat-reducers and „vegivores" that is set to consume more meat-free foods than ever before and becoming increasingly adventurous in their tastes. (Euromonitor International, 2011).*"[3]

Although Portugal hasn't been target of a lot of research, several numbers worldwide are also revealing of this trend. For example, 25% of British people have cut back on meat in 2012 and prospects are that the number *flexitarians* and meat-free eaters will become a mega trend, which will be met with more vegetarian restaurants, more omnivorous restaurants providing meat-free options and an overall greater acceptance of vegetarian diets and associated benefits. Additionally, according to FSA's People's Attitudes to Food Technologies Survey, 2010, 5% cent of respondents answered to be vegetarian or vegan and it was predicted that the number of vegetarians in Britain would increase to 10% from 2013 to 2015.[4] Recent polls from 2016 show that the number of vegans in Britain alone rose 360% over the last 10 years.[5]

According to a survey conducted by the Brazilian Institute of Public Opinion and Statistics, around 8% of the Brazilian population claimed to be vegetarian, with the city of São Paulo being the one with more absolute vegetarians (792.120 people).[6] Another study from

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[3] http://www.foodnavigator.com/Market-Trends/Meat-free-drive-is-impacting-consumer-markets-Euromonitor?utm_source=copyright&utm_medium=OnSite&utm_campaign=copyright

[4] https://www.vegsoc.org/sslpage.aspx?pid=755

[5] http://www.telegraph.co.uk/food-and-drink/news/number-of-vegans-in-britain-rises-by-360-in-10-years/

[6] http://www.ivu.org/news/online/2004-10.html
http://www.ibopeinteligencia.com/noticias-e-pesquisas/dia-mundial-do-vegetarianismo-8-da-populacao-brasileira-afirma-ser-adepta-do-estilo/
https://en.wikipedia.org/wiki/Vegetarianism_by_country

Cauldron Foods / MMR Research Worldwide (2010) concluded that 76% of vegetarians were not happy with the choice available to them in fast food restaurants[7].

All over the world more individuals and organizations are becoming aware of the importance of adapting and introducing plant-based options to respond to the growing environmental and health concerns of consumers, with big investments starting to be made in order to find vegetable products that resemble meat, dairy and eggs and restaurants strongly adapting their menus to increase vegetarian options. [8] In fact, it is estimated that 12% of millennials are vegetarians which represents a significant increase from 4% of Gen X'ers and 1% of baby boomers.[9]

Although the healthy, low meat consuming lifestyle has been increasing largely, the fact is that the offer of this kind of options in the fast food sector is still relatively scarce, and Portugal is no exception.

This overview of a new food consumer can be very relevant for h3. The company has experienced unprecedented success ever since it was established. However, the increase in competitiveness and the change in dietary trends are most likely causing many potential customers to divert to other competitors and adding to the annual sales growth stagnation, from the 100% in initial years to around 30% or less.

The company has always heavily defended its mono-product strategy as it allows cutting back on costs. Being that as it may, h3 also has the goal of being the healthy fast food option customers look for when they go to a shopping center.

Now that it is reaching its maturity stage, the question becomes – In food courts across the world where healthy fast food offers are spreading, will the same customer always go for h3's mono-product offer? Is h3 really providing what customers want? Should h3 adapt to the contemporary more demanding and educated food consumer?

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[7] https://www.vegsoc.org/sslpage.aspx?pid=755

[8] http://www.forbes.com/sites/robindschatz/2016/02/06/tastes-like-bacon-a-vegan-investor-hosts-a-plant-based-gourmet-feast-to-highlight-food-innovation/2/#35bbf00a2c8f

[9] http://www.nytimes.com/2014/08/17/fashion/the-millennials-are-generation-nice.html?_r=0
https://nutritionlately.com/2012/12/21/16-ways-millennials-are-winning-the-food-game-part-3-of-4/

4 Market Research

H3 is currently facing the challenge described in the previous segment: growth stagnation in the Portuguese market. In order to understand which strategies the company can pursue to increase sales and satisfy its customers, it is mandatory to understand their wants and needs. What are the Portuguese consumers' consumption patterns? Have customers' needs changed ever since h3 was first established?

In order to fully address these issues, an online survey was conducted (Appendix 2) to gather responses from a sample of customers to gain quantitative and qualitative insights on these matters.

To answer all of these questions, the survey was built assessing these critical aspects to understand consumption habits, needs and perceptions, approaching the following topics:

- Portuguese consumption habits: Place and frequency
- Key aspects when choosing a fast food chain: h3 and competitors
- H3's positioning: Consumers' perceptions and relevant attributes
- Demand for a vegetarian option: should h3 include one? Which are the taste preferences?
- Generalized willingness to pay for vegetarian options
- Positive perceptions towards chains offering vegetarian options and how it positively influences a chain's positioning

4.1 Methodology

In order to construct the market research, the survey was distributed online across several social networks (facebook and LinkedIn mainly) and through e-mail lists in order to collect a more diversified sample. Overall, there was a sample of 417 responses. The survey aimed solely at Portuguese consumers and because the first question served to identify customers who do eat at shopping centers, only 268 of the respondents actually completed the survey and therefore registered for analysis. All questions in the survey where close-ended and the possibility of choosing "other" was only given when it came to consumers' food tastes, in order to provide more flexibility in this very particular area. Aside from demographic questions in order to assess age, geographical position and income level, several questions were formulated as a scale to be able to better understand the degree of importance in several different aspects and attributes.

4.2 Sample Analysis

In order to provide overall information of the sample in terms of demographics, the more relevant data is described below:

- From the 417 valid responses, only 64% (268 respondents) claimed to eat at fast food chains.

Exhibit 12 – Demographic Analysis

Exhibit 12 a) – Respondents' Gender Percentages

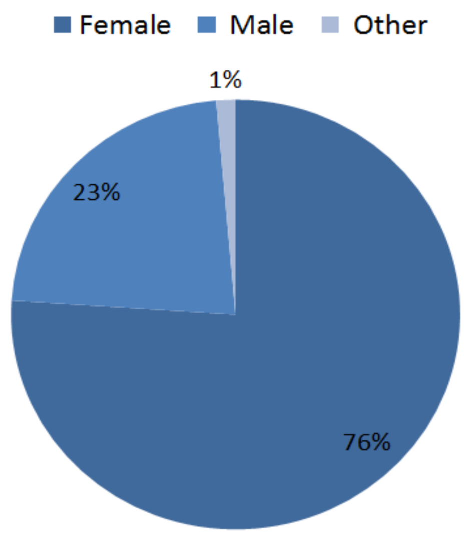
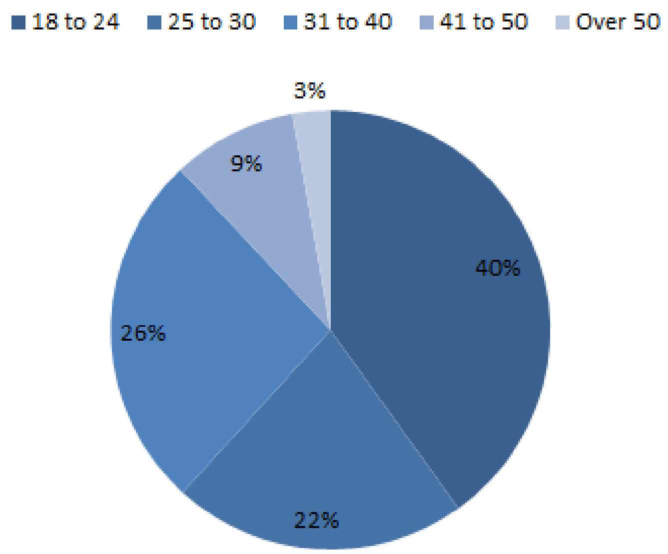


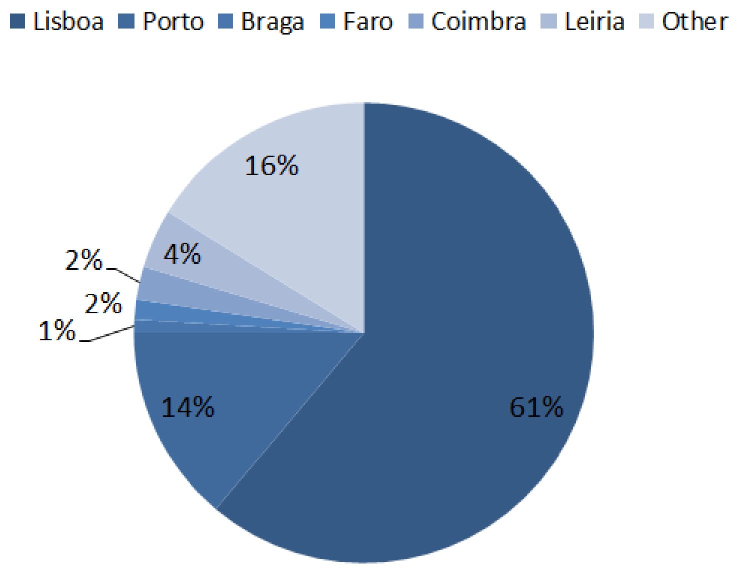
Exhibit 12 b) – Respondents' Age Percentages



- In the 18-24 range, 76% were females and 24% were males, while in the 25-30 range 81% were female and 15% were male while 4% answered “other”.
- In the 31-40 range 72% were females and 28% were males.
- Lastly, in the 41-50 range 75% were females while 15% were males and in the 50> range 83.3% were females and 17% males.

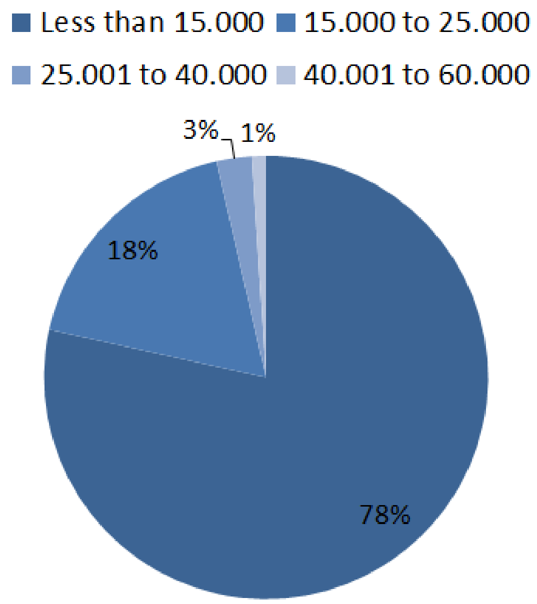
Regarding geographical positioning, results were the following:

Exhibit 12 c) – Respondents’ Geographical Position Percentages



Regarding income level, results were:

Exhibit 12 d) – Respondents’ Income Level Percentages



- It is important to note that 51.6% of respondents that had annual income below 15.000 were in the age range of 18-24 while 26.8% were in the 25-30 range which accounts for around 78.4% of responses in the lower income range
- In the income range from 15.001 to 25.000, 60% of respondents were aged from 31 to 40 with only 17.1% of respondents in the range of 25 to 30 and from 40 to 50.

4.3 Results

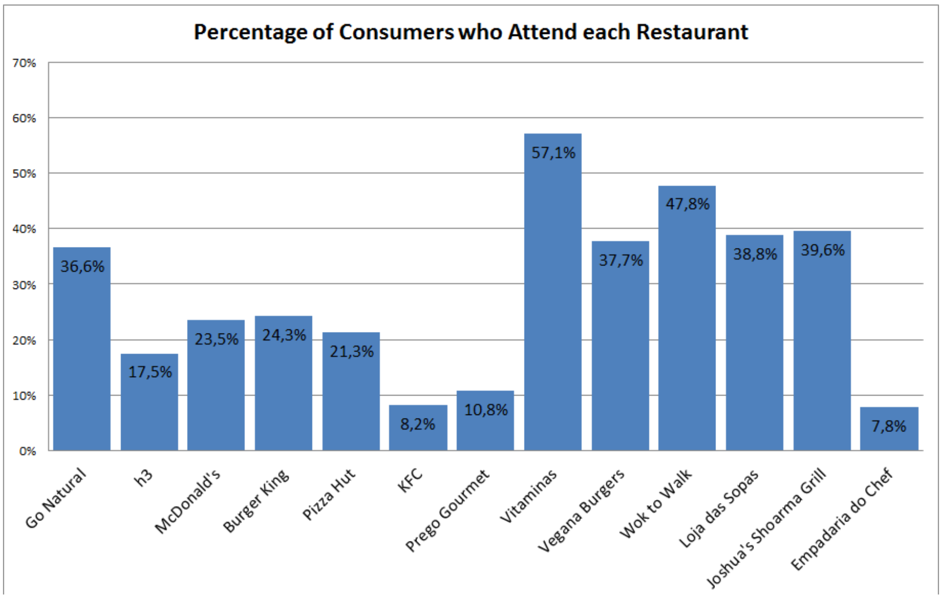
After analyzing the demographic characteristics of the sample, the most relevant results regarding preferences, tastes and perceptions are summarized below.

4.3.1 Portuguese consumption habits: Place and frequency

After the first question customers who stated to have meals in shopping centers continued answering the survey. The following question was for customers to state in which fast food chains they have their meals. As described in Exhibit 13 c), the sample registered a majority of consumers in Vitaminas as well as Wok to Walk, Loja das Sopas, Joshua's Shoarma Grill, Vegana Burgers and Go Natural. At a lower range was h3, McDonald's, Burger King, and Pizza Hut.

Although these results indicate a clear preference for more healthy oriented chains, it does not yet account for how many times each customer visits each chain.

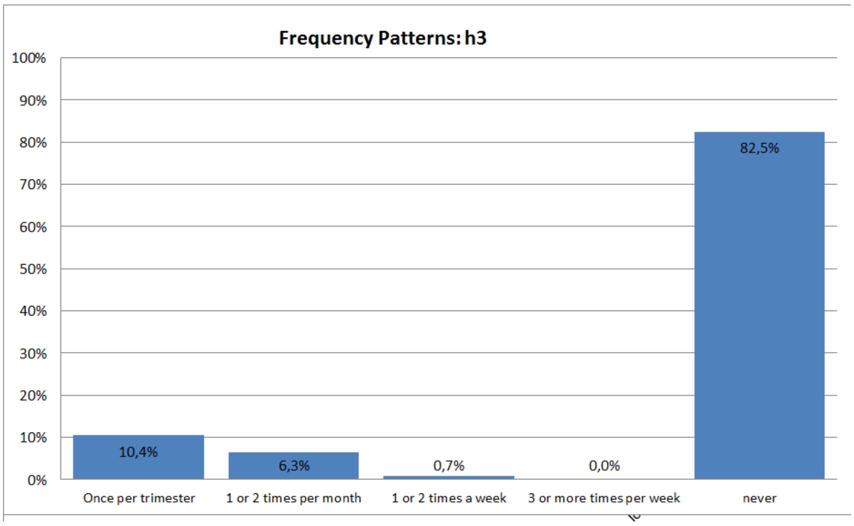
Exhibit 13 c) – Consumption Patterns



In the case of h3, the number of respondents who only visit it once per trimester is around 59.6%. The overall high percentage of customers that do not frequently visit chains might indicate the still persistent trend of customers who prefer to bring food from home to lunch at their work place or who prefer to have leisure meals outside shopping center. In Exhibits 13 d) 2 to 4 are the remaining graphs of attendance per restaurant.

Analyzing h3's consumers purchasing frequency, one finds that from the 268 people who responded to eat at fast food chains, only 18% currently visit h3. Those who visit h3 are mostly infrequent users, which might indicate the need for consumers to vary their meals or consumers who prefer to eat outside food courts.

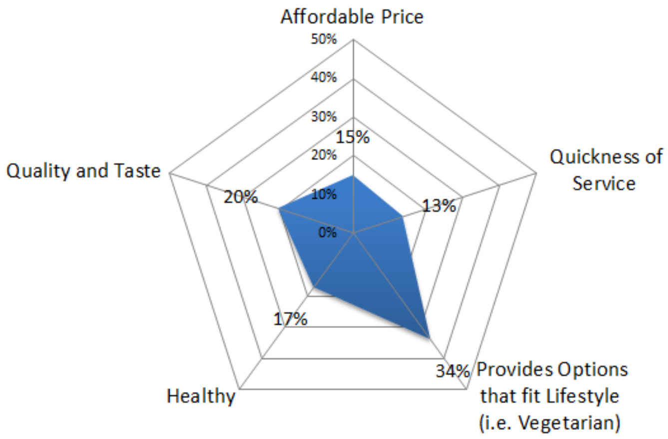
Exhibit 13 e) – H3 and Competitors: Frequency and Attributes



4.3.2 Key aspects when choosing a fast food chain: h3 and competitors

In the past few years the Portuguese fast food market has highly evolved. Nowadays, one does not only find typical American fast food chains but also specialized "not so fast food" restaurants that opt for very differentiated offers, from Asian, Italian or Traditional Portuguese themes to lifestyle themes. This trend led to a heavily saturated market which represents a more complex choice for consumers. In order to better understand which factors lead customers to choose different chains, the survey asked which attributes did they value the most or the least when opting for each. The question provided different scales for each attribute, namely for affordable price, quickness of service, lifestyle needs (ex: offers vegetarian options), healthy, and quality and flavor of meals provided.

Exhibit 13 e1) – Mean of Important Aspects when Choosing a Chain

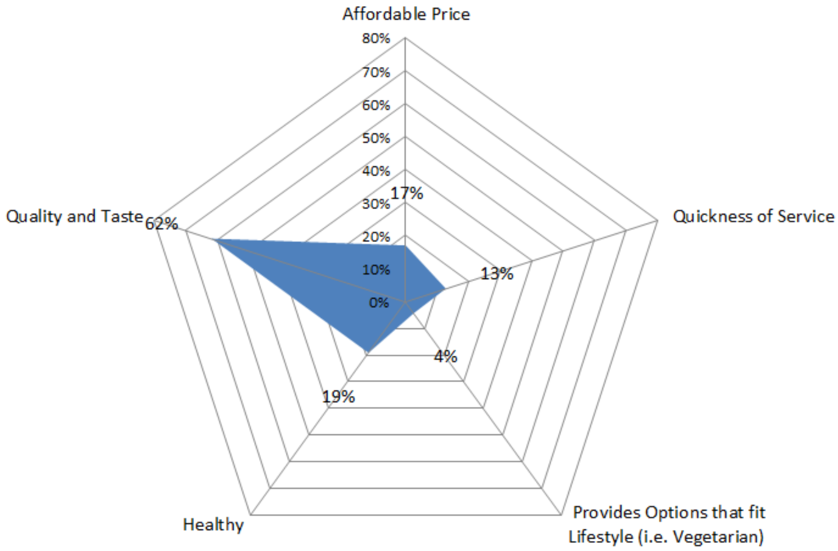


As evidenced in the graph, surveyed consumers value mostly restaurants that offer options that fit their lifestyles. This is an interesting indicator, once it shows customers who follow different lifestyles (vegetarian, *flexitarian*, no red meats, healthy-oriented, pescetarian, gluten-free, low fats, amongst many others) that are looking for fast food chains that adapt to their particular preferences and beliefs. The next attribute of great importance was taste, which indicates Portuguese consumers' preference for having tastier meals and a smaller concern for price and quickness of service. It is also interesting to mention that the healthy aspect had a mean of 17% which indicates some level of concern for the quality of meals purchased. These results can be extremely relevant for h3. The high concern for quality and taste aligned with some concern for price and quickness of service show that h3 has some of the most relevant attributes that consumers are looking for.

4.3.3 H3's positioning: Consumers' perceptions and relevant attributes

Building on the previous conclusions, it is also important to understand how h3 scored on these five aspects. As revealed in Exhibit 13 e3), the majority of customers who eat at h3 value the most the quality and flavor of the meals. Although 13% mention the quickness of service as an important factor, the perception that h3 provides healthier meals has a greater general importance. 4% mention that h3 provides meals that fit their lifestyle, which represents the least referred attribute for this brand. 17% of customers also refer h3 having an affordable price as an important attribute. H3's positioning is built on high quality healthy meals served fast at an affordable price, which seems to have been passed on to its customers.

Exhibit 13 e2) – Percentage of Importance Given to Each Attribute for h3



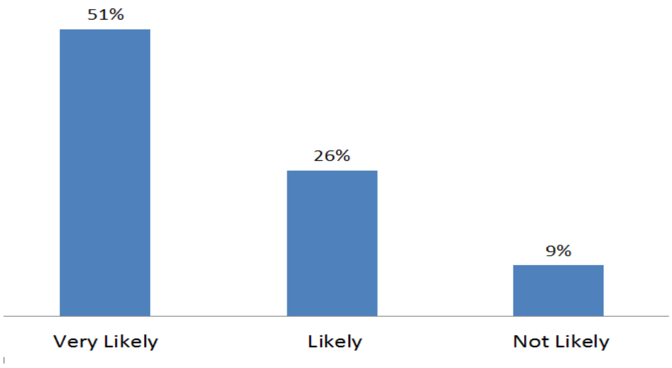
4.3.4 Demand for a vegetarian option: Should h3 include one? Which are the taste preferences?

After assessing on the different attributes most valued by customers, the surveyed individuals were asked if they believed healthy fast food chains should include vegetarian options on their menus.

As presented by Exhibit 13 f), 97% of surveyed individuals believed that these chains should provide vegetarian options on their menus.

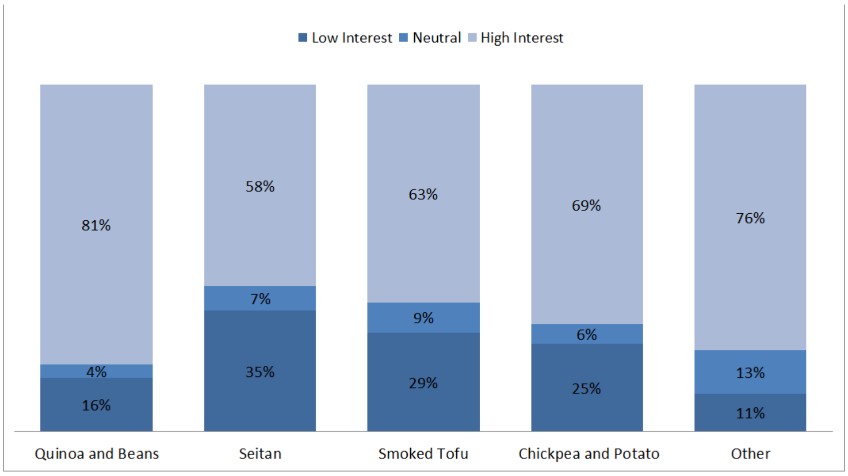
In order to understand how this demand fits h3's positioning, individuals were then asked how likely they would be to try h3's vegetarian option. As demonstrated by Exhibit 13 g1) half of respondents answered they would very likely try this option. These results indicate a reality of consumers who are bolder in their tastes and looking to try different things as well as plant-based customers who expect chains as h3 to meet their needs. Additionally, it shows the belief that this option, provided by h3 would be worth at least to try, which once again also transpires the high quality image that customers associate with h3's meals.

Exhibit 13 g1) – Likelihood of Trying h3's Vegetarian Burger



Lastly, consumers were offered a variety of different vegetarian burgers and were asked to rate from 0 to 10 how much they would like to eat each type of burger. As seen in Exhibit 14 h), all options had high interest from respondents, with the quinoa and beans option having the highest popularity of around 81%. The seitan burger was the one with less interest, which may also be due to the fact that its gluten constitution is not suitable for people who follow gluten-free diets. Despite the high popularity for all burgers, the option "Other" was also very high which might indicate the need for further analysis in terms of what other taste or options would customers be looking for.

Exhibit 13 h) – Burger Type Preferences



4.3.5 Generalized willingness to pay for vegetarian options

Individuals were then provided with the price ranges that h3 charges and then asked how much they would be willing to pay for a complete menu with the vegetarian burger. As seen in Exhibit 14 i), 60% of respondents would be willing to pay in the lower range, 6-750 euros, while 37% were willing to pay 7.60 to 9 euros.

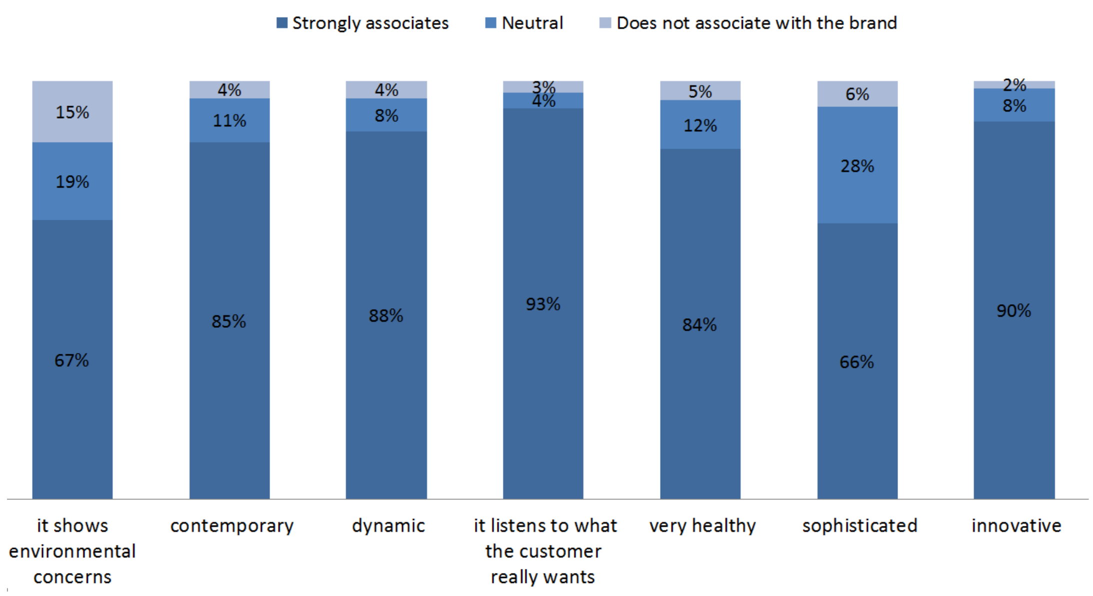
4.3.6 Positive perceptions towards chains offering vegetarian options and how it positively influences a chain's positioning

As seen in Exhibit 13 j1), 90% of surveyed individuals state that offering a vegetarian option has a positive impact on their opinion. The next slot of the survey mentioned seven different attributes and their opposites that individuals had to rate on whether they associated them or not with brands that include vegetarian options. The attributes were: it shows environmental concerns; contemporary; dynamic; it listens to what the customer really wants; very healthy; sophisticated and innovative.

As seen in Exhibit 13 j2) below, the more strongly associated attributes are of a brand that listens to what customers want, innovative, dynamic, contemporary and healthy oriented. Customers did not seem to associate so much sophistication with vegetarian options nor seemed to be particular informed or aware of the positive environmental impact of plant-based meals.

H3's positioning aligned with its trendy image and concern for innovation, highlight the importance of these findings. The most associated attributes are highly related with the attributes where the brand wants to perform, particularly in being healthy, innovative and contemporary, adapting to customers' needs and offering healthy balanced meals. This is relevant for h3 as its growth is now stagnated and offering a vegetarian burger may positively influence its brand image on the mentioned attributes and allow it to capture parts of the target segment that are turning to its competitors looking for meat-free options.

Exhibit 13 j2) – Attributes Associated with Brands that Introduce Vegetarian Options



5 Conclusions

From its modest roots as Café 3 to the biggest Portuguese fast food chain across the territory, h3 has had a successful yet rocky path.

Nowadays, with stores across all food courts in Portugal, two internationalization failures and a recent yet steady growth move to Brazil, h3 is faced with the challenge of growth stagnation in its still most relevant market: Portugal.

5.1 Main Outcomes

This thesis aimed at understanding how h3 became the unprecedented success in the Portuguese market and how it can develop marketing mix strategies for the future.

Once h3 nowadays faces a mature market with several competitors that thin its margins, it is paramount to answer to the proposed key research questions as a way to understand how the company can surpass growth stagnation in Portugal and eventually abroad.

KRQ 1: What are h3's key success factors that led to its current position in the Portuguese market?

The unprecedented success experienced by h3 can be attributed to many different factors that conducted the brand into the position it occupies today in the Portuguese market.

First of all, the determination of the three founders aligned with the innovative idea of creating gourmet burgers was the basis upon which the brand was built and developed. Introducing a revolutionary product in the Portuguese market was one of the first factors that propelled h3's success.

Aligned with the great idea was the marketing mix chosen. Beginning with place, spreading it across food courts filled mostly with traditional "junk" food offers. Many consumers looked for healthy complete meals during their tight schedule and h3 was the answer to a health concerned crowd who wanted to eat balanced meals in a timely manner and affordable price.

Associated with a unique offer in the food courts was the ability to design processes that allowed for meals to be served at record time and the offer of real drinks, side dishes and desserts which made h3 truly stand out.

It is also fundamental to mention the first mover advantage and all the consequent buzz and word of mouth that allowed h3 to experience full market acceptance and quickly spread across the entire Portuguese territory. The simple promotion strategies served as a complement to the hype around the brand, which allowed h3 to sustain its unique positioning.

KRQ 2: What kind of attempts has h3 followed to surpass the stagnant growth rate in the Portuguese market?

The growth stagnation aligned with the dream of being the biggest burger chain in the world, led h3 to start internationalizing.

The first destiny was Poland, followed by Spain, where h3 followed the same strategy as in Portugal. Unfortunately, both the Polish and the Spanish market were not accepting of the h3 concept and these steps failed.

Nowadays, h3 expanded to Brazil where it experienced some success and higher acceptance. It has also opened a store in Angola.

KRQ 3: What kind of competitive landscape does h3 currently face in the Portuguese market?

Nowadays h3 faces a lot of competitors both inside and outside the food courts. Shopping centers are now filled with several “not so fast” food options that go from different country to lifestyle themes. These chains provide higher quality meals also at a faster pace and slightly higher prices.

It is also interesting to note that outside of food courts many burger places opened following an extremely similar business model to h3. These chains offer “real” burgers, just as h3 and “real” drinks and desserts, many times also similar to the h3 offer. These chains differ in the variety offered (different types of bread, vegetarian options, sweet potato French fries, etc.) and are usually located at trendy places with a young and nice atmosphere.

All in all, nowadays h3 is experiencing a fierce competition that represents much harder challenges when compared with its earlier days.

KRQ 4: What is the demand for a vegetarian option and what marketing mix strategy should h3 implement?

Based on the market research, customers inserted in h3's target segment (young adults and adults) seem to be looking for a vegetarian offer on h3's menu. Many believe that chains with h3's positioning should offer vegetarian options and a larger number of surveyed individuals appeared to be extremely eager to try h3's vegetarian option, if offered.

Regarding the type of product, the majority of customers were largely interested in the quinoa and beans option, although other options also had high interest..

Concerning price, the majority was willing to pay from 6 to 7.50 euros which fits h3's price ranges and allows maintaining its positioning.

Customers associated the insertion of this option to a contemporary brand that listens to its customers and that is healthy and innovative which is critical for h3's promotion strategies once the company's brand image and promotion have highlighted these attributes (Appendix 3).

KRQ 5: In order to offset market saturation and increasing competitiveness should h3 follow the trend of other fast food chains worldwide and include a vegetarian option on its menu in the medium/long-term?

H3's mono-product strategy excludes many potential customers and may prevent current visitors to eat at h3 several times a week simply because there is no variation in meals.

The analysis of the Portuguese market and the evolution of customers' needs indicate that h3 could opt to add a vegetarian option to increase sales and customer base.

There is a growing reality of customers who associate red meat with health issues leading many to decide not to eat this product. This reality is aligned with more customers who are vegetarians, *flexitarians* or follow movements like *meat-free Mondays* or that simply prefer to have some vegetarian meals per week. Consumers are not only more health aware as they are also increasingly accepting and eager for meat-free options. Several restaurants, including h3's competitors have been adapting to this reality offering vegetarian options which allows them to gain customers from the company.

Aligned with the idea of responding to changing needs h3 can still enjoy the benefits of offering more product variety (allows to adapt to different customers and provides a quality cue to them). As highlighted in the market research, introducing a vegetarian option is also related with positive attributes and would allow for minimal cannibalization as the product would be markedly different from the beef burger and would most likely also attract a different layer in the broad segment where h3 acts.

Overall, h3 could engage in product line-filling, similarly to its indirect competitors, by providing meals within the range where it already operates. In this sense, it could introduce a high quality ("real") vegetarian burger. (Appendix 4).

Facing an increasingly aggressive competition demands h3 to change focus from cutting back on margins to also on adapting to contemporary customers' lifestyles and needs in order to thrive in the long term.

6 Teaching Notes

6.1 Synopsis

The fast food sector flourished over the last years due to changes in customers' tastes and increasing competition that force companies to regularly adapt their marketing and positioning strategies. The sector's evolution led to more chains entering the slow food segment providing complete and balanced meals with many different themes and offers.

Although h3 aims to become "the biggest burger chain in the world" it is paramount to develop marketing strategies in Portugal that allow the company to remain competitive and take advantage of market opportunities. The food consumer is ever changing and Portugal is not an exception.

Throughout this case study all relevant topics and facts that led h3 to be an outstanding example were examined. Additionally, internationalization failures and new steps were also covered to provide an overview of how h3 has been trying to pursue its ambitious goal and overcome growth stagnation.

Overall, the case study provides insights on h3's strategic moves and presents new reflections on the importance of creating marketing strategies to surpass the challenge of growth stagnation and lack of surprise effect. Additionally, it analyzes the contemporary market of this mono-product company in a sector filled with many competitors that offer a large variety of products and customized meal options.

6.2 Target Audience

The case study covers topics related with marketing strategies, approaching frameworks such as the marketing mix as well as STP, highlighting the importance of these two aspects to be aligned with the company's strategy. It additionally approaches the issue of a brand's lifecycle and discusses the matter of new product introduction and how it can be a source of competitive advantage and influence the brand's positioning.

Because it mentions, in a practical way, several relevant marketing topics, this case study is directed at both undergraduate and master students who are enrolled in courses related with marketing, consumer behavior, branding and innovation.

6.3 Teaching Plan and Relevance of Study

The h3 example is relevant because the company followed an unusual path with uncommon marketing strategies and positioning which largely contrasted to the typical strategies of traditional fast food companies. Because of its remarkable success, unique marketing mix strategies and internationalization efforts, the case offers a broad yet detailed analysis of an interesting company case and how its initial success is now met with new challenges. Providing an overview of the Portuguese and international food consumer of today, it additionally provides students with an opportunity to apply the knowledge themselves by exploring alternatives that may allow h3 to offset its growth stagnation and succeed nationally and internationally.

Figure 6 – Critical Insights/Learning Points

- Learn a practical example of different key success factors that led to the company's unique success
- Understand h3's pillars that constitute its unique marketing mix and positioning
- Comprehend how the positioning of the brand is affected and must evolve with changing consumers' needs
- Have a practical understanding of the marketing mix concept and how it is essential to continuously assess strategies in order to maintain competitive advantage
- Highlight the importance of understanding the market and target segments and how their tastes evolve and the importance of a brand to evolve with them
- Understand the challenge h3 faces and reflect on possible future marketing strategies that will allow h3 to regain competitiveness

6.4 Teaching Plan

Prior to reading this case study, it is important for students to understand the marketing concepts mentioned. In order to provide more theoretical support, the following academic papers mentioned in the literary review are suggested:

“The Long-Term Effect of Marketing Strategy on Brand Sales” (Ataman, M.B., Van Heerde, H.J. and Mela, C.E., 2010) explores on the marketing mix concept and provides research on the long-term impact of each of the four P’s on brand sales.

Secondly, in “Positioning and Branding your Organization” (Knox, S., 2004) the author elaborates on the relationship between positioning and the marketing mix, using the example of McDonald’s, thus providing students with important theoretical reflection and with a practical case.

Lastly, “Theoretical Aspects of Product Positioning in the Market” (Ostaseviciute, R. & Sliburyte, L., 2008) highlights the importance of the STP strategies and provides strong theoretical frameworks from several different authors on how to create successful targeting, positioning and repositioning strategies.

6.4.1 Assignment Questions

Preceding the responses to each question, a class discussion should take place in order for students to be able to share the key insights they learned when reading the case and to provide a mental structure upon which the answers will be given.

The following questions aim to emphasize the main marketing strategies that led to h3’s success and to demonstrate clearly how these can influence the company’s performance.

1. Please explain why h3 experienced such success in the fast food sector and describe its targeting and positioning strategies.

2. Elaborate on the importance of the marketing mix in the fast food context, highlighting the relevance of product and place. (Use the findings from Berger, Draganska and Simonson, 2007 ; Kalnins, 2003 and Ataman, Berk, Harald , Van Heerde and Mela, 2010)

3. Apply the marketing mix plus the P for People to the h3 case, highlighting the most important aspects of each.

4. What kinds of attributes were mostly related with fast food chains offering vegetarian options? How are these findings relevant for h3?

(Appendix 5)

7. Limitations and Future Research

The first limitation arises due to the sample's size and nature. The sample of individuals that answered the survey does not represent the Portuguese market in demographic terms. Additionally, because the survey's distribution was online it excludes non computer or social network users and biases the sample towards the characteristics of the people which are in the groups where the survey was shared.

This means that the surveyed customers most likely represent particular segments, with a clear orientation towards healthy food habits which cannot be applied to the overall Portuguese population.

Regarding the survey questions, although they were able to provide relevant insights, some aspects could be subjective and ambiguous which might have interfered with the answers given. For example, the expression "lifestyle" can have very different definitions to consumers, which might result in unclear answers.

The lack of past research regarding the vegetarian consumers was also a constraint. Although more studies and research are being carried out worldwide, Portugal still has a scarce viable database on this matter which prevents from providing a clear picture of the Portuguese market in this particular area.

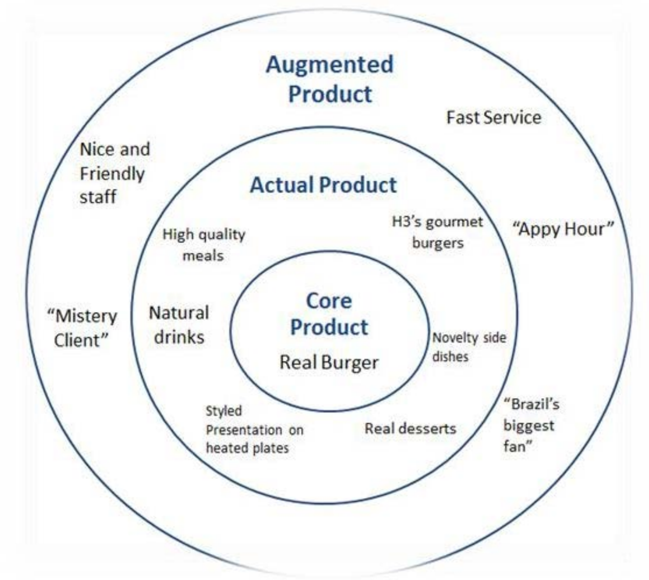
To build upon the present research, a more detailed survey could be conducted in order to gather more insights on how customers choose amongst different food chains and possibly also providing a distinction between meat eating and vegetarian customers. This could present a new perspective on how healthy fast food chains segment and target their customers, seeing as vegetarians and non-vegetarians will most likely have different health concerns, tastes and needs and therefore respond differently to different marketing strategies.

In order to gather more information it could also be fruitful to spread the survey across h3's customers, in order to understand if customers who already frequent h3 are satisfied with its mono-product offer or would also welcome this new product.

Lastly, in the case of product development, focus groups should be carried out in order to present different vegetarian options and understand customers' preferences and reactions to the new product.

8. LIST OF FIGURES

Figure 3–The three Levels of h3's Product



9. LIST OF EXHIBITS

Exhibit 1 – H3's Burger ID

OFERTA COMUM	OFERTA H3
apenas no pão, em caixas descartáveis	no pão ou, como refeição, em pratos aquecidos
hambúrguer de 100 g	hambúrguer de 200 g
com batatas fritas congeladas	com batatas frescas, arroz ou salada
molhos indústriais	molhos de Chef com ingredientes frescos
bebidas indústriais	bebidas naturais e caseiras
target: crianças e adolescentes	target: adultos exigentes
imagem de fast food	imagem moderna, azul e luminosa

COMMON OFFER	H3'S OFFER
Just bread in disposable boxes	On bread or on heated plates
100 gr. Burgers	200 gr. Burgers
With frozen french fries	With fresh french fries, rice or salad
Industrial Sauces	Fresh Sauces made by Chefs
Industrial drinks	Natural homemade drinks
Target: children and teenagers	Target: demanding adults
Fast food image	Blue, modern and bright image

Source: h3.com

Exhibit 5 – h3 Stores’ Layout

Source: h3.com

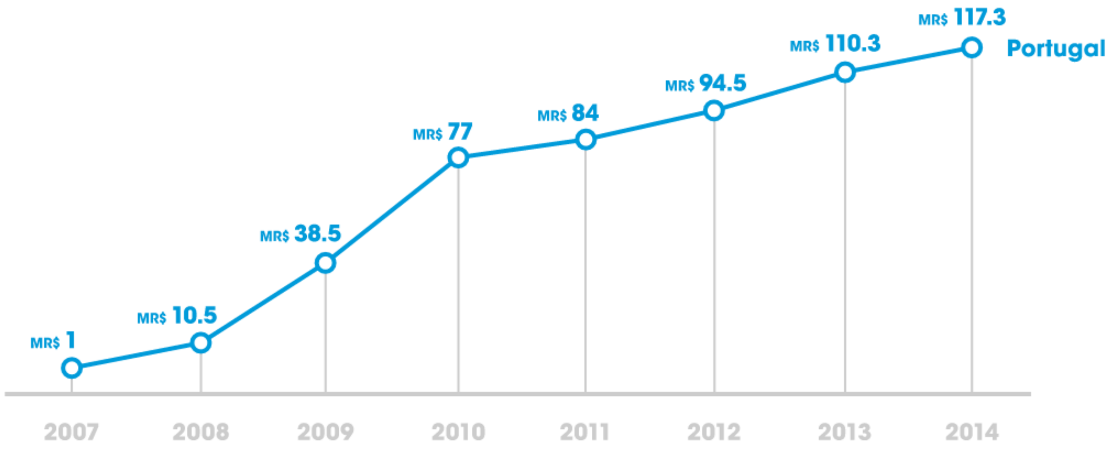
Exhibit 6 – H3’s “Appy hour”

(Translation: “Missing 9 meals to have a free one”)

Source: h3.com

Exhibit 7 – Product Lifecycle and Maturity Stage Implications

Exhibit 7 a) – H3's Sales Evolution



Source: h3.com

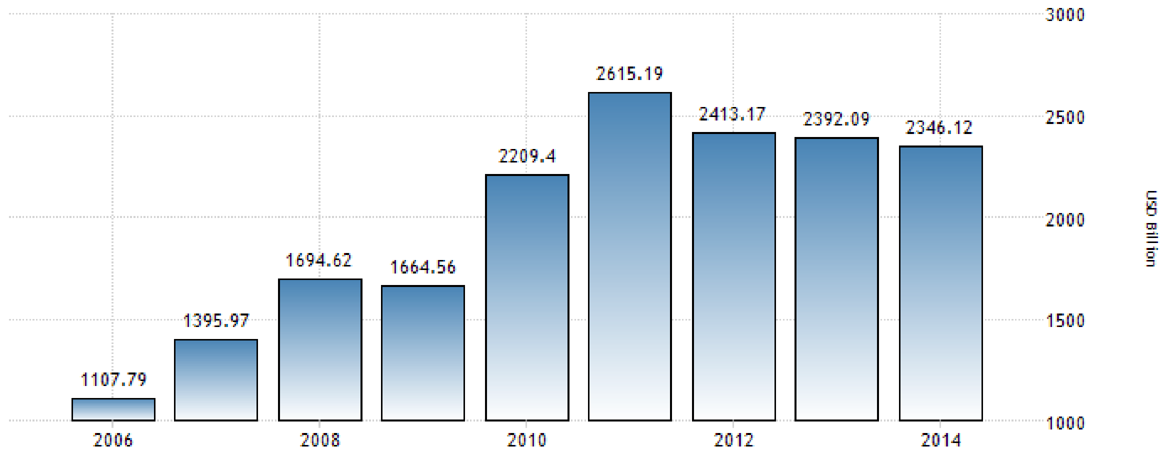
Exhibit 7 b) – Maturity Stage Described

Maturity Stage: This product stage occurs after the growth stage and it is when sales growth starts slowing down. This is usually the longer stage of the four (introduction, growth, maturity and decline) and it is challenging for the company's marketers. The most successful products that survive this stage are the ones who are flexible and continuously evolving to meet customers' needs. The main ways to prompt sales at this stage are: to innovate in the market (market development) or to modify the product (product development) and the marketing mix (marketing innovation).

Retrieved from the book: Kotler, P., Wong, V., Saunders, J. & Armstrong, G., 2005. *Principles of Marketing*, 5th Edition, Pearson Education

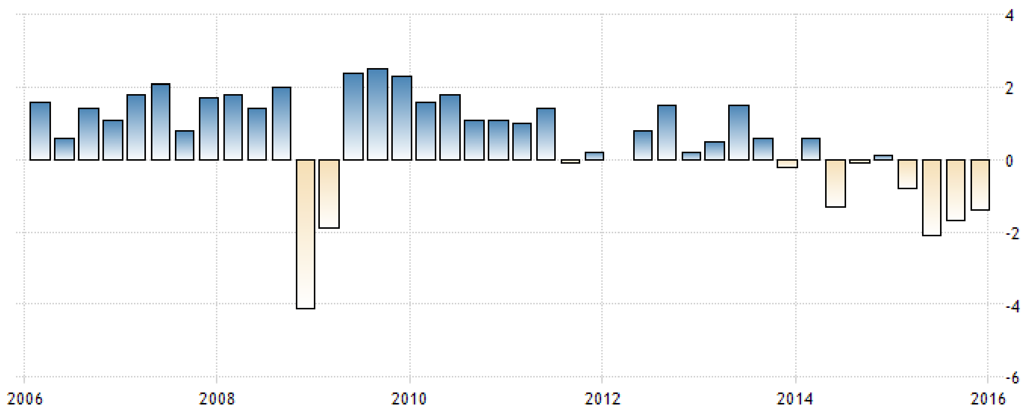
Exhibit 8 – Brazilian Economy Numbers

Exhibit 8 a) – Brazilian GDP in USD Billion



Source: Trading Economics

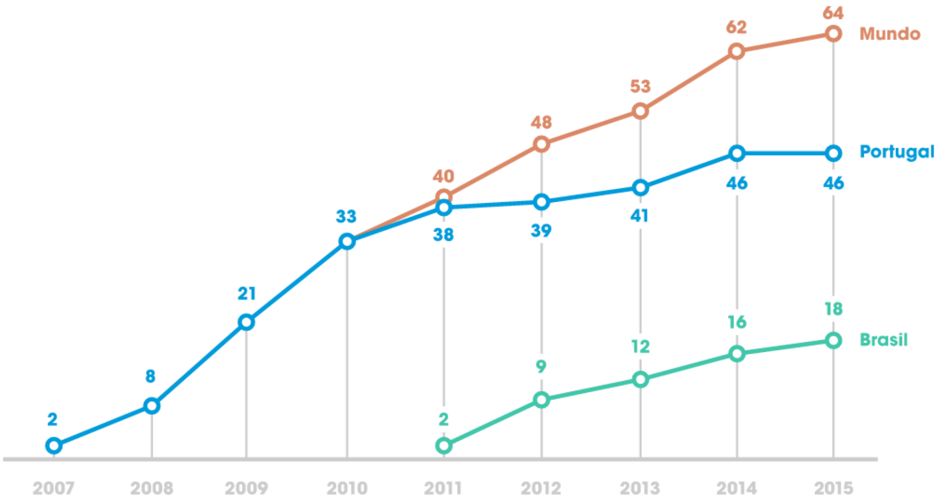
Exhibit 8 b) – Brazilian GDP Growth Rate



Source: Trading Economics

Exhibit 9 – h3's Stores and Sales

Exhibit 9 a) – h3's Number of Stores in Portugal and Brazil



Source: h3.com

Exhibit 10 – Menu Examples from Healthy Fast Food Players

Exhibit 10 a) – Wok to Walk

Source: http://woktowalk.com/pt-br/o-nosso-menu/

Exhibit 10 b) – Vegana Burgers

Source: www.zomato.com

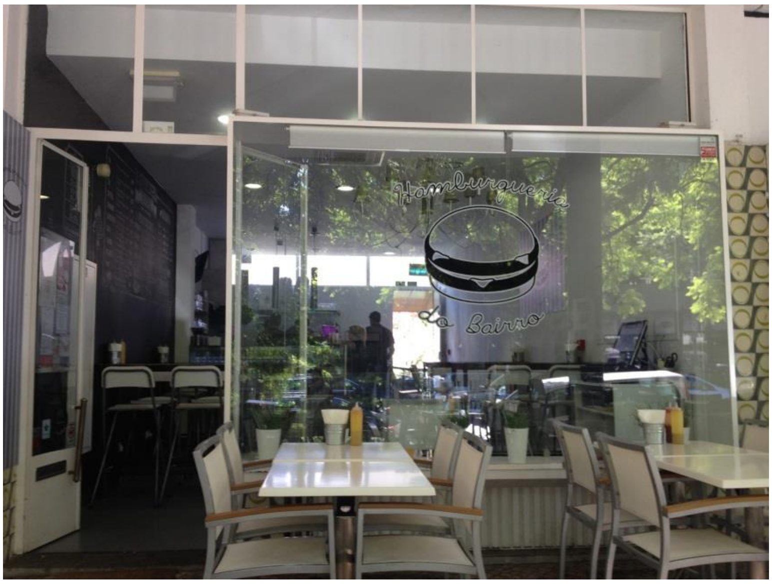
Exhibit 10 c) – Vitaminas

Source: http://www.vitaminas.com.pt/pt/menu

Exhibit 11 – Menu and Restaurant Examples from Indirect Competitors

Exhibit 11 a) – Menu and Restaurant Example from Hamburgueria de Bairro

Source: zomato.com



Source: brilhosesarilhos.blogspot.pt

Exhibit 11 b) – Menu and Restaurant Example from Honorato

Source: zomato.com

Source: lisbonlux.com

Exhibit 13 – Survey Results

Exhibit 13 a) – Cross Tabulation between Gender and Age

What is Your Age Range		Gender			
		Female	Male	Other	Total
	18 – 24	40,0%	40,8%	33,3%	40,1%
	25 – 30	23,0%	14,3%	66,7%	21,7%
	31 – 40	24,8%	32,7%	0,0%	26,3%
	40 – 50	9,1%	10,2%	0,0%	9,2%
	>50	3,0%	2,0%	0,0%	2,8%
	Total	100%	100%	100%	100%

*Note: the questions were not mandatory and had an overall response of 217: 165 female, 49 male and 3 others.

Exhibit 13 b) – Cross Tabulation between Age and Income level

What is your Age Range		Annual Income					
		< 15.000	15.000 to 25.000	25.001 to 40.000	40.001 to 60.000	>60.000	Total
	18 – 24	51,6%	5,7%	21,4%	0,0%	0,0%	40,2%
	25 – 30	26,8%	17,1%	0,0%	0,0%	0,0%	22,5%
	31 – 40	15,7%	60,0%	35,7%	40,0%	100,0%	25,8%
	40 – 50	4,6%	17,1%	21,4%	40,0%	0,0%	8,6%
	>50	1,3%	0,0%	21,4%	20,0%	0,0%	2,9%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

*Note: the questions were not mandatory and had an overall response of 209: 153 <15.000, 35 between 15.000 to 25.000, 14 between 25.001 to 40.000, 5 between 40.001 to 60.000 and 2 >60.000

Exhibit 13d) – Frequency of Purchase in each chain

Exhibit 13d1) – Frequency of Attendance at each Chain: 1 Time per Trimester

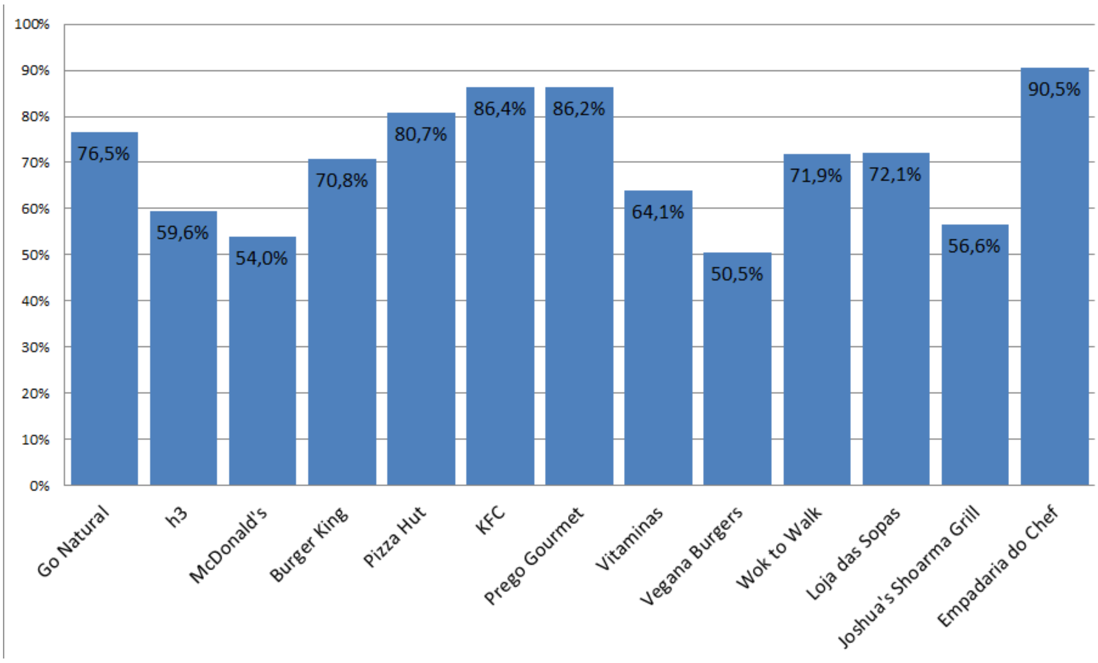


Exhibit 13 d2) – Frequency of Attendance at each Chain: 1 or 2 Times a Month

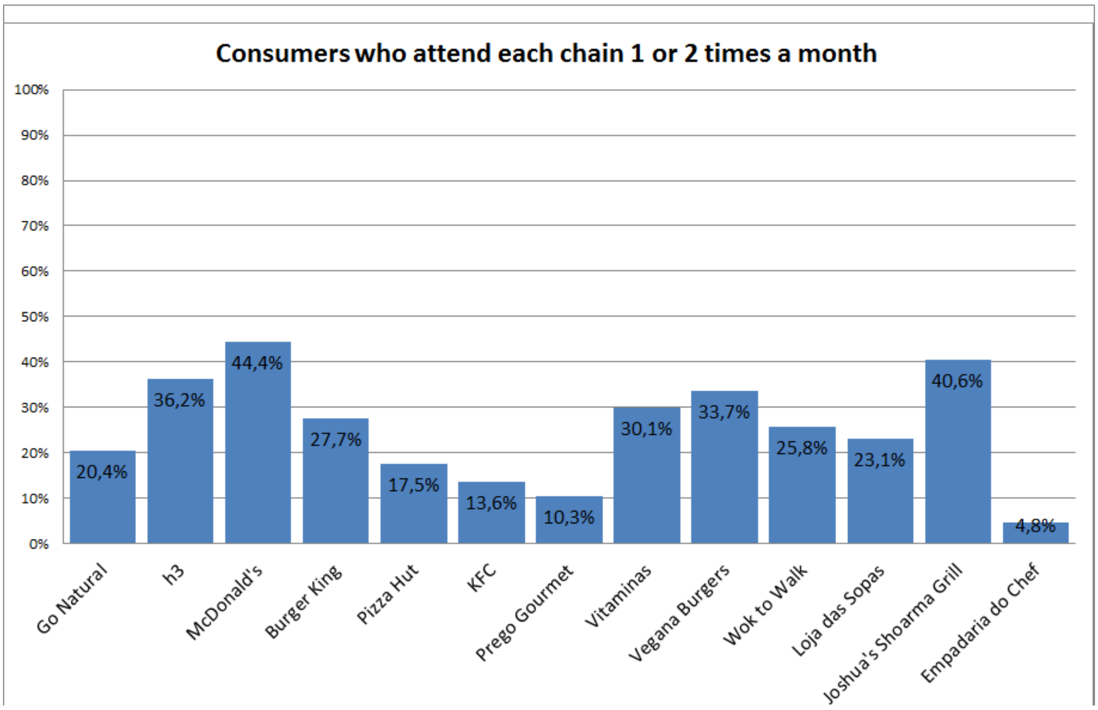


Exhibit 13 d3) - Frequency of Attendance at each Chain: 1 or 2 Times a Week

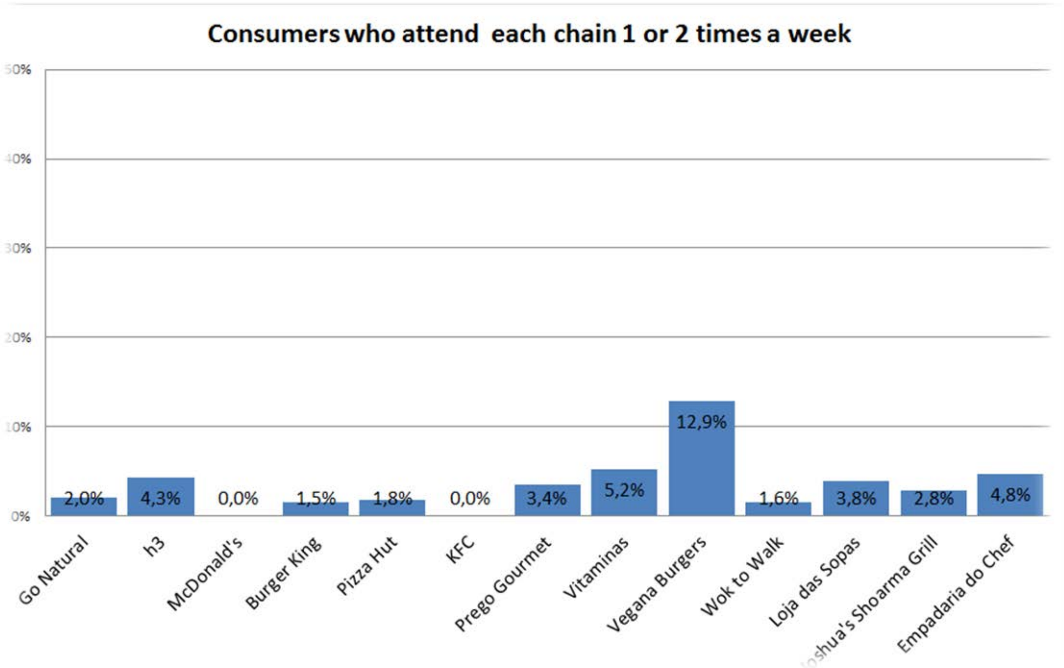
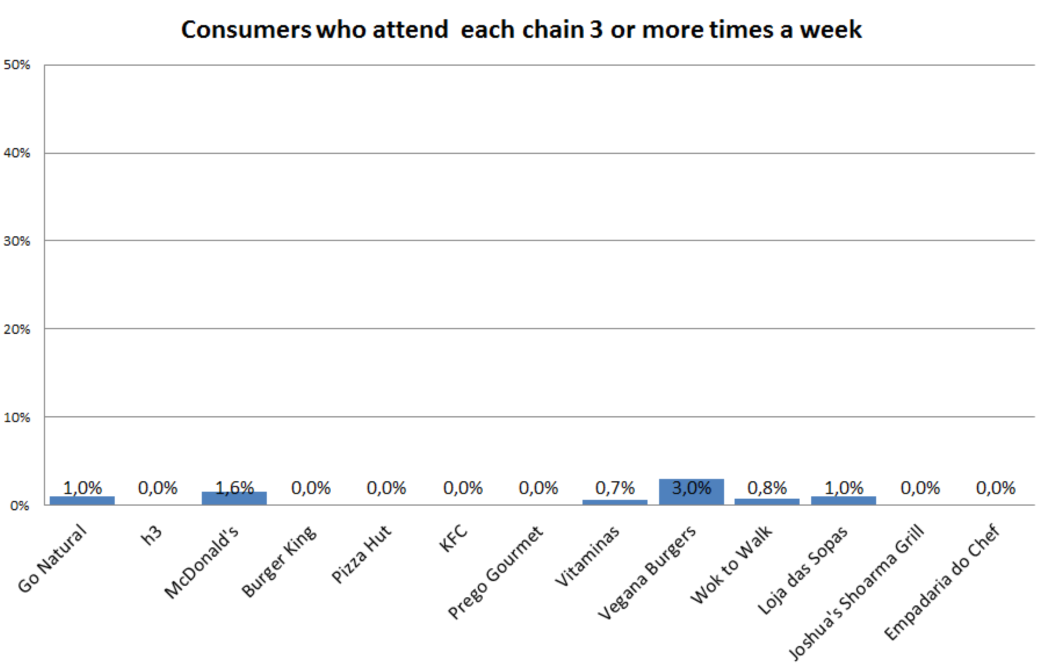


Exhibit 13 d4)- Frequency of Attendance at each Chain: 3 or more times a Week



*Note: percentages in each graph are accounted on the number of customers who claimed to visit the chain and not on the overall number of surveyed customers. For example, 1% of customers who go to Go Natural claim to go there 3 or more times a week, etc.

Exhibit 13 f) – Should healthy fast food chains provide vegetarian options

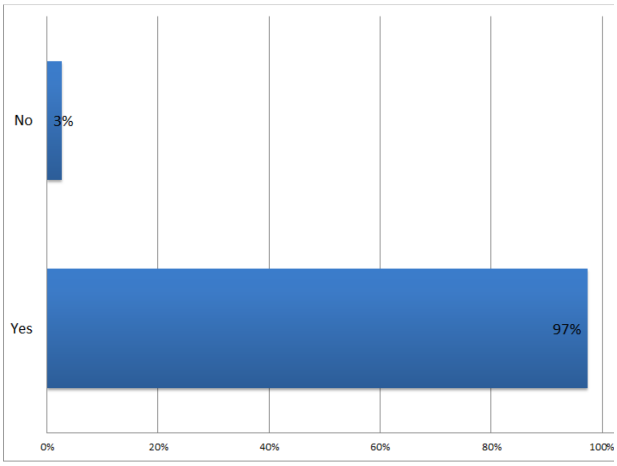


Exhibit g) - Vegetarian Burger: Perceptions and Interest

Exhibit 13 g2) – Cross Tabulation between customers who would try the vegetarian option and income level

		Annual Income					
		< 15.000	15.000 to 25.000	25.001 to 40.000	40.001 to 60.000	>60.000	Total
If h3 introduced a vegetarian option, how likely would it be that you would try it?	Very Likely	58,8%	64,7%	50,0%	60,0%	100,0%	59,6%
	Likely	29,4%	29,4%	28,6%	40,0%	0,0%	29,3%
	Not Likely	11,8%	5,9%	21,4%	0,0%	0,0%	11,1%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Exhibit 13 i) - Willingness to pay

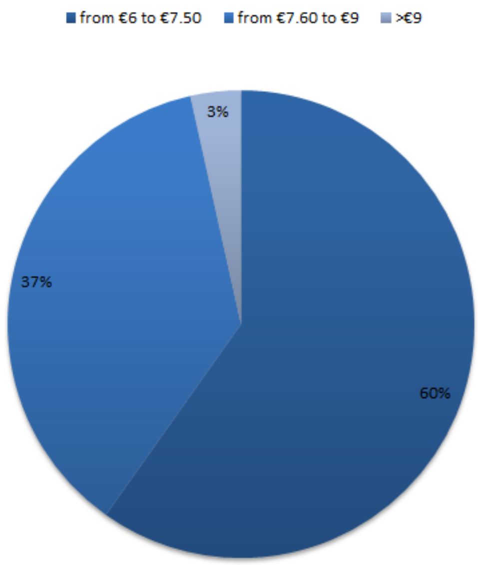


Exhibit 13 j) – The Impact of Offering Vegetarian Options

Exhibit 13 j1) – Consumers' Perceptions: How Vegetarian Options Influence Positioning

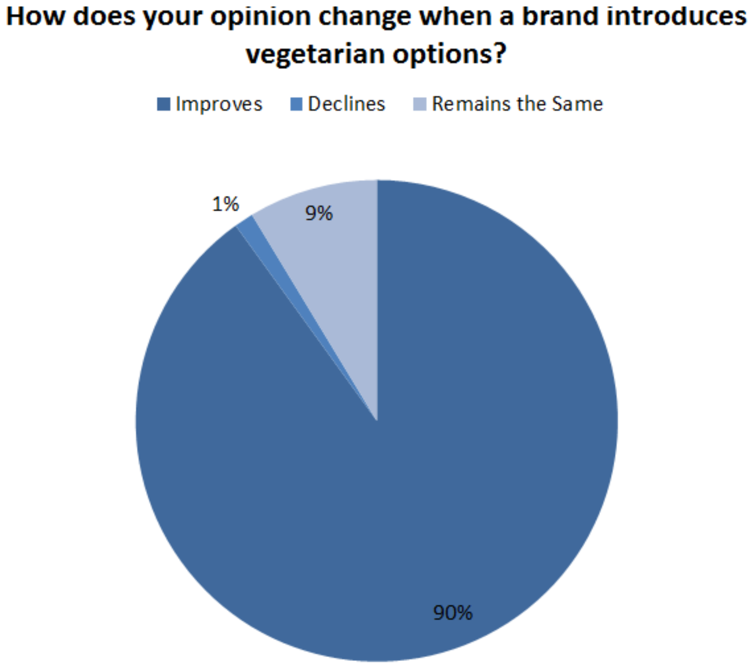
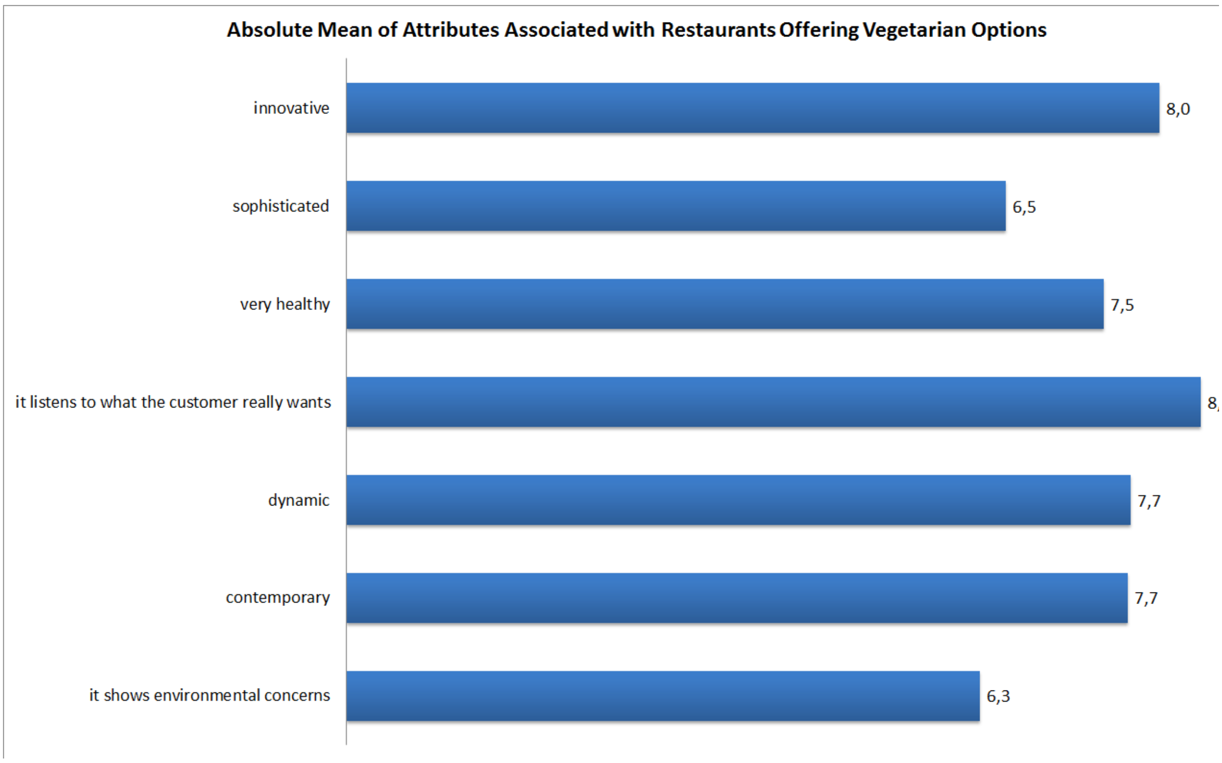


Exhibit 13 j3) – Average of Attributes Associated with a Chain Offering Vegetarian Options



10. LIST OF APPENDIXES:

Appendix 1 – The h3 Method and Real food system Explain

The h3 method further includes:

“Todos vão ao quadro” (everyone comes to the board) initiative which consists in a teaching method for new store employees to be able to learn fast how to cook and serve the orders.

“Escola da grelha” (grill school) whose director is the initial chef of Café 3, Vítor Lourenço. To avoid waste of burgers that apprentice cooks fail to prepare properly, the game “Grill thrill” was created, so that employees can get accustomed to preparation and timing of the meals in this interactive way. The objective is that an h3 cook can produce healthy quality products with minimal waste. One cook in two hours should be able to produce up to 400 meals.

The Real Food System is a digital platform created by h3 to provide all necessary tools to its franchisees and includes guidelines on how to cook, how to serve, how to teach, how to manage and how to implement control and security systems. It also explains how to do the financial management necessary and how to apply the marketing system of the brand. The program is extremely efficient, but h3 still follows and advises franchisees throughout the whole integration and business consolidation process through an h3 consultant who provides support in all business aspects and shares all necessary information for the franchisee to develop its business, in areas such as marketing, hygiene, food security, h3 kitchen and teaching process. H3’s operations in all stores are daily controlled with a mandatory registering of all operations that occurred throughout the day. Furthermore, there are control checklists and evaluation, internal and external audits, analysis of suppliers, of final products, of hygiene standards, of water, ice and all other aspects of the stores and products.

Appendix 2 – Market Research Survey

INTRODUCTION

This survey’s objective is to understand the behavior of the contemporary consumer and how the demand for meat-free meals might influence the healthy fast food sector.

All answers are anonymous and confidential and will be used for academic purposes, namely for the completion of a master thesis on Marketing Strategies.

I would really like to thank you for your participation.

1. **Do you eat at fast food restaurants in shopping centers' food courts?**
    - o Yes
    - o No (if "no" the survey ends)

2. **From the following fast food chains, which ones do you usually buy from?**

- o Go Natural
- o h3
- o McDonald's
- o Burger King
- o Pizza Hut
- o KFC
- o Prego Gourmet
- o Vitaminas
- o Vegana Burgers
- o Walk to Wok
- o Loja das Sopas
- o Joshua's Shoarma Grill
- o Empadaria do Chef

Here respondents had for each chain the option "Never", "1 time per trimester", "1 or 2 times a month", "1 or 2 times a week", "more than 2 times a week" and could only pick one option for each chain

3. **Which are the reasons that lead you to choose the chains you've mentioned?**

	affordable price	quickness of service	healthy	lifestyle needs (ex: offers vegetarian options)	quality and flavor
Go Natural					
h3					
McDonald's					
Burger King					
Pizza Hut					
KFC					
Prego Gourmet					
Vitaminas					
Vegana Burgers					
Walk to Wok					
Loja das Sopas					
Joshua's Shoarma Grill					
Empadaria do Chef					

4. **Do you believe that restaurants inserted in the "healthy fast food" segment should offer vegetarian options?**

- o Yes
- o No

CONSIDER THE H3 CONCEPT

5. **If h3 inserted a vegetarian option, how likely would you be to try it?**

- Very likely
- Likely
- Unlikely

6. Which type of burger(s) would you prefer? (being 0 the least interesting and 10 the most interesting)

- Seitan
- Smoked Tofu
- Chickpea and Potato
- Quinoa and Beans
- Other

7. Knowing that h3's menus go from 6.10 to 9.90 euros, how much would you be willing to pay for a complete vegetarian menu? (burger + rice +chips + drink)

- 6 – 7.50
- 7.60 – 9
- 9.10– 11
- >11

8. When a chain inserts vegetarian options on its menu, your opinion about the brand:

- Improves
- Remains the same
- Decreases

9. Which attributes do you associate with brands that offer vegetarian options? (being 0 "I don't associate" and 10 "strongly associate")

Does not have environmental concerns — Has environmental concerns

Traditional — Contemporary

Monotonous — Dynamic

Listens to what customers really want — Does not listen to what customers really want

Unhealthy — Healthy

Modest — Sophisticated

Old-fashioned — Innovative

10. What is your age range

- 18 – 24
- 25 – 30
- 31 – 40
- 40 – 50
- >50

11. Gender

- Female
- Male
- Other

12. Where do you live?

- Lisboa
- Porto
- Braga
- Faro
- Coimbra
- Leiria
- Outro

13. Annual Income?

- < 15000
- 15000 a 25.000
- 25.001 a 40.000
- 40.001 a 60.000
    - 60.000

Appendix 3 – Suggested Promotion Strategies for the new h3's Burger

- Typical h3's promotion strategy:

\- Present the new product in stores with a picture and a funny slogan to introduce the vegetarian burger

\- On busy streets close to h3 stores offer flyers with invitations for customers to come and try the new burger

- Other suggestions

\- Advertise the vegetarian option on h3's app in order to increase awareness and word of mouth about the new product. This can also potentially include an interactive game where customers that try the new product may gain some sort of prize (like discounts or free meals in the future).

\- Potentially, samples of the new burger could be offered for the first days after the new product introduction. Because the vegetarian option represents a new type of flavor that differs from h3's beef burger option, customers could be more willing to buy after they actually tasted it for free, thus increasing trial rates and overall sales. The employees providing the samples should be informed about all components of the burger and its health benefits to inform more information-seeking customers. (Lammers, H. B., 1991; Heilman, et. al., 2004)

Appendix 4 – New Product development Details

Besides product line-filling, companies launching a new product can still opt for product line-stretching. However, neither of the possible strategies seemed to be suited in h3's case:

• Downward stretch: by including lower end products (like cheaper burgers or pre made side dishes or dessert options) would most likely hurt the brand's image and positioning by conveying a cheaper "junk" food-like message. H3 based its success on being the higher quality player in the sector, and therefore introducing lower end products is not aligned with this image.

• Upward stretch: given h3's positioning as a high-quality player in the healthy fast food sector, an upward stretch does not seem to be the natural step for the brand. Introducing a higher quality burger in a restaurant that is already providing higher end products with superior quality and taste does not seem to make much strategic sense.

Appendix 5 – Teaching Notes' Assignment Questions: Model Answers

ANSWER 1

For this answer it is fundamental for students to mention the following key aspects:

- H3 had significant first mover advantage, as at the time there were no direct competitors in the fast food sector with a similar positioning or offer, which made h3 largely stand out
- Unique offer: gourmet burgers with real ingredients and side dishes at an affordable price and fast food like quick service
- High market knowledge initially acquired at Café 3, deep understanding of the needs of customers to have "restaurant-like" complete meals at a fast pace and affordable price
- Word of Mouth and buzz that quickly developed around the brand

Targeting

- h3's first target segment consisted of budget tight consumers who had switched from having their meals at restaurants to having meals at shopping centers.
- Nowadays, h3 targets young adults to adults who are health concerned and look to eat healthier balanced meals. These are usually working consumers who have tight lunch schedules and therefore need their food concerns to be met at a quick pace.

Positioning

- h3 emphasizes the healthy and quality attributes of its meals, positioning itself as the healthy gourmet not so fast food option that provides complete restaurant-like meals at a fair price and fast-food timing.
- With higher price than most fast food competitors aligned with superior quality of its meals, adopts a *More for More* positioning strategy.

ANSWER 2

Berger, Draganska and Simonson (2007): highlights the importance of product variety. Their research has concluded that higher product variety may be used by customers as a quality cue and it will influence brand choice. Specifically, a higher variety of options not only allows the brand to satisfy broader needs as it also influences consumers' opinion, indicating that the brand has higher core competency in that particular category and this positive bias increases the probability of actual purchase, also influencing the post-experience perceptions of taste.

Kalnins (2003): concludes that although several fast food chains use promotions emphasizing low prices these are largely ineffective in increasing market share, as there was no evidence of a relationship between a price at one outlet and those of nearby restaurants. This means that products in different restaurants are not close substitutes for the majority of consumers, which means that price promotions only increased sales to customers who already preferred to eat at a particular food chain.

Regarding the relevance of the marketing mix for effective marketing actions in the long-term, **Ataman, Berk, Harald , Van Heerde and Mela (2010)** showed that the higher sales elasticities are in product and distribution while elasticities for promotion and price discount are much lower, highlighting the strategic importance of product and place for sales and long-term success. Although all aspects of the Marketing Mix are relevant, distribution and line length have a higher short-term and long-term effect on sales, compared with discounting or advertising.

ANSWER 3

Price: h3 charges prices higher than the average of fast food chains' prices, although still affordable for the Portuguese market.

Place: h3 is present in food courts at shopping centers across Portugal and has a street restaurant at Parque das Nações (Lisbon). Nowadays it is also present in shopping centers in Brazil and Angola.

Promotion: h3 has a promotion strategy that largely differs from its competitors.

Not investing in advertising like most of its competitors, the most critical aspects are:

Word of mouth: The high investment on fast service and product quality aims not only at satisfying its current customers but also to make them talk about it with their friends, family and colleagues. The main concern is to provide high quality meals that will make of each client an ambassador that will always come back and recommend the brand.

Invitations: A few times a year send its employees outside and have them deliver invitations to customers to visit their restaurants

APP h3: Provides options such as being the "mystery client" and the "Appy Hour" which was first created in continuation of h3's manifesto *Tuga Resiste* (the Portuguese endure). With the app, customers also get challenges and prizes after they complete them also providing news areas where users get first hand all h3 related news.

Image: blue and white, with tempting pictures of the burgers feeling the restaurants' walls. This allows h3 to stand out in food courts and to convey a clean light image.

When launching new burgers h3 looks to get consumers' attention by including a picture of the meal and a fun or catchy sentence to describe it at the store. This is complemented by the playful names given to some of their products, such as the ice cream *Everydae h3*.

Product: There are two fundamental pillars that constitute h3's product: New Hamburgology

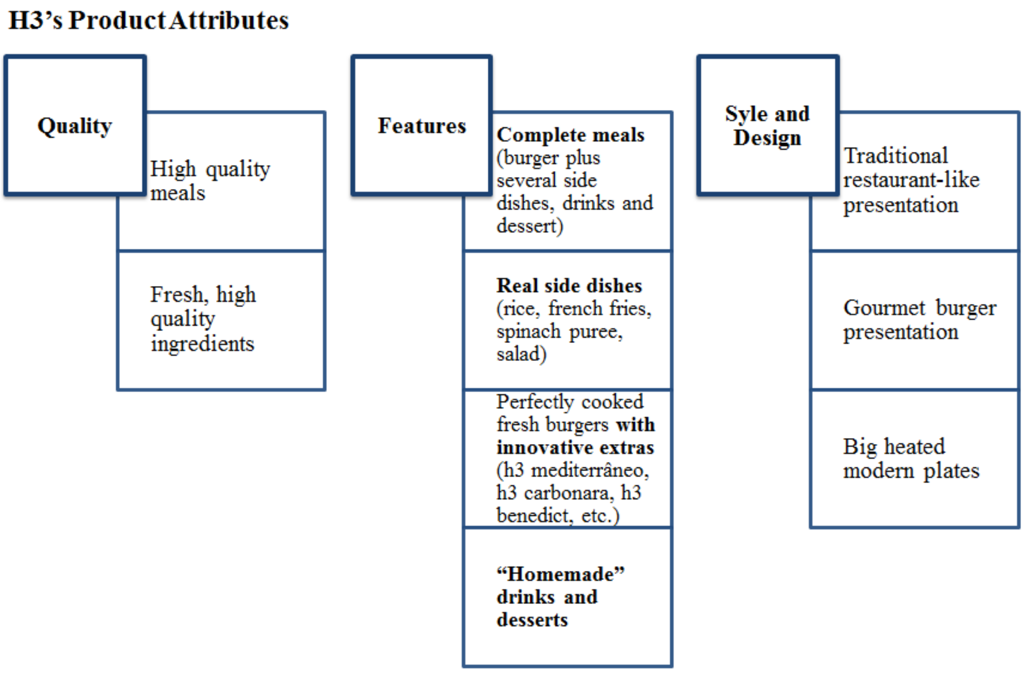
The h3 burger ID

COMMON OFFER	H3'S OFFER
Just bread in disposable boxes	On bread or on heated plates
100 gr. Burgers	200 gr. Burgers
With frozen french fries	With fresh french fries, rice or salad
Industrial Sauces	Fresh Sauces made by Chefs
Industrial drinks	Natural homemade drinks
Target: children and teenagers	Target: demanding adults
Fast food image	Blue, modern and bright image

h3 also introduces seasonal products and tests novelties in order to understand if the product should be permanently sold or not.

Not So Fast Food: "Bom, rápido e barato" (good, fast and inexpensive) **-** At rush hour, each customer, since the moment he orders, should have his meal ready in 30 seconds. H3 is able to serve complete meals faster than their "junk" fast food competitors, with flawless restaurant-like presentation.

Mono-product Strategy **-** H3 sells only one type of burger, the typical 200 grams beef burger. This is the base for all the different h3 menus, which are distinguished through the different extras that complement the burger.



People: Say C.H.E.E.S.E. Program - h3 implemented a program in order to provide the best training and culture for its employees which transpires to h3's customers. H3 staff is known to be extremely friendly and helpful and meals are usually perfectly executed with great presentation, similar in virtually any h3 store one visits. Its employees are the face of the company and providing a familiar face aligned with impeccable cooked meals with good consistent presentation allows keeping customers satisfied.

ANSWER 4

As seen in Exhibit 13 j2), the more strongly associated attributes are of a brand that listens to what customers want, innovative, dynamic, contemporary and healthy. These attributes evidence that customers believe these brands are concerned about evolving to customers' needs, being groundbreaking and healthy.

H3's positioning aligned with its young contemporary image and concern for innovation, regularly offering new kinds of burgers, highlight the importance of these findings. The most associated attributes are highly related with the attributes where the brand wants to perform, particularly in being innovative and contemporary, adapting to customers' needs and offering healthy balanced meals.

Once h3's growth is now stagnated, offering a vegetarian burger may positively influence its brand image on the mentioned attributes and allow it to capture parts of the target segment that are turning to its competitors looking for meat-free options also providing its current customers with more options than just beef burgers.

Increasing product variety may, therefore, be a positive step for h3 to remain competitive in the highly saturated sector and increase sales.

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