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**The challenges of scaling a local business:
the case of Sushi Box**

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Abstract

Title: The challenges of scaling a local business: the case of Sushi Box

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This Dissertation presents a Case Study on Sushi Box, a Portuguese local restaurant that considers to scale the business as consequence of the continuous increase in sales. Many small companies have the aspiration to scale their business, especially in a scenario of positive results in terms of profitability. Nevertheless, the potential for scaling depends on factors inherent to each type of business. The purpose of this Case Study is to analyze Sushi Box's possibility of expansion while dealing with challenges that a small company faces. The continuous increase in the number of Japanese restaurants in Portugal in the last years reflects in a highly competitive market, making the business expansion process a complex dilemma.

This Dissertation includes a Literature Review divided in three subjects directly related to the case itself: business model scalability, differentiation and franchising. A more detailed analysis of the main issues of the case is provided in the Teaching Note, as well as recommendations.

Keywords: Sushi Box; Scalability; Growth; Differentiation; Small Medium Enterprises; Franchising

Resumo

Título: Os desafios de escalar um negócio local: o caso da Sushi Box

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Esta Dissertação apresenta um estudo de caso sobre a Sushi Box, um restaurante local português que pretende expandir o negócio como consequência do aumento contínuo das vendas. Muitas pequenas empresas têm a aspiração de expandir o seu negócio, principalmente num cenário de resultados positivos em termos de rentabilidade. No entanto, o potencial de escalabilidade depende de fatores inerentes a cada negócio. O objetivo deste estudo de caso é analisar a possibilidade de expansão da Sushi Box enquanto lida com os desafios que uma pequena empresa enfrenta. O contínuo aumento do número de restaurantes japoneses em Portugal nos últimos anos reflete-se num mercado altamente competitivo, tornando o processo de expansão do negócio um dilema complexo.

Esta Dissertação inclui uma Revisão da Literatura dividida em três tópicos diretamente relacionados ao caso em si: escalabilidade do modelo de negócio, diferenciação e franchising. Uma análise mais detalhada das principais questões do caso é fornecida na Nota de Ensino, bem como recomendações.

Palavras-Chave: Sushi Box; Escalabilidade; Crescimento; Diferenciação; Pequenas Médias Empresas; Franchising

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I. Introduction

One year after almost having to close the business, Sushi Box was able to reverse the situation and create stable conditions to keep the business open. The managers had to deal with a high number of competitors and with the uncertainty of external factors, such as the impact of the covid-19 pandemic on the consumer's purchasing power. As sales continued to increase, managers had to find the right strategy to materialize the goal of expanding the business.

This Dissertation explores the management problems with the current business and the future expectations regarding expansion. It is divided into three main parts.

The first part is the Case Study where a brief description of Sushi Box's situation before the new management is described, as well as all the strategies and measures implemented under the new management. In addition, the problems the company faces are described as well as an analysis of the competition and the possibilities for expansion considered by the managers.

The second part is the Literature Review, that explores the subjects of business model scalability, differentiation and franchising. These are useful theoretical frameworks related with the Case Study that will be used for the analysis of the case through the development of the Teaching Note.

Finally, the Teaching Note provides an analysis of the Case Study. In this section, there are relevant questions regarding the current business problems, options for expansion and recommendations for the managers. This analysis is supported by the content of the Literature Review.

The main purpose of this Dissertation is to explore the issues around scaling a small business, taking into account all the constraints it faces and how these impact scalability.

II. The challenges of scaling a local business: the case of Sushi Box

By October 2021, Sushi Box was considered a reference Japanese restaurant in Montijo, Portugal, with the proposition of delivering the best quality sushi at the home of consumers.

In the previous months, Sushi Box had increased the number of sales as well as the brand recognition at regional level. The owners Kevin Soares, Gonçalo Silva and Miguel Caetano, had been able to create a success formula that worked, and with the continuous increase in sales, started to analyse the possibility of expanding the business. However, they were not sure if it could be applied to a larger dimension. How could they replicate this formula, outside the local area, in order to achieve success? How could they build and differentiate a brand where clients had already so many choices?

The Acquisition

Sushi Box opened in 2018 as a sushi take away restaurant. The owner, Miguel Caetano, was the only person working at the restaurant. Whenever, for some reason, Miguel couldn't go to work, the restaurant had to close. In addition, the fish suppliers were two supermarkets and Miguel didn't always manage to get the quality or quantity of fish he wanted. If he wasn't there to buy it early, there would no longer be fish. Several days the business had to close due to the lack of fish. There was no planning, especially in terms of strategies to increase the volume of sales. Very soon, Sushi Box was no longer able to retain clients.

Meanwhile, in a Sunday summer night, Miguel had dinner with two of his close friends and the conversation drifted towards discussing the possibility of investing together in a business, that could take advantage of the potential of their hometown.

More dinners, meetings and discussions would follow and by October 2020, Kevin and Gonçalo become partners of Miguel in a new chapter in the life of Sushi Box.

Kevin was the general manager. He had a Bachelor Degree in Management, a Post Graduation in Strategy and Innovation and was a Financial Controller. Because of his marketing skills he was in charge of the communication tasks of the restaurant.

Gonçalo was the operations manager. He was the manager of a traditional portuguese restaurant in Lisbon, where he gained a valuable management experience, including dealing with suppliers.

Miguel had an hands-in background since he was the sushiman since Sushi Box's foundation. He trained with Paulo Morais, the chef at Kanazawa, one of the best sushi restaurants in Portugal.

In recent years, in conversations with their friends and acquaintances, the three developed the impression that there was an absence of quality sushi in the region, especially with those who moved from Lisbon to Montijo, a municipality with around 57.000 inhabitants, on the outskirts of the capital city. Many residents had to commute daily to Lisbon, where they worked. Therefore, the group decided to reinvent the restaurant.

Under New Management

The initial goal was to double the revenues in 12 months. The covid-19 pandemic and consequent restriction measures led to an increase in demand for take-away restaurants. However, Kevin, Gonalo and Miguel knew that in order to achieve their goal several changes were needed in the business model.

Quality was the main factor of Sushi Box's new management strategy even if initial losses were necessary, in order to make the difference on the client's choice. Kevin, Gonalo and Miguel agreed that this project needed to have a different vision. They immediately wanted to incorporate sustainable practices and started with the creation of the new boxes that were totally carton made, replacing plastic ones. Plastic bags were replaced for carton bags as well. Sushi Box was the first sushi restaurant in the region to do it. Besides their sustainable goals, they wanted to get involved in social initiatives, beginning in their hometown. And during the covid-19 pandemic, Sushi Box's first initiative, was to offer a dinner to the healthcare assistants, doctors and nurses of Montijo's hospital. Furthermore, they knew it was important that innovation was always present in the business. They agreed that Sushi Box needed to have new recipes and to expanding the menu, for the consumer to have more options from individual menus with multiple number of sushi pieces, to special menus with more that 20 pieces (Exhibit 1). In order to attract clients who didn't like sushi so much, salmon, tuna and breaded tacos, were added to the menu. They also added the tasting menu, so that the client had the opportunity to try the specialities. Furthermore, meals at the counter began to be offered in order to face a sales decrease in take away after the ending of covid-19 restrictions.

A kitchen assistant and another sushiman were hired, ensuring that the business didn't have to close due to the absence of one sushiman. The new management considered that it was indispensable to have fresh ingredients everyday. The fish supplier delivered the fish every

morning at the restaurant. However, if for some reason this supplier was unable to deliver, they had two backup suppliers that ensured they had the main ingredients for the day.

One of the greatest challenges was to optimize those ingredients in order to avoid losses. For example, raw materials were purchased according to the previous week needs, as well as taking into account the box defined for that week.

With the goal of guaranteeing the best quality, they decided to only finalize the order upon the client arrival, because food always loses quality on the way to the client's home. To reduce waiting time as much as possible also became a challenge for client service, since the clients had to wait some minutes to get their order. Different operational measures were implemented such as increasing the space in the kitchen and segmenting the production line. This process was optimized, with each employee being responsible for one task and following guidelines from a recipe book created by the company. Furthermore, the managers started to estimate the number of sales for each period of the day and to prepare meals in advance. The fact that Sushi Box had an open kitchen, allowed customers to see the whole preparation, thus increasing trust.

Although quality was the highest priority of the new management, they also decided that Sushi Box needed a new image. So they started a new cycle on the branding, starting with a slogan, "*Thinkin'side the box*". They wanted consumers to associate this slogan with the well known phrase *think outside the box*. After that, they considered that changing the logo's design was a must. The design of the boxes was also changed (Exhibit 2).

Investing in the new branding strategy also included social networks, such as Facebook and Instagram, with the goal of increasing brand awareness, which previously was not a priority. For the number of followers to increase, the managers decided social networks had to be updated everyday at least with one post. These posts included their original recipes in order to constantly keep followers engaged (Exhibit 3 and Exhibit 4). The new strategy also included some influencers, especially those living in the area. They shared their experience on social media and this was a way to increase consumer's trust. In addition, Sushi Box began to gain visibility in the local press (Exhibit 5). In 3 months the number of followers on Instagram increased from about 300 to 3000. This visibility increase on social networks reflected on the increase of Sushi Box's sales. Thus, the three entrepreneurs started to develop campaigns, at holidays and special days, for example, at Valentine's Day, when a special wine from Montijo region was included in the box. Soon they started to form partnerships. Initially, during the summer season, with a beach bar, where the meals were served at the bar. After that, with a local gymnasium. Its clients had a 10% discount on Sushi Box, and Sushi Box's clients had a

80% discount when registering for the gym. These partnerships contributed to the brand exposure increase since many clients of the beach bar and the gymnasium started to know Sushi Box this way. Furthermore, the restaurant joined Uber Eats, and this was also a way to increase sales on lower demand days. On those days, Sushi Box offered 20% discount in Uber Eats and was able to increase sales.

In the first month, sales surpassed Miguel's best month, reaching around 9000€. After 6 months, they reached the value of 16000€ in one month (Exhibit 6).

Competition

The market in the region was very competitive. In the city of Montijo alone there were more than 10 Japanese restaurants. During the covid-19 lockdown, the competition increased significantly, with the opening of new restaurants, most of them being take away operations.

In addition, all existing restaurants in order to adapt to the lockdown measures, started to offer take away services.

Although Sushi Box had been able to increase sales under the new management and consolidate the business, there was too much supply in the market. The increase in the number of Japanese restaurants, especially during the covid-19 pandemic, led to an increase in the price competition. This situation placed Sushi Box in a difficult position, since the managers were not able to reduce prices. *“Consumers want value for their money”*¹ and since the beginning, Kevin, Gonçalo and Miguel wanted to position Sushi Box as a high-quality sushi restaurant which required higher prices. Above all, they wanted to follow the principles of sushi. Many restaurants served some fruit pieces along with the sushi, although this was very far from the original sushi. This practice allowed for these restaurants to lower the price, at the cost of decreasing quality.

Masu and Sushi & Poke, both take-away restaurants, were two of Sushi Box's local competitors. Unlike Sushi & Poke and Masu, Sushi Box did not serve pieces with fruit. Comparing the prices of the combined boxes with more pieces, that were usually the most requested in take-away, Masu's average price for a box of 40 pieces was 27€ while the price of Sushi & Poke for a box of 50 was 30€. Sushi Box had two options of 40 piece boxes: the normal for 30€ and the special one for 40€. The difference between the two was that the special one had a higher variety of pieces.

¹ Sérgio Ferreira - EY Future Consumer Index, Tendências de Comportamento do Consumidor para 2021

Sushi & Poke had three more take-aways in Setúbal, Alverca and Lisboa. In terms of the menu offer, the three had some similarities. They all had vegan or vegetarian options as well as combinations of various pieces, although Masu and Sushi Box had a higher variety than Sushi & Poke, for example, more options regarding salmon and tuna for example. Regarding social media, Sushi Box had a more dynamic digital strategy than Sushi & Poke and Masu. Sushi Box's management updated their social networks everyday, sometimes with more than one post, namely in Instagram, where Sushi Box had more followers than Masu and Sushi & Poke. The Google reviews indicated that Masu, between the three, was the best rated, with a classification of 4.8 in 5, followed by Sushi Box with 4.4 and Sushi & Poke with 3.8.

Despite these ratings, new low quality competitors in the market damaged the perception of many customers, who later became afraid to order sushi at home and preferred to go to the restaurant. In these cases, the vast majority went to Lisbon.

Consumer Trends

In the last decades, sushi had become one of the most popular international dishes in the world, and Portugal was no exception. In 1987, Bonsai, the first Japanese restaurant that served sushi in Portugal, opened and since then the demand for this type of Japanese food has been accompanied by the opening of hundreds of restaurants across the country. In fact, Portugal was one of the countries that ate more seafood and fish in the world and its availability also contributed to the expansion of Japanese cuisine in the country.

The Portuguese consumer was increasingly demanding and had a specific focus on price so they looked for solutions that met their ideals. In addition, they had less available time and increasingly valued solutions that made daily life easier, such as e-commerce and take-away. New more convenient applications such as Uber Eats and Glovo eased their routine. During covid-19 pandemic, this trend intensified, with Uber Eats sales increasing more than 160% in the first half of 2020.

Furthermore, the Portuguese consumer increasingly valued the full experience associated to the purchasing process, not only the product itself. At restaurants and take-aways, food quality was not the only parameter that was measured. Quality of service, interaction on social networks, loyalty campaigns, were part of the valuation criteria. In the end, clients were willing to pay more for the overall experience.

Besides, digital played an important role. Applications like Zomato and TripAdvisor were increasingly used by consumers. Reviews regarding the restaurant where they planned to

go were particularly sought after. In a market where social media were increasingly relevant and relied on by potential consumers to support their choices, Sushi Box didn't explore these specific applications, that were searched by thousands of people. The number of influencers had a huge increase in the last years, and they had a stronger role on purchasing decisions. Consumers trusted them and valued their opinion.

In addition, in the last years the view of the market changed in favor of a stronger influence of sustainability on consumer's decisions, who were increasingly aware of the environmental impact of their choices. Sustainable products or processes were increasingly on the root of preference choices.

Operational Constraints

Kevin, Gonçalo and Miguel achieved their initial goal. Sushi Box's sales increased significantly in the first month under the new management. Due to the positive results, after 8 months they analysed the possibility of expanding the business and had even discussed some possible new locations. However, soon they realized that opening another restaurant would be a difficult goal.

First, the owners were already facing an operational problem that could impact Sushi Box's productivity. It was very difficult to hire sushimen and even more difficult to guarantee their long-term permanence. This was explained by the growing demand for this know-how which was a consequence of the opening of new Japanese restaurants. Sushi Box had two sushimen and they were a major success factor for the restaurant. The role of the sushiman was critical in order to obtain a high quality sushi, from the fish preparation process, through the preparation of vinegar for the rice, culminating in the combination of flavors in each piece. Most sushimen were untrained, learning on the job from each other. For that reason, because of the experience and training that Miguel had with Paulo Morais, one of the most renewed sushi chefs in Portugal, other restaurants frequently offered him job opportunities.

In times of higher demand, it would be necessary to hire an additional sushiman. Sushi Box didn't want to increase the fixed costs structure and could only offer a temporary contract of 3 or 6 months for the higher demand season, with a lower salary than other openings in the job market. This situation made it very difficult to hire additional members for the team. The three managers knew that this would be a major issue to take into account in case of a decision to open another restaurant.

The procurement process was also an issue to take into account. Fish was supplied daily by the fish man with a stand at the Montijo market and alternatively by two other suppliers, Makro and Recheio. Japanese products were ordered as needed. The suppliers were food distributors Goyo-ya and Keta and also the Chinese/Japanese supermarket Chen. These suppliers had a minimum order of €150 to deliver the products at Sushi Box every Tuesday. Vegetables, beverages and other products such as cleaning products were supplied by Makro and Recheio, which also delivered the products to the store weekly with a minimum order of €150. Regarding boxes and bags, the managers made one or two orders per year, the more quantities ordered, the lower the price per box and per bag. This process represented a huge investment for the business, especially due to the recent significant increase in prices of raw materials. For example, the price of salmon increased from 5.85€/Kg in 2020 to 8.95€/Kg in 2021.

Uber Eats turned out to be a problem as well, as Uber charged a 27% commission, which meant that the managers had to raise prices slightly. Higher rises would mean that customers wouldn't order. Taking this into account, Sushi Box's margin at Uber was around 10%, compared to 30% at the store. In addition, the vast majority of competitors made aggressive promotions on Uber, sometimes up to 50% discount, which led to a lower quality offer. However, Sushi Box management tried to resist this policy, always focusing on quality.

Future Expansion

The possibility of opening another restaurant in the region wasn't under consideration since there was already too much supply. So other higher purchasing power locations in the Metropolitan Lisbon Area were considered, despite the financial effort required so that the high quality at higher prices business model could be maintained. However, the market was increasingly competitive in the whole country and cities in this area had also too much supply.

Opening another restaurant would imply several costs. An initial investment of more than 50000€ would be necessary, part of that investment to set up the space for the business needs, particularly in the kitchen, where managers have already invested in remodeling costs at the current restaurant. In addition, it would be necessary to take into account new logistic processes. Sushi Box had already regular suppliers that met the quality standard of the managers. By opening another restaurant, especially if distant from headquarters, this supply could be conditioned or become more costly on transportation. So it could be necessary to find new suppliers with the best price-quality relationship.

Another possibility analyzed by the owners was to expand the brand by franchising, although the franchising model would require a strict monitoring of quality standards, from the quality of the ingredients, to the preparation of the sushi itself. In addition, this also would imply hiring new additional members for the team, since Miguel would also have to become responsible for the training. The managers considered this a very difficult option. Due to high staff turnover, it wouldn't be possible for Miguel to guarantee this training all the time and simultaneously, ensure the quality standards.

Furthermore, both possibilities would require a stronger branding strategy. Starting with the company's name, it was not possible to register Sushi Box's brand because it was considered a too generic name. This represented a huge setback for the expansion of the brand. For example, in Lisbon there was a Japanese restaurant with a similar name "The Sushi Box". Although the name was adopted first by Sushi Box, it still was an issue in terms of branding.

The managers had been able to create a success formula that worked at a local level. However, they concluded that applying it to a larger dimension would imply several operational, strategic and financial challenges. Differentiating the brand in an increasingly competitive market where clients had already too many choices would require decisions regarding higher investments, resources availability and a new marketing approach. Would they be able to face those challenges?

Exhibits

Exhibit 1 – The menu



ENTRADAS			
GYOZAS 4 peças			
Frango	€ 4,00	HOSOMAKI	8 peças
Pato	€ 4,00	Salmão	€ 2,00 € 3,50
Camarão	€ 4,00	Atum	€ 2,50 € 4,00
Vegetarianas	€ 4,00	Vegetariano	€ 2,00 € 3,00
TEMPURAS			
Camarão	€ 2,00	URAMAKI 4 peças 8 peças	
Atum	€ 2,50	California	€ 4,00 € 7,50
TEMAKIS			
Salmão	€ 5,50	Spicy	€ 4,00 € 7,00
Atum	€ 6,50	Crocante	€ 4,50 € 8,00
Camarão	€ 6,50	Salmão	€ 4,50 € 8,50
SUSHI E SASHIMI			
COMBINADOS			
Kids 12 peças	€ 8,00	Atum	€ 4,50 € 8,00
20 peças	€ 16,00	Vegetariano	€ 3,00 € 5,00
40 peças	€ 30,00	NORIMAKI 4 peças 8 peças	
COMBINADOS ESPECIAIS			
20 peças	€ 22,00	Salmão	€ 4,50 € 8,00
40 peças	€ 40,00	Atum	€ 4,50 € 8,00
MENUS INDIVIDUAIS			
Tradicional	€ 10,00	Camarão	€ 4,00 € 7,50
10 peças + 1 Temaki		Tempura	€ 4,00 € 7,50
Fusão	€ 13,00	Vegetariano	€ 3,00 € 5,00
8 peças + 1 Temaki		HOTMAKI 4 peças 8 peças 12 peças	
Hotbox	€ 13,50	Salmão	€ 3,00 € 5,00
10 peças		Atum	€ 3,50 € 6,00
SASHIMI/TATAKI			
10 fatias	€ 5,00	Swing	€ 15,00
20 fatias	€ 9,50	NIGIRI 4 peças 8 peças	
30 fatias	€ 14,00	Salmão	€ 4,50
GUNKAN 4 peças 8 peças			
		Atum	€ 5,00
		Trio de Nigiris	€ 7,50
		Kappa	€ 3,50
		Salmão	€ 5,00
		Atum	€ 6,00
		Gunkan Duo	€ 5,50
		Trio de Gunkans	€ 8,00

Exhibit 2 – The new boxes



Exhibit 3 – Salmon Nigiri



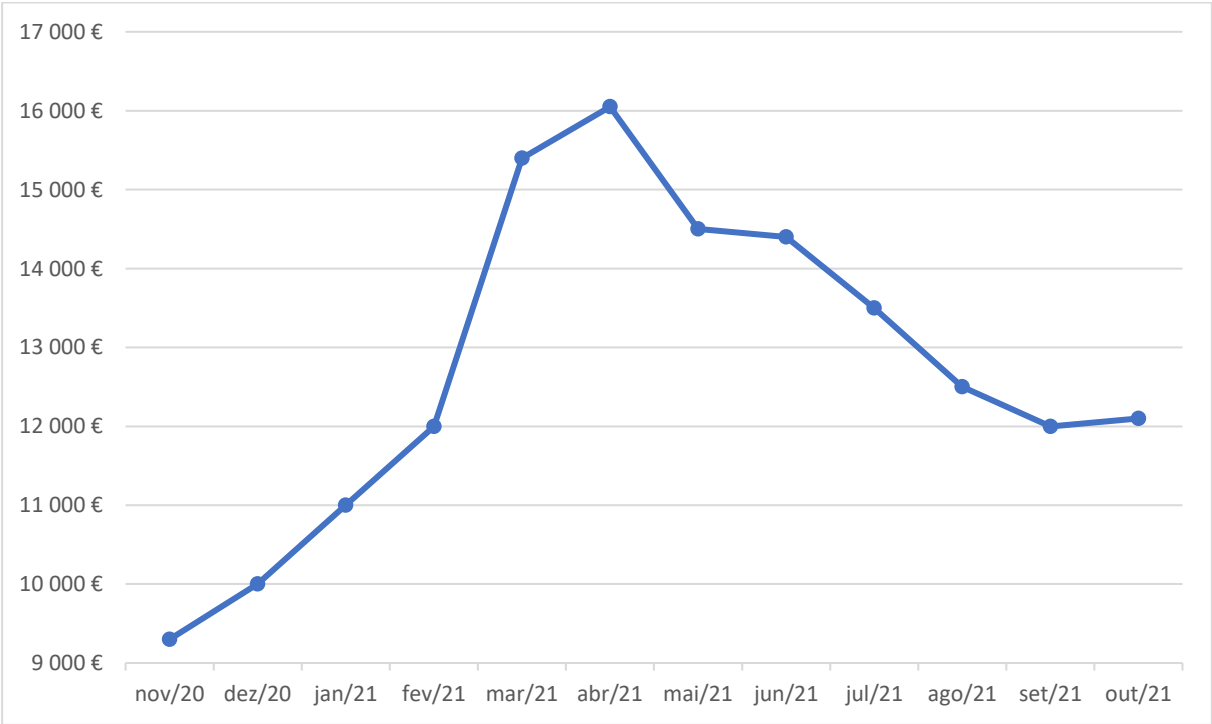
Exhibit 4 – Shrimp Uramaki



Exhibit 5 – Interview at local press



Exhibit 6 – Sushi Box’s revenues



III. Literature Review

The following chapter includes a literature review of topics related to the Case Study that will be important for the development of the Teaching Note. This chapter is divided in three subjects: business model scalability, differentiation and franchising. The first subject will explain characteristics of scalability as this seems to be key for the business future growth. Then, a review of the differentiation strategy is offered as this seems to be a requirement for the company's competitive position. The last topic addresses the characteristics of a specific business model considered as an option for the company's expansion.

Scalability

Lund and Nielson (2018) defined business model scalability as: *“A business model that is agile and which provides exponentially increasing returns to scale in terms of growth from additional resources applied”*. A more recent definition is from Bondi (2020) who stated scalability as *“desirable attribute of a network, system, or process. The concept connotes the ability of a system to accommodate an increasing number of elements or objects, to process growing volumes of work gracefully, and/or to be susceptible to enlargement.”*

When applied to business, scalability is also directly associated with business potential and possible economic growth. The business potential of scale a business is valued by the stakeholders, due to the association with wealth creation and it can become a successful model that attract partners, including competitors (Lund and Nielson, 2018). This way, the business potential for scaling is seen as a key factor for investment by new investors, who may not invest in businesses that don't present this possibility (Stampfl, Prügl and Osterloh, 2013).

Additionally, Carucci (2016) stated that scalability is directly related to business's growth size and has particular characteristics that differs from the typical growth. Scalability's revenues increase without significant costs associated while revenues and costs from growth increase *“at the same pace”* (Rappa, 2004). The businesses that have the possibility to be scaled are most of the times the ones prioritized by investors, who look for *‘infinite scalability’*, as *those businesses have the highest potential of great returns on investment* (Hallowell, 2001).

As scalability is considered an important feature for business model innovation (Amit and Zott, 2001; Rappa, 2004; Bouwman and MacInnes, 2006), many companies consider applying it through two different approaches: internal scalability and external scalability.

The internal scalability includes the configuration of the business model, the necessary resources and partners, demonstrating the capability of a firm to expand in a short period and with minimal costs associated. The external scalability implies the analysis of the business environment and how it can have a positive role on expansion. Both internal and external dimensions should be considered and subject of analysis before advancing with a decision regarding scaling a business. Even if one of the dimensions has the required capacity for it, if the other performance is deficient, the growth potential is limited. (Hofmann, 2019)

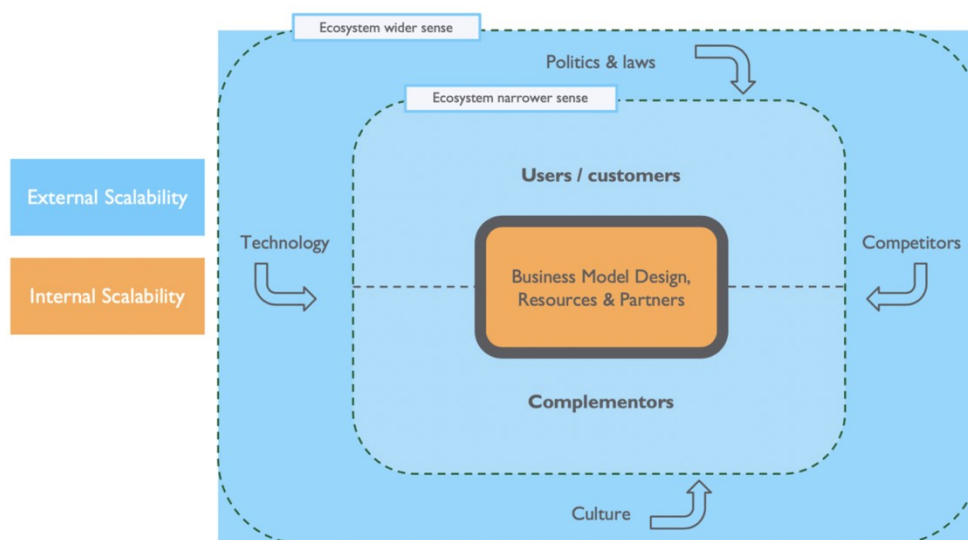


Figure 1 – The two sides of scalability: internal and external – Graphic based on Moser 2018, PhD Thesis
Source: University of St. Gallen, Hofmann (2019)

Companies are able to scale a business through different forms. Geographic expansion is one of the most frequent strategy and implies the expansion of a business from one location to an additional one. Nevertheless, this strategy involves specific issues for every company and small business face particular challenges. One of these challenges is directly related with the management, who will have to be responsible for the processes of the original firm and the new business at the same time. Furthermore, the greater the distance between the business, the higher the challenge of supervising both (Barringer and Greening, 1998).

In addition, expansion will require a detailed planning, since a careful analysis regarding themes like recruitment process is necessary. When considering the decision of expanding it is necessary to take into account if there are qualified professionals available in the location in order to ensure operations. Furthermore, it is necessary to organize the most suitable communication links between the original location and the new business location. It is important for the managers to own some market knowledge regarding the new location. If this market is similar to the original location, it may be possible to transfer this knowledge. Otherwise, it may require an additional effort in order to be acquainted with the new market conditions (Barringer and Greening, 1998).

Companies can have several motivations to grow and these may influence the future business location. It can be due to economic reasons like the selected location having “*a high degree of growth potential*” or due to personal reasons, like for example, the selected site providing “*an attractive relocation alternative for the owner*”. Finally, the management decisions associated to the expansion are related with the geographic site. Legitimacy is a key factor and if it isn’t well established in the new business location, it may be necessary to work on improving the relationship with the stakeholders, in order to increase trust on the project (Barringer and Greening, 1998).

A scalable business model is a major strategy for many companies in several industries. Regardless the challenges and difficulties companies may face to implement it, they can benefit from economies of scale and attract new partners willing to invest and that consequentially will lead to faster business growth. However, not every company intend to carry out a scalable business or are well suited for that. It is important to execute a careful analysis in order to realize if the decision of scaling becomes an essential path for the company’s growth.

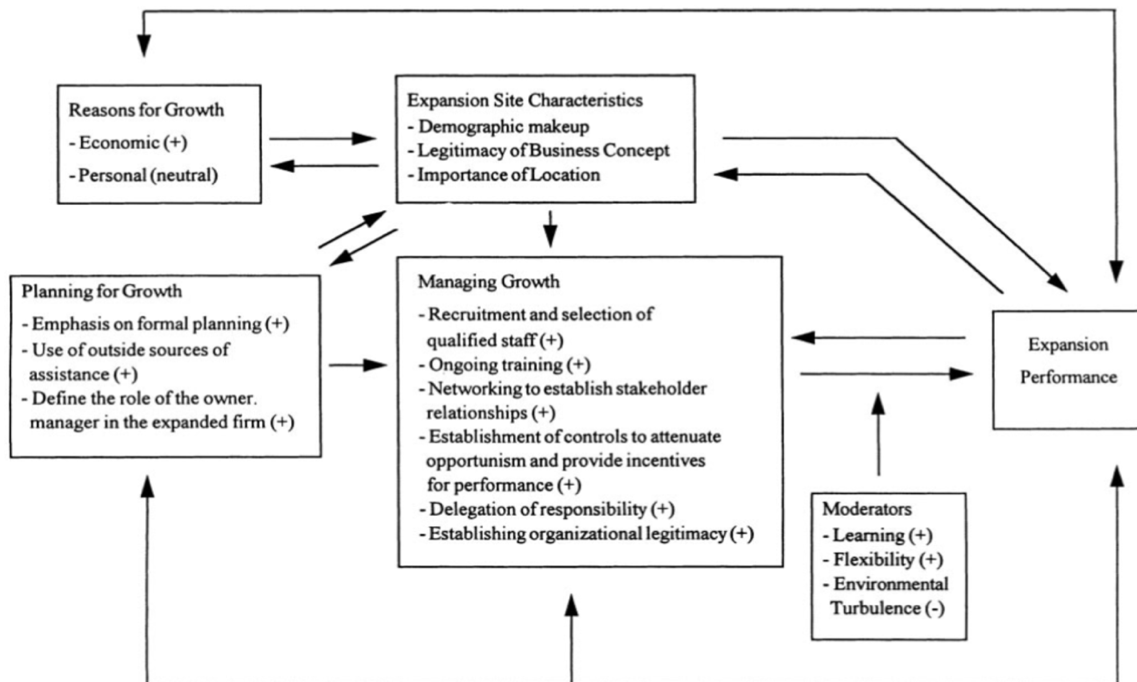


Figure 2 – Theoretical model of the antecedents of effective small business geographic expansion
 Source: *Journal of Business Venturing*, Barringer and Greening (1998)

Differentiation

Today, companies face a more competitive market than years ago. This scenario requires companies to be flexible and to focus on planning and adopting strategies in order to compete successfully (Tse and Olsen, 1988).

Porter introduced a theoretical framework regarding competitive strategies and identified three generic strategies: cost leadership, focus and differentiation. He described these strategies as necessary to face the competitive forces of company's environment, to establish a stable position in an industry as well as to ensure a superior return on investment (Sharp, 1991).

Cost leadership implies high production of services or goods while having competitive prices, most of the times, cheaper than competition (Tse and Olsen, 1988). On other way, by pursuing a focus strategy, a company concentrates its attention towards a particular type of customer or a specific market (Tse and Olsen, 1988).

A differentiation strategy can essentially be defined as a strategy that focus on differentiated products or services that stand out between competitors (Porter 2008). This way,

companies are able to set a premium price since consumer's willingness to pay will be higher (Tse and Olsen, 1988).

By adopting this strategy, a company wants its services or products to be perceived as unique by consumers, and in order to achieve that, it is necessary to take into account aspects such as offering higher quality products or services and ensuring their availability, increasing consumer's trust through brand reputation and providing high customer service standards. Furthermore, in order to gain and maintain a competitive advantage through this strategy, it is necessary to identify particular characteristics that consumers value and difficult enough for competitors to copy (Sharp, 1991).

Applying the concept to the specific context of the restaurants business, Teeratansirikool (2013) stated that a *"differentiation strategy integrates a set of actions that gears towards producing services at an acceptable cost that patrons of restaurants perceive as being different in ways that are important to them."* The adoption of differentiation strategies in restaurants can be related to its performance (Teeratansirikool, 2013; Hull and Rothenberg, 2008). For example, by differentiating their services and having valuable characteristics, consumers are willing to pay more for the service and consequentially, the company is able to set the service or product at a higher price (Kim and Kim, 2005; Gilmore and Pine, 2002). This is directly related with cross price elasticity. If a consumer assumes a product or service as differentiated, even if prices increase, they will be less willing to switch for others. This is defined as inelastic cross price elasticity, since the change in price of product or service from one company will not affect significantly the demand for the other company (Fisher, 1991).

The restaurant industry is very competitive. Defining strategies is essential in order to ensure a competitive advantage and to establish a position in a highly competitive market (Hoskisson et al., 2000; Porter and Kramer, 2006) and many companies adopt a differentiation strategy because it is one of the methods for achieving this position (Sharp and Dawes, 2001). When restaurants implement this strategy, elements such as *"service quality, servicescape and product uniqueness"* are valued and prioritized (Lee, 2016; Ryu, 2012). Booms and Bitner (1981) defined servicescape as *"the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service."* Interior and exterior space as well as ambient conditions are contemplated. By adopting a differentiation strategy, restaurants are able to generate a positive insight regarding their services or products by consumers, creating the idea

that the services offered are most valuable and unique than competitors (Chen, 2010; Schubert, 2010). For example, investing in restaurant's food quality and in features that value brand image will lead to this positive perception (Berry, 2006). Besides the quality of the food, consumers increasingly value other characteristics regarding the overall experience such as the quality of the service and the atmosphere (Mari and Poggesi, 2013).

Companies are able to sustain this differentiation by applying some policies. For example, in order to avoid dissemination of knowledge and specific know-how, it is important to minimize staff turnover, as employees may share this knowledge with other companies later on. Also, providing a more customized service to clients ensures a closer relationship with them, making the service more complex to copy. Furthermore, hiring professionals with specific skills may difficult the capacity to imitate (Fisher, 1991).

Consumers are increasingly demanding and if the market is competitive, many firms are competing for the same consumers which can lead to a profit reduction (Zuniga-Vicente and Vicente-Lorente, 2006). Thus, a differentiation strategy, may lead to a positive outcome for the company, allowing it to retain a percentage of those costumers. Nevertheless, while differentiated strategies can lead to a firm's competitive advantage in a high-rivalry market, it is only possible to ensure this advantage as long as these strategies are preserved (Fisher, 1991).

However, in some situations, companies are not able to immediately create conditions in order to respond in the most efficient way to competitive initiatives. This is described as response lags. For example, when related to "human resources or skill levels". *"In the food services industry, imitation is limited in the short run by the ability to alter investments in land, labor and capital."* (Fisher, 1991) and that is why most of times investing in human resources will provide more durable results to the business (Fisher, 1991). Another response lag is related with the difficulty on providing efficient marketing strategies that enable companies to face competitive initiatives. In order to avoid imitation, companies should build their strategies regarding isolating mechanisms. An example of these mechanisms is advertising crowding. It implies that a company that differentiates itself first that the others will have less probability of facing competition regarding consumer's attention. This way, the first mover advantage will be important in order to establish a clear position in their minds. If this position becomes well perceived by consumers, it may be very difficult for competitors to copy (Fisher, 1991).

The restaurant industry is competitive and innovation is increasingly the key to achieve differentiation in the market. By offering a unique service, not only related to food itself but also regarding features that improve costumer experience, restaurants are able to establish a

position in an industry and capture consumers from its competitors. In a market where consumers have already so many choices, it is important to create value in order to stand out and gain their trust.

Franchising

Gillis and Castrogiovanni (2010), define franchising as a business agreement between two independent firms. This business model is frequently applied in economically developed countries, namely in USA and European countries, who registered a significant increase in the last decades (Alon and McKee, 1999). Franchising implies a business relationship between a franchisor and a franchisee. For a better understanding of these two concepts, Erceg, Alpeza and Alon (2007) describe franchisors as companies who want to expand and allow the rights-of-use of their brand as well as their know-how by selling them to other companies, defined as franchisees. This way, the franchisors have a lower financial investment to grow the business. By buying these rights, the franchises are able to enter certain industries and use the model of the franchisor for a certain period (Erceg, Alpeza and Alon, 2007).

There are two types of franchising that are mostly applied by business: product/trade-name franchising and business format franchising. Falbe and Dandridge (1992) stated that product/trade-name franchising *“is a distribution system in which suppliers make contracts with dealers to buy or sell products or product lines”*. The business format franchising is fundamentally characterized by the support from the franchisor to the franchisee with the necessary features to run the business (Watson, 2005; Sorenson and Sorensen, 2001; Kaufmann and Eroglu, 1998). According to Sen (1998), this support implies training and mentoring for the franchisee. In addition, the franchisee usually follows the business model of the franchisor, besides selling the franchisor’s products or providing its services.

Franchising can be considered by companies as a possible strategy for their business expansion and for a faster pace to achieve economies of scale (Shane, 1996). By opting for franchising instead of subsidiaries, the financial investment will be significantly lower, as well as the risk associated to this expansion. The franchisee, most of the times, has a higher market knowledge than the franchisor regarding the new business location (Erceg, Alpeza and Alon, 2007). Franchising can be directly related with the company’s performance, especially at the

financial dimension, since it allows the increase of its market share in an industry, sooner than if the company hadn't follow this strategy (Michael (2002). The franchisor will benefit from the franchisee resources such as the *"initial fees, ongoing loyalty payments as well as motivated managers."* In situations where the franchisor doesn't have the possibility to expand due to the lack of resources, franchising can be an option to ensure the growth. (Yoon Koh Seoki Lee Soyoung Boo 2009). Furthermore, the financial benefits associated with franchising, for example, the low monitoring costs, make this a very appealing strategy for companies who want to start their expansion process. (Norton, 1988; Roh and Kwag, 1997).

The franchisee's market knowledge is considered an advantage and a key point for franchisors in order to implement the most suitable strategy for that business to be successful. (Kogut and Zander, 1992). This specific knowledge about local markets by franchisees allows franchisors to improve their business strategies or even develop new ones with the goal of providing a competitive advantage (Sun and Lee, 2021). Franchisees can be responsible for the increase on market competitiveness (Cox and Mason, 2007; Dada and Watson, 2012) especially because they are able to develop new business processes (Flint-Hartle and De Bruin, 2011) In addition, Kaufmann and Eroglu (1999) stated that they *"develop new market offerings and transform existing ones to adapt to local markets"*.

Regarding the restaurant industry, the market is extremely competitive. Many U.S restaurants implemented franchising (Michael and Combs, 2008; Srinivasan, 2006), and we can conclude that many of those business are successful, for example, fast-foods restaurants, such as McDonald's and KFC.

Having a more aggressive franchising expansion can be considered an advantage for restaurant's franchisors (Sun and Lee, 2021). They are able to get ahead of their competitors in terms of developing new menu options and also to be better positioned to correspond to the most recent consumer trends. (Sun and Lee, 2021). The operations dimension in a restaurant is mainly divided in to owning and franchising and it can be an advantage for the company if it can combine those two. *"According to the diversification theory, as a firm becomes well-diversified, the firm's risk will decrease"* (Koh, Lee and Boo, 2009). While owning the business optimize revenues, franchising provides regular fees from the franchisee, for a certain period, which lead to more stable revenues (Andrew et al., 2007; Morrison and Macmillan, 2000).

Nevertheless, there are some disadvantages associated to this expansion strategy. Conflicts between franchisors and franchisees can become evident due to divergent views for the business for example, and over time, the management of the original company may also partially lose control of the operation (Andrew, 2007). Furthermore, the franchisor is not the responsible for the recruitment process of the franchisees. This is a disadvantage since employees are one of the main bases for the restaurant's success and the franchisor can't influence this process. However, some franchisors try to get over the situation through training regarding the rules of the franchise network (Murray, 2003). For the franchisees, some disadvantages are: the low degree of independence from the franchisor as well as the profits expectations that sometimes, turn out to be overvalued by the franchisees (Thomas and Seid, 2000).

Possible problems associated with franchising are more likely as a result of *“passive ownership (in which the franchisee is not actively running the outlet), a complex franchise system (in which the franchisor offers many different services to franchisees), or used master franchising (in which an intermediary is used to recruit, hire, and train franchisees)”* (Shane, 1998). On the other hand, the risk of failure is minimized if in the beginning franchisees invest more capital on the business and are relatively experienced in the industry (Shane, 1998).

Companies may face a management problem regarding expansion. The management is already responsible for running the operations of the current business. By initiating a new one, the capacity will be lower and they may not be able to conciliate both operations management. If they opt to expand through owning, they will have responsibilities regarding, for example, the search for qualified professionals and this way, they can't provide their time on more critical subjects. On the other hand, by opting for franchising, *“firms could overcome this constraint because franchisor-entrepreneurs hire qualified franchisees, who self select into the system”* (Norton, 1998). This way, the franchisors are able to allocate their time and availability in critical areas, not having the responsibility for running the totality of two or more business at the same time, and consequently, franchising companies can grow at a faster pace (Norton 1988).

Franchising can provide advantages and disadvantages for both franchisor and franchisee. However, studies have presented evidences that companies that decide to follow this path for expansion, may have considerable advantages over the ones that opt to expand *“through their own means”* (Aliouche and Schlenrich, 2009). When thinking about expanding a business, this is one of the primary options considered by the management, especially due to

the lower risk associated compared to company-owned businesses for example. Furthermore, a smaller company that hasn't enough capital to do a higher initial investment, can consider franchising as a solution for the expansion goal.

IV. Teaching Note

Case Summary

Sushi Box was a take-away restaurant in Montijo, a suburb of Lisbon, under Miguel Caetano's management, an experienced sushiman. After a few months, Miguel faced several operational problems that would lead to the difficult decision of closing Sushi Box.

While discussing the situation with his close friends Kevin Soares and Gonçalo Silva, they recognized the potential of the business and their hometown. The three decided to become partners. Soon they pursued a new strategy in order to position Sushi Box as a recognized restaurant in the region and improve its profits. They started to make changes in the restaurant business model. Besides preserving quality as their key element, several operational measures were implemented such as hiring new professionals, reinventing the menu and establishing partnerships with new suppliers. In addition, they identified branding as a major issue of the previous management and one of the reasons of the lack of visibility and awareness by consumers. Thus, they started developing an active role on social media and created a slogan and a new design for the boxes and started to establish partnerships. Furthermore, they wanted to incorporate sustainable practices and the first step was to replace the plastic for carton in the boxes, as well as the plastic bags. Besides their sustainable goals, they wanted to get involved in social initiatives, beginning in their hometown.

After one month, Sushi Box's sales increased significantly, with sales surpassing Miguel's best month. Due to the positive results, they analysed the possibility of expanding the business as well as the options on how to do it. However, the sushi restaurant industry was very competitive, with the number of take-away restaurants increasing especially due to the covid-19 pandemic and consequent restriction measures.

The formula succeed at a local level, but how could they make this formula work outside their local area? The managers knew that they had to differentiate the brand in order to enter new markets. The question was how could they do that if the client's had already so many choices?

Learning Objectives

This case study provides a real-life example of a challenge in a local business. It gives students relevant information that will be useful in order to develop several insights and it can be used for an in-class discussion. The case can be used as an example of the expansion challenge for a small company, approaching key factor, such as the resources needed, the influence of competition and suppliers, the role of brand recognition.

There are three central topics addressed in this case. First, it explains the operational problems the company faced that would lead to the closing of Sushi Box. Second, it identifies the measures that the new management put into practice in order to overcome these operational challenges. In third place, the case presents the challenge of expanding a business that depends on factors that are difficult to scale.

The analysis of this case study should have the following objectives:

1. Evaluating the market and its opportunities and challenges
2. Evaluating potential differentiating factors in the restaurant industry
3. Identifying the business strengths and the problems the management faced
4. Identifying a scalable business model and explore strategies for business expansion

Assignment Questions

1. What was Sushi Box's managers vision for the new project?
2. What are the main problems of Sushi Box?
3. What are your recommendation for the expansion of the company?

Class Plan

1. What were the main problems that Sushi Box new management encountered when they joined the company?
2. What were the main strategic changes decided by the new management to reverse Sushi Box's situation?
3. What are the main characteristics of the industry in which Sushi Box operates?
4. What are Sushi Box's key differentiation factors from its competitors?
5. What are Sushi Box's main problems?
6. What options for expansion should the managers consider?
7. What are your recommendations for Sushi Box's managers?

Analysis

1. What were the main problems that Sushi Box new management encountered when they joined the company?

Sushi Box's problems before the new management nearly led to the closure of the business. Miguel, the only owner at the time, was dealing with several challenges regarding the restaurant's operation. First, the business was totally dependent on his availability, since he was the only person working at the restaurant. Besides being responsible for the food preparation, he was also responsible for all the management process, such as dealing with suppliers and procurement. This represented a major constraint because he was dealing with the day-to-day operations and managing the business simultaneously, and sometimes he couldn't respond to all client's orders of the day. Furthermore, whenever, for some reason, Miguel couldn't go to work, the restaurant had to close. Thus, Sushi Box was being inefficient, and the management was not able of conciliating both management responsibilities and operational tasks.

For Miguel, the need of hiring a new member for the restaurant was clear. However, there was a problem: the difficulty of hiring qualified professionals, namely sushimen, and it was even more difficult to guarantee their long-term permanence. A sushiman was fundamental to keep the operations because sushimen had the necessary know-how. A kitchen assistant was

also necessary. Employee turnover was a main problem for the business. For each new employee, Miguel would have to invest time in training. Besides, when a new employee entered, the level of productivity tended to decrease, since it is necessary a period of adjustment and during this period, the employee will not execute tasks at the same rhythm as the previous employee. Another operational problem was related with the restaurant's suppliers. Sushi Box's suppliers were two supermarkets, where the fish is very sought and tends to sell quickly. The fish was an indispensable ingredient for the daily business operation and Miguel was responsible for buying it everyday. Nevertheless, the manager somedays was not able to buy it early and in that days there was no longer fish. This situation had a great impact on the business because the restaurant had to close due to the lack of fish. Or even if there was still fish, Miguel didn't always manage to get the quality or quantity of fish he wanted. Customer loyalty was significantly affected and very soon, Sushi Box was no longer able to retain clients.

Furthermore, there was no planning, especially in terms of marketing strategies. Besides not being able to retain some clients, Sushi Box was also not able to attract new ones. Brand awareness was practically inexistent and Sushi Box remained an unknown brand for the majority of the region's consumers. The management didn't prioritize social media as a key factor. Consequentially the number of followers didn't surpass 300 on Instagram for example. The absence of partnerships with local entities made it even more difficult for Sushi Box to raise awareness. Moreover, the brand identity was not well defined, starting with the absence of a slogan, a creative logo and an engaging visual design.

By October 2020, when the new management entered the company, it was clear that lack of a well-defined strategy for increasing the volume of sales through the adoption of strategies that could position Sushi Box as a recognized and differentiated brand in a very competitive market.

2. What were the main strategic changes decided by the new management to reverse Sushi Box's situation?

The new management had a well-defined strategy for Sushi Box: differentiation based on quality, in order to create a strong brand identity in order to allow scaling the business in the future with the goal of expansion. Thus, the managers knew that Sushi Box needed immediate

changes in its business model in order to achieve that. From new operational measures to a stronger branding strategy, the owners started to implement their plan to reverse the current situation.

First, they concluded that the basic principle to ensure market differentiation was quality. Therefore, they decided that food quality would have to be the higher priority and they would not decrease quality in order to lower prices. This way, they would offer a higher quality at a slightly higher price. To sustain the quality standards, they wanted to have fresh ingredients everyday and for that reason, they established relations with solid suppliers that would guarantee the quality and quantity they wanted. The new fish supplier delivered the fish every morning at the restaurant.

Then, customer service was also a main part of the new management's strategy. It was essential to ensure loyalty by the remaining clients and create conditions to acquire new ones. First, in order to avoid losing clients due to the lack of capacity for responding to all the orders in a day, a kitchen assistant and another sushiman were hired. This would also keep the business running everyday without the constraints of being dependent on just one sushiman. Furthermore, the owners thought that they could give more options to the clients. They started by expanding the menu and later they concluded that the restaurant had the necessary conditions to offer meals at the counter and soon they implemented them. The team started to plan their daily tasks in order to optimize the process. Each employee started by being responsible for one task and had to follow guidelines from a recipe book created by the company. Furthermore, the managers started to estimate the number of sales for each period of the day and to prepare meals in advance. This was important for maximizing the business productivity and to be able to respond to all client's orders in the most efficient way.

A main problem of Sushi Box was the lack of brand awareness and how this contributed to the sales stagnation. Investing in a strong branding strategy was a priority for the new management and they started with a new image. They created a slogan, changed the logo and the design of boxes. This image would also have to be associated with their sustainable principles and the first step was to replace the plastic boxes for new ones totally carton made. Social media started to be a priority and seen as a key factor to reach a higher number of potential costumers. The managers started to update Instagram and Facebook everyday and contacted some influencers in order to be part of this strategy.

Furthermore, the owners started to develop campaigns, at holidays and special days, joined Uber Eats and soon they started to form partnerships with local companies that contributed to the brand exposure and this is an effective strategy for acquiring new clients.

In addition to the initial financial investment, for example, by increasing the space of the kitchen and the purchase of new assets such as cooking equipment and furniture, the managers had well-defined strategies in order for Sushi Box to achieve its differentiation locally in the short term.

3. What are the main characteristics of the industry in which Sushi Box operates?

Porter's Five Forces framework can be used for a better understanding of how the restaurant industry behaves and of its attractiveness.

Threat of substitutes – High

Nowadays, consumers have too many choices and it is simple to switch from one restaurant to another with new concepts and different types of food. With the increasingly important role of reviews, consumers are better informed regarding their choices and analyze in more detail the options before making a decision. Currently, this choice is also affected by factors such as sustainability, a major present-day trend, which may have an impact on the final decision. Furthermore, ready to go meals from supermarkets and homemade food are substitutes. As consumers are increasingly price sensitive, especially after the covid-19 pandemic, with the decrease on purchasing power, they started to adopt other options besides restaurants. Ready to go meals for example, are more economic and most of the times more convenient, since consumers have less available time and value solutions that make daily life easier.

Threat of New Entrants – High

The likelihood of new players to enter the industry is relatively high mainly due to low entry barriers. Despite a necessary initial investment in assets, human resources and marketing strategies and also, the existence of established restaurants that already acquired the preference of a large share of consumers, the likelihood of new restaurants to open is still high. This happens especially because of low consumer loyalty. Consumers can easily change their minds

and switch to another restaurant that satisfies their needs more effectively. The driver can either be price, quality of the food or service and even curiosity for experimenting new offers. Furthermore, franchising provides an easier way to enter the industry especially due to all the advantages that the franchisor can provide to the local franchisee, including access to lower prices of supplies.

Bargaining power of buyers – High

Nowadays, consumers have a huge range of restaurant possibilities. In addition, they are especially concerned with prices and quality, constantly looking for options that suit better their needs. Furthermore the service experience is also extremely important for consumers. For example, the waiting time and the menu variety are aspects increasingly valued. As they have a huge variety of options to choose from, it is relatively simple for them to switch from one restaurant to another, especially because the costs associated are practically inexistent. This allows the consumer to have a prominent role in the industry, with a strong capacity to influence the company's decisions.

Bargaining power of suppliers – High

There isn't much variety concerning suppliers that offer Japanese ingredients or products that, besides the fish, are essential to the food preparation. Furthermore, relatively to the number of Japanese restaurants, there is a lack of sushimen and the increasing demand for them makes them a valuable and scarce resource. Thus, in this specific case, we can consider the bargaining power of suppliers as high and this is an opportunity for suppliers to set higher prices. Japanese supermarkets, for example, are relatively scarce. In addition, the human resources availability is relatively low.

Rivalry – High

The industry is characterized by a high number of competitors and the rivalry between competitors is intense. The overall industry profitability is affected by the fact that consumers have several alternatives. Competition is mostly local, as it is typical of retail businesses, especially of restaurants where the frequency of consumption can be high or at least regular. On the other hand, the city of Lisbon has a great attraction power, especially if the local offer is not up to what consumers want, so in this case, the area of influence of competition increases.

As the rivalry is intense, marketing tools such as advertising become key and companies have to implement more aggressive strategies in order to acquire consumers by, for example, setting lower prices even if this means decreasing quality, and running high-impact advertisement and campaigns.

Concluding, we can define the attractiveness of the restaurant industry as low. The industry is extremely competitive and this competitiveness is expected to dominate the industry in the long-run. With the constant entry of new players, it becomes more difficult for companies to achieve or maintain their competitive advantage. Furthermore, the idea of a growing market is no longer seen as guaranteed in this industry. This way, as the competition increases, it becomes important not only to acquire new costumers, but also to retain the existing ones, in order to ensure the business profitability long-term.² Nevertheless, even though costumer loyalty can be considered a key factor for success “*there is no guaranty that a satisfied customer will return for a repeat purchase*”.³

4. What are Sushi Box’s key differentiation factors from its competitors?

By applying their main strategy of differentiation based on quality, Sushi Box differentiates from its competitors trough product differentiation. Consumers increasingly look for more value for their money and they are willing to pay a higher price if the overall service satisfies their needs. Thus, quality is a main part of their decision and it is seen as a key differentiation factor. The feedback the managers received from their friends and acquaintances, made them prioritize quality even more, since many of their friends who lived in the area didn’t consume sushi in Montijo and looked for restaurants in Lisbon. In order to differentiate Sushi Box’s quality from its competitors, the managers concluded that it was essential to follow the principles of sushi, by not using other ingredients in addition to those that are characteristic of this Japanese cuisine dish. Many of Sushi Box’s competitors didn’t follow the same principle. This would imply to spend more money in raw materials and consequentially, set higher prices and most of the restaurants didn’t want that. In order to set lower prices, they served some fruit pieces along with the sushi, that are not part of this dish, decreasing the quality. Furthermore, sometimes competitors made aggressive price promotions

² Based on Haghghi, Dorosti, Rahnama and Hoseinpour, 2012

³Soriano, 2002

up to 30% in order to acquire more consumers, although based on their lower quality offer. Sushi Box decision of not to add fruit to their dishes required a higher price to sustain this quality level. Many consumers are willing to pay a higher price for a higher quality, and the fact that Sushi Box didn't decrease prices didn't reflect on the monthly revenues; on the contrary, they increased.

Sushi Box's marketing strategy also differentiates from its competitors by having a more dynamic digital strategy. Social media is a major difference between Sushi Box and its competitors. The managers see social media and its daily updates as must to acquire new costumers and increase consumer loyalty. Besides posting pictures with the original recipes, they also shared with clients videos with the preparation process in order to keep them engaged and for trust-building reasons. Public figures and influencers have an increasingly stronger role on purchasing decisions and they also contribute to the visibility increase of Sushi Box on social media, being a factor of differentiation from the competitors.

Furthermore, Sushi Box is involved in the community. With the new management, social initiatives became part of their long-term project. The first one was to offer a dinner to the healthcare assistants, doctors and nurses of Montijo's hospital and soon Sushi Box associated to the local association "Abrir Caminhos", offering meals on special occasions during the year, including on holidays like Christmas.

For the managers it is important that consumers not only differentiate Sushi Box based on its quality food standards, but also differentiate it by having a positive impact on their hometown, continuously looking to help, with the support of other entities and public figures and increasingly positioning Sushi Box as a brand that also prioritizes the community.

5. What are Sushi Box's main problems?

Despite the positive results achieved under the new management, particularly with the significantly increase in the number of sales, Sushi Box still faces some issues.

Employee turnover is still a concern for the owners, especially with the increased competition. It is not possible to maintain the business operation without qualified professionals and to hire and guarantee their long-term permanence is a major challenge. Currently, Sushi Box has two sushimen and they are able to respond to all client's orders. However, it is still necessary to hire an additional member in times of higher demand, in order to maintain the restaurant responsiveness. This is a major challenge for the managers, not only due to the

increase demand for sushimen, but also because the owners most of the times can't compete with other offers, especially because they can only offer a temporary contract of 3 or 6 months. The managers decided this way because the periods when the demand is higher and the current sushimen can't respond to all orders are only about 4 months per year. Thus, it is not necessary to increase the fixed costs hiring a new sushiman for a period longer than 6 months, regarding the current number of sales. This makes even more difficult to hire new members for the team and also a challenge to retain the current ones since there are multiple offers from other competitors. In addition, Miguel is the responsible for the staff training and when a second sushiman was hired, Miguel spent a lot of time on his training. As Sushi Box has only two sushimen, these hours have an impact on the restaurant's productivity. Thus employee turnover is an issue that leads to waste hours on employee's training, creating operational problems, including a negative impact on customer service leading to a potentially damaging reputation for the business.

Another problem the managers are facing is the increase on the operational costs. As they want to keep the food quality standards, and if possible, improve them, the cost of raw materials is high. From the daily fresh fish supply to the weekly costs with the purchase of typical Japanese products, this represented a huge investment for the business. Those prices have been increasing, especially the main ingredient, the fish. The price of fish increased significantly, especially salmon, that increased about 3€/Kg from 2020 to 2021. Although Sushi Box's prices are slightly above the average of its competitors, the procurement process is still a huge investment for the owners, who look for other supply alternatives as long as these alternatives maintain the same quality standards.

Consequentially, scaling a business that is very local is a main problem for the managers. Sushi Box's differentiation factors were able to give the business a established position in the market as a local reference. However, when considering scaling especially to geographic areas where the offer is higher, it would be necessary to increase the differentiation elements in order to be able to acquire costumers in a context where they have even more options. It also becomes difficult to consider the expansion of a business very dependent on a specific know-how as Sushi Box. The industry reality makes sushimen a scarce and valuable resource creating a problem for management when considering how to respond to a higher number of sales or even when planning to open another restaurant. Furthermore, the high dependence of the fish procurement process is also a constraint. Sushi Box's operational tasks are largely based on the essential ingredient, the fish, that was supplied daily by the fish man with a stand at the Montijo market. The business expansion for other geographical areas, for

example, would require the managers to find suppliers that offer the quality and quantity they want, at similar prices to those of current suppliers. If they consider opening in a more distant location from the current restaurant, the supplier's transportation costs will probably be higher and also they might not ensure the supply to those locations.

6. What options for expansion should the managers consider?

The managers can consider two main expansion options such as owning a new restaurant or creating a franchising network.

Opening another restaurant would give freedom to the managers to plan the business from the beginning grounded on their own ideas, as Miguel did when he opened Sushi Box in 2018. However, this would imply high initial costs. The managers calculated that an initial investment of more than 50000€ would be necessary. As a restaurant, it is indispensable the purchase of kitchen equipment for example, crucial for the operational tasks. Also, most of the times it is needed some construction work in order to increase the space in the kitchen or to do some changes in its layout. Sushi Box could consider opening a store in a shopping center, for example. Shoppings are places with a lot of consumer traffic during the year and by opening a store in one of these locations could contribute to an increase of the brand's visibility and also could be a solution to improve the lower sales Sushi Box is experiencing in its higher demand seasons. Nevertheless, regarding the possibility of owning a second restaurant, it would be difficult for the managers, in the short term, to do an initial investment with the values they already estimated. In addition they do not feel comfortable with the degree of risk associated to this potential investment.

Another possibility is to expand through franchising. The managers also consider this a difficult option mainly due to the fact that this would imply a decrease on the restaurant's productivity, unless they hire new additional members for the team, since Sushi Box's sushimen would have to be responsible for the training. However, the initial investment comparing to opening a new restaurant would be substantially lower mainly because the higher investments on equipment and structure are supported by the franchisee. Furthermore, Sushi Box would benefit from the franchisee's resources, such as human resources and financial resources regarding the payment of fees associated with the agreement. In addition, franchising provides a major advantage for the managers. With the responsibility of managing two business at the

same time, the owners would be less available, especially if we take into account that they have other occupations besides managing Sushi Box. For example, Kevin works in another company and Gonçalo manages another restaurant. By assuming the management of Sushi Box and a new restaurant, their available time for more critical areas regarding both businesses would be much lower. For example, the sushi restaurant Sushisan opened in 2009 in the Beloura Shopping Mall in Sintra and started its expansion through franchising. Nowadays, there are 7 restaurants, all of them in the Lisbon Metropolitan Area. On the other hand, franchising is facilitated by standardized production and easy learning. Sushi requires rigorous production and the preparation process is not so much systematized. In addition, a continuous supervision by the franchisor is necessary to ensure the quality standards. With the franchising network, it ends up involving two businesses: one is the sushi business itself, managing and running a restaurant daily; another is managing a network by promoting it, acquiring interested parties, establishing manuals of procedures to guarantee the quality standards and creating a routine of franchisee's evaluation. This would require a management capacity and availability that they may not have yet. Yet, the financial investment of expanding through franchising would be significantly lower than owning a business. Furthermore, the risk associated would consequentially be lower as well and the probability of opening a high number of new stores at a faster pace is higher. However, expanding the business through franchising is also a difficult option. To be able to ensure the quality standards and to control the franchisee's procedures, would be very difficult for the managers. Due to the high staff turnover, Sushi Box's sushimen are not able in the moment to spend time training the franchisee's employees or even offer continuous support. In addition, it would be necessary that their franchising network differentiate itself from other chains such as Sushisan.

The managers can consider other alternatives such as joining a franchising network themselves such as Sushisan and other possibility is dedicate to concentrate on the current restaurant by increasing the differentiating elements, raising revenues and delaying the expansion goal for now.

7. What are your recommendations for Sushi Box's managers?

As previously mentioned, the managers wanted to position Sushi Box has a high-quality sushi restaurant since the beginning. As this requires setting higher prices, the managers should keep following the path of differentiation, in order to be able to retain the existing costumers

and also attract new ones. This is an industry that didn't reach maturity yet and we have witnessed to a continuous increase on sushi restaurants over the years. It is important to consider that besides Sushi Box's internal factors, the increasing importance of the external factors, namely consumer trends, influence the business outcome.

First, in order to be a differentiated brand, the managers should start by the name. As previously mentioned, in Lisbon there is a Japanese restaurant with a similar name "The Sushi Box". Although Sushi Box is currently a local business, its brand awareness can certainly be affected, especially if the managers consider expanding to the Lisbon Metropolitan Area in the future.

Furthermore, before initiating the expansion process through franchising or owning another restaurant, the managers should consider the possibility of growing the business in the current restaurant. As Sushi Box already prioritizes high quality food, the managers could focus on improving customer service, in order to increase the differentiation elements and stand out from the competitors. For example, it would be advantageous to incorporate loyalty programs, as this would contribute to nurturing a brand relationship with the clients. A possibility would be to design a digital application where Sushi Box could give special offers to clients, for example, on their birthdays or when they reach a certain number of points regarding their purchases. By adopting this, customers will tend to buy more frequently as they feel rewarded by the business.

When considering expanding to another location, owning a new restaurant would represent a huge financial risk for the managers especially because this is an industry very dependent on external factors. In addition, it would be challenging to conciliate the management of both businesses, mainly due to the lack of availability of the managers to ensure all the procedures associated. Thus, creating a franchising network might be the solution to consider. Besides a lower risk associated to a significantly lower financial investment, a great advantage for the managers is that through franchising they are not responsible for the daily management of franchises. In addition, the managers could benefit for having both the franchising network and the current restaurant. As previously mentioned, the business risk decreases as the company becomes more diversified.⁴ While with the own restaurant the managers work to optimize the revenues, franchising will provide them stable revenues from the payment of fees.⁵

⁴ Based on Koh, Lee and Boo, 2009

⁵ Based on Andrew et al., 2007; Morrison and Macmillan, 2000

Furthermore, the smaller the value of their initial investment, the more they will be able to invest in Sushi Box's differentiating factors.

V. Conclusion

This Dissertation allowed me to have a perspective regarding problems and challenges that a small business has within its specific industry. In addition, having the opportunity to know the managers' point of view and their ideas for a possible expansion, as well as the challenges they recognized they need to overcome, were very useful insights and helped me to understand more clearly a real life business situation.

This Dissertation provided me relevant insights regarding the industry and how a company can face a highly competitive environment, as well as its opportunities to differentiate. Therefore, differentiation strategies have a major role in this case, in order to be able to face the increasingly entrance of new players in the market and to stand out from the existing ones. Elements as a strong branding strategy, quality and innovation allowed Sushi Box to start this path of differentiation and had positive results for the business. Nevertheless, the manager's goal of expansion is clearly limited by indispensable resources such as sushimen, a central factor in this case. It becomes difficult to scale a business when a company is dependent on a very specific know-how.

For their expansion goal, the managers can either decide by implementing a franchising network or opting by opening a new restaurant. After the analysis, I consider that Sushi Box would gain by investing first in more differentiation factors, leading to an increase on brand awareness. Later on, it could initiate the franchising process, when the brand would be more recognized outside Montijo area.

In one year, Sushi Box moved from a business almost closed to a possible expansion considered by the three entrepreneurs. As we are living uncertainty times, I consider that this goal can be unpredictable in the moment. However, it will be important for Sushi Box to adapt to possible changes that may happen regarding the industry or consumer's needs or trends.

VI. References

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