



AMERICAN UNIVERSITY OF BEIRUT

MARKET ENTRY FOR FAST FOOD CONCEPT

by  
ABDEL KADER JAWHAR

A project  
submitted in partial fulfillment of the requirements  
for the degree of Master of Business Administration  
of the Suliman S. Olayan School of Business  
at the American University of Beirut

Beirut, Lebanon  
May 2018

AMERICAN UNIVERSITY OF BEIRUT

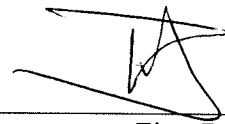
MARKET ENTRY FOR FAST FOOD CONCEPT

by  
ABDEL KADER JAWHAR

Approved by:

---

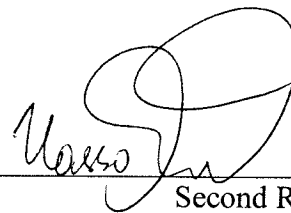
Tarek Kettaneh  
Senior Lecturer  
Suliman S. Olayan School of Business



First Reader

---

Yassar Nasser  
MBA Director  
Suliman S. Olayan School of Business



Second Reader

Date of project presentation: May 3rd, 2018

AMERICAN UNIVERSITY OF BEIRUT  
THESIS, DISSERTATION, PROJECT RELEASE FORM

Student Name: Jawhar Abdel Kader Imad  
Last First Middle

Master's Thesis  Master's Project  Doctoral Dissertation

I authorize the American University of Beirut to: (a) reproduce hard or electronic copies of my thesis, dissertation, or project; (b) include such copies in the archives and digital repositories of the University; and (c) make freely available such copies to third parties for research or educational purposes.

I authorize the American University of Beirut, to: (a) reproduce hard or electronic copies of it; (b) include such copies in the archives and digital repositories of the University; and (c) make freely available such copies to third parties for research or educational purposes

after:

One ---- year from the date of submission of my thesis, dissertation, or project.

Two ---- years from the date of submission of my thesis, dissertation, or project.

Three ---- years from the date of submission of my thesis, dissertation, or project.

(Signature) 3<sup>rd</sup> May 2018

Signature

Date

This form is signed when submitting the thesis, dissertation, or project to the University  
Libraries

# AN ABSTRACT OF THE PROJECT OF

Abdel Kader Jawhar for Master of Business Administration

Major: Business Administration

Title: Market Entry for Fast Food Startup

Mekaprep is a startup that aims to serve authentic, tasty, and freshly prepared food to people on the go.

Mekaprep is launching a new concept in the Lebanese/Arab fast food production where it offers freshly made fast food through vending machines. The startup will launch through “Bake&Go”, a vending machine that offers the Lebanese Manoushe in under two minutes. The Manoushe is a pizza-like fast food that is made up of flat circular dough topped mainly with thyme or cheese. In Lebanon, the Manoushe is the most demanded breakfast and it has ranked number two on CNN’s list for the tastiest Middle-Eastern food. Like the Shawarma and Hummus, the Manoushe can be found in many international cities as it is spreading through the Levant area diaspora. The Manoushe hasn’t spread efficiently globally yet due to (1) the expertise needed to perfect the taste in different markets with different raw materials and (2) the labour intensive operation of food preparation which raises the costs of operation significantly as the required labour force should be experienced.

With the increase in globalization, and the relatively recent high exposure of Dubai’s market, the Lebanese cuisine has gained an excellent reputation for tasty food products internationally.

Mekaprep’s business model consists of designing and manufacturing the aforementioned vending machines, deploying the machines in locations with high foot traffic, preparing the raw materials through self-owned kitchens, the replenishment of the machines with the food ingredients, and maintaining the machines.

The vending machines allow for the higher accessibility to food on the go as they run on low amperage through standard electrical plugs, allowing the machines to be placed practically anywhere around the world. They also allow for the reduction of labour costs when it comes to the food preparation, which in turn allows for high quality food products at low costs, internationally.

Through “Bake&Go” a consumer would choose and order the Manoushe he desires on a touch screen attached to the vending machine, where after he pays through his credit card the machine will start baking a fresh Manoushe to be served under a two minutes in a sealed paper bag, ready to be eaten on the go.

The internationalization of Mekaprep machinery, starting with Bake&Go, is necessary given the following reasons:

1. Bigger Markets leading to increased sales of food products and economies of scale for building the relatively costly machines.
2. Other markets are more adapted to purchasing food from vending machines
3. Lack of competition, unlike having Lebanese bakeries on almost every street corner. This allows for the Manoushe to be priced higher abroad.
4. To increase the barriers to entry of future competition of similar products into attractive big markets, after Mekaprep’s model proves traction

The launching of the first machines will be in Lebanon as Lebanon is the perfect size for the purposes of a pilot launch. Known for its many diversified views and cultures living in a country; it is big enough to be a perfect early adopters market. Lebanon is further justified as the perfect testing market for Mekaprep specifically, as its first product offering will be a Manoushe baking vending machine “Bake&Go”, and the home origin of the Manoushe is Lebanon.

The first machines will be manufactured and assembled in Lebanon. Although more expensive, it allows for the direct adjustment on the machines and faster launching into Lebanon. It also allows for the direct control of the manufacturing and assembly processes, which allows the designing team and food managers to perfect the machines and the food products before expanding into the market.

When the iterations are all made in the Lebanese market, and after the model proves successful, only then will Mekaprep focus fully on internationalizing its business.

The project paper aims to define the most feasible, successful, and profitable model for the large scale internationalization of Mekaprep through the study of previous research and its specific application to this business.

# CONTENTS

ABSTRACT.....	v
Chapter	
I. LITERATURE REVIEW .....	1
A. Introduction.....	1
B. Entry Modes to Foreign Markets .....	2
1. Export.....	3
2. Strategic alliances.....	4
3. Contractual arrangements: licensing and franchising .....	5
4. Joint ventures .....	7
5. Wholly owned direct investment (DI).....	8
C. Entry strategies to foreign markets .....	9
1. Incremental growth strategy.....	9
2. Born Globals .....	11
D. Strategy considerations .....	13
E. Factors Affecting Internationalization .....	14
1. Internal factors .....	14
a. Cost management in operations.....	14
b. Control VS risk.....	15
c. Financial power and firm size.....	15
d. Team expertise, knowledge, and network .....	16
e. Innovation and Technology .....	17
2. External Factors .....	19
a. Time frame & competition .....	19
b. Brand consciousness\Existing Demand.....	19
c. Labor availability.....	20
d. Regulations .....	20
e. Proximity .....	21
f. Market risk.....	21
II. CASE STUDY .....	22

A. Introduction to Mekaprep .....	22
1. History of Mekaprep .....	22
2. Mission and Vision .....	23
3. Strategy, Goals, and Objectives .....	24
a. Going to Market.....	24
b. Goals, and Objectives .....	25
4. Product and Services .....	27
a. The Features.....	27
i. Time.....	27
ii. Quality .....	27
iii. Freshness.....	28
iv. Hygiene.....	28
v. Consistency.....	28
b. Competitive Advantages.....	29
i. Patent .....	29
ii. Closed System .....	29
iii. New Product Development.....	29
iv. Cost optimization .....	30
v. Exclusivity contracts .....	30
vi. Brand.....	31
B. Mekaprep considered factors for entry model analysis .....	31
1. Time Frame & Competition .....	31
2. Team expertise, knowledge, and network.....	32
a. Main concerns.....	32
b. The Team .....	33
3. Financial Power and firm size.....	34
4. Cost Management in operations.....	34
5. Innovation and Technology.....	34
6. Network.....	34
7. Proximity.....	35
8. Protection from copying.....	35
9. Brand Consciousness/Existing demand .....	35
10. Labour Availability .....	36
11. Regulations.....	37
12. Market Risk.....	38
13. Key Findings .....	38
a. Business considerations .....	38
b. Local markets considerations .....	39
c. Food Considerations .....	39
d. Machines considerations.....	39
C. Mekaprep’s international entry model analysis .....	40
1. Export.....	40

2. Direct investment .....	40
3. Strategic Alliances .....	40
4. Joint ventures .....	41
5. Franchising .....	41
D. Implementation of the franchising strategy .....	42
1. Sales and Distribution .....	42
2. Machines production .....	42
3. Machine Maintenance .....	43
4. Food Management .....	44
5. Franchise fee .....	44
6. Locations of machines .....	45
7. Revenue sharing .....	45
8. Franchisee selection .....	45
9. Franchisee order selection .....	45
10. Feedback from Market .....	46
11. Marketing Fee .....	46
12. Franchisee network .....	46
III. CONCLUSION .....	47
Appendix	
I. ANNEX .....	50
REFERENCES .....	51

# CHAPTER I

## LITERATURE REVIEW

### **A. Introduction**

The focus of research, in the past thirty years, has increased considerably on the topics of internationalization of small firms (Chetty and Himiton, 1993; Miesenbock, 1988; Bilkey, 1978). With the theory of economic globalization, internationalization is now considered one of the most important growth-inducing decisions on a corporate level (Luo, Hongxin Zhao, and Du, 20015; Sapienza, Autio, Geroge, and Zahra, 2006). Wood and Robertson (2000) even discussed that internationalization has become a necessity for firms of all sizes to survive in today's markets, due to globalization. On the other hand, Internationalization could be the reason for a company's increased profitability and growth, or increased losses and risks (Vahlne and Johanson, 2017). Therefore, the strategy that a company chooses to internationalize with, would directly impact the likelihood of success of the whole venture. The strategy would involve the level of control that the mother company has in a foreign market, how much time and money investments are to be done, how to grow the operation within a new environment of resources and knowledge (Zekiri, 2016), revenue stream control, liabilities and accountability, time of entry, and many more relevant challenges. Due to the variety of businesses' natures and specificity of firms' strategies, many different theories, for market entry, have developed (Malhotra, 2003; Turnbull, 1987) since the inception of internationalization back in the 1960s (Hunt, Froggatt, & Hovel, 1967; Tookey, 1964).

The theories have developed over time, which mainly draw a map of gradual globalization based on the risk the company undergoes, versus the control it exercises in foreign markets [Cuervo-Cazurra, 2011; Zeng, Xie, Tam, and Wan, 2009]. Control is mostly defined by the power of the firm to influence the different management levels it has in operation in order to strengthen its competitive advantage and maximize its profits (Agarwal, 1992). They mostly argue about the modes of entry based on different factors such as industrial, technological, and firm-specific factors (Cuervo-Cazurra, 2011; Zekiro, 2016).

With the increased technology levels and with the rise of the age of information, more startups and SMEs are “born to be global” as they internationalize during the first three years of launching (Sheppard and McNaughton, 2012). “Born Globals” internationalize faster than described by traditional perspectives which have observed that internationalizing firms often operate in domestic markets before venturing overseas (Cuervo-Cazurra, 2011). This was unheard of before the inception of the internet, which challenged traditional views of internationalization where large, well-resourced multinational enterprises dominated international business (Cavusgil and Knight, 2009; Aspelund, Koed, and Moen, 2007).

## **B. Entry Modes to Foreign Markets**

What mode (of internationalization) that a multinational company chooses has implications for how much resources the company must commit to its foreign operations, the risk that the company must bear, and the degree of control that the company can exercise over the operations on the new market” (Hill, Hwang, and Kim, 1990).

Firms have multiple methods of entering foreign markets, where the method is decided upon by the top management. The selection of the appropriate method of entry is one of the most relevant decisions in the success of the internationalization and growth of a firm (Zekiri; 2916; Zeng, Xie, Tam, and Wan, 2009). If a failing method of entry was decided on, the risk might lead to irreversible damage to the firm in the relevant foreign country and could lead to bankruptcy. The more resources are invested in the internationalization process the more the company is gaining control and taking financial risks. And the more it delegates to third parties to save on the initial investment, the more it loses control over the company's operations and likelihood of success in a foreign market.

Modes of entry can be summarized into 5 frequently adapted models: (1) Export (Johanson, and Vahlne, 1990; Leonidou and Katsikeasm 1996), (2) Strategic alliances (Das and Teng, 2000; Sengupta and Perry, 1997), (3) Contractual arrangements, such as licensing and franchising (Alon and McKee, 1999), (4) Joint ventures (Buckley, 1995), (5) Wholly owned direct investment (DI), including greenfield investments and mergers and acquisitions (Contractor and Kundu, 1998; Hill, Hwang, and Kim, 1990).

### ***1. Export***

Exporting the products into new areas has advantages such as the full control on the manufacturing of the products and the low initial investment to reach new customers. It validates the need for the product and allows the exporter to collect information and build up knowledge of a new country with a low initial investment.

Most of the increased costs in the case of export are directly associated with the shipping and the marketing (Zekiri, 2016). This allows the company to utilize its capacity and benefit from economies of scale, with greater sales volumes.

Disadvantages are also present, where the company loses control over the product as soon as it enters the foreign country. Furthermore, the customer is more distant from the company, for the company to collect real time feedback, and product customization to be fast enough to compete. Exporters also face delays in delivery relative to domestic producers, which would also lead to lost sales or force the export of large amounts of product into the foreign market.

Exporting mainly includes 4 parties: (1) the exporter, (2) the importer, (3) the government, (4) and the transporter (Sengupta and Perry, 1999).

The implementation of the export mode is a safe method of entry as it doesn't include big investments, but that doesn't necessitate its effectiveness on growth, on the contrary it might damage the firm's image with higher pricing, delayed shipments, or damaged shipped goods. Export is usually chosen as a method of entry when the costs of production are low in the parent country with low trade barriers to foreign targeted country (Malhotra, 2003). It is also used when the need to reach new customers is urgent in case of FADs or needed validation of the demand. It helps a company learn about a new market with its products with minimal risk. Furthermore, the disadvantage of deficiencies in customer contact requires the exporting company's product to lack fast customization needs for other countries.

## ***2. Strategic alliances***

Alliances are preferred “when the critical inputs required to pursue the opportunity are owned by different parties and when these inputs are inseparable from

the other assets of the owner firms” (Sheppard and McNaughton, 2012). Growth opportunities and synergies to exploit markets are offered by the alliance of firms from different markets (Glaister, 1998; Miller, Eden, and Hitt, 2008). This is done as alliances facilitate the quick access of one company to another companies’ public relations, knowledge of the market, supply chain, expertise, technical knowhow, or other assets for the mutual benefit of the allied companies. This mostly requires the sharing of revenues, knowledge, and experience through an agreement that leverages the competencies of each firm. It is done when the requisite level of lacking competency cannot be developed within an acceptable time frame or cost (Madhok, 1997). An example of alliances are the partnerships that exist between trading companies and manufacturers abroad through local sales agents or representatives, where a competitive advantage is to be gained on both sides (Das and Teng, 2000). All parties of the agreement will have no control on the performance of their partners, and would need international management expertise and knowledge for smooth operations.

### ***3. Contractual arrangements: licensing and franchising***

Contractual arrangements are mostly done when the launching firm lacks the money, people, expertise, or time (Siebert, 2004). Both Franchising/licensing allow firms to develop, grow, and to have access to new channels that capture economies of scale (Kaufmann and Rangan, 1990).

Licensing in particular is usually adapted when a firm owns an intellectual property that allows it to be a global monopolist. The firm is protected by copyrights, trademarks, patents, or a design. Licensing allows the transfer of usage rights through renting the intellectual property to a licenced party for the use in sales and product development in a specified market (Cavusgil, 1998). Furthermore, the intellectual

property is used by the licensees through a profit sharing agreement where a percentage of the sales is shared with the licensor (Feldman, Feller, and Burton, 2002). Although the licensee is committed to follow the licensing contract (Hill, Hwang, and Kim, 1990), the licensor will have no control over the licensee's operation or use of the intellectual property.

The difference between licensing and franchising is at the level of management. International franchising is an equity shared mode of entry while international licensing is a non-equity mode of entry (Kotabe and Helsen, 2009).

Unlike licensing, franchising allows the franchisees to do most of the capital investment in exchange for the intellectual property, while following strict business practices that are predetermined by the franchisor.

Franchising provides franchisees opportunities to co-own a successful business with relatively low risk while gaining access to the franchisor's support, business model, operating procedures and intellectual property. So the franchisor will have the opportunity to benefit from economies of scale and franchising fees while empowering his franchisees (Elango and Fried, 1997). In return the franchisee is responsible for pricing, wages and mainly location using his knowledge of the local market, local demand, and real estate (Michael, 1996).

Franchising has lots of advantages for the franchisor, such as the rapid international growth, no capital investment requirement, leanness to adapt to customer needs quicker, access to local data, and the bypass of trade barriers. Through allocating decision making, and developing a learning network between franchisees, the franchise system achieves efficiencies in information, in supervision, and in scale (Michael, 1996). On the other hand the mother company will have less control over its foreign operations, knowledge, and most importantly, success. Since royalties are a big part of

the franchisors profitability (Azoulay and Shane, 2001) the selection criteria of the franchisee is of paramount importance.

The profits of franchising are certainly lower than direct investment in the foreign market, but it allows for faster access to different markets with less variables to control. Franchising is usually chosen when the service provided needs proximity to the customer, mainly in restaurant businesses with large scale target customers. The franchising firm should have high talented managing resources, well-structured contracts, talented lawyers and a sustainable competitive advantage to handle global franchising. These requirements are needed since a sizable concern exists where a company might train and raise future competitors, who in this case are the licensees and the franchisees.

#### ***4. Joint ventures***

A joint venture is the collaboration between two parties, the mother firm and a foreign firm, to develop profitable business. They share risks, costs, profits, knowledge, and decisions such as the business development strategies.

Joint ventures could be formed by two or more partners, and in reality most international joint ventures have more than two parents (Beamish and Kachra, 2004; Gon, Shenkar, Luo, and Nyaw, 2007).

The control of the joint venture is controlled by the biggest firm that usually own more than 50% of the venture (Li, Zhou, and Zajac, 2009). This is due to the fact that bigger firms have more bargaining power and the ability to raise or provide needed resources (Pan and Lu).

International joint ventures allow for higher level of control when compared to contractual arrangements, with the same level of local data access and closeness to

customer. But, the collaboration also increases the risk of conflict between partners especially when none has complete control nor profit incentive over the firm.

This method is mainly used when the exchange of intensive knowledge and implementation of sizable specific work is needed by both parties through strategic collaboration with high expected mutual returns.

##### **5. *Wholly owned direct investment (DI)***

Direct investment (DI) includes Greenfield investments, mergers, and acquisitions. DI results in the direct ownership by the mother company of facilities in a foreign country. It is the most capital intensive mode of internationalization for a firm. This increases the risks faced by the firm, putting more pressure on the management's experience and demand in a foreign country. Nevertheless, it does allow for the company to have the full control over its business, products, pricing, and strategy without any outside influence.

1) Greenfield investments are a form of DI where the company builds new facilities and operation from the ground up. It creates jobs in the new country establishing long term goals within the country of choice.

It has the highest level of risk and commitment compared to any different mode of entry. It is mostly followed when the competitive advantage edge is very high, the investment within the company is available, and the relevant expertise is present within the company, with no eligible companies ready to be acquired.

2) Mergers and acquisitions happen when companies get their ownership by purchasing another company. This provides the acquiring firm fast access to local knowledge, talent, experience, operations and contacts. Access to those local assets

allows the acquiring company to use less of its resources and assets in the new country. Furthermore, foreign experience would be transferred back to the company. Therefore, in highly competitive markets, mergers and acquisitions are preferred over greenfield investments (Klimek, 2011).

Risks for this mode of entry are generated from the threat of overpaying for the acquisition due to inaccurate assessments and difficulties in absorbing assets after merging.

### **C. Entry strategies to foreign markets**

The internationalization strategy of a firm is directly related to its own strategy and behaviour (Welch and Welch, 1996) because globalization is a consequence of the firm's strategy (Andersson, 2000).

Furthermore, the strategy developed by a firm to go international should mostly depend on the resources it has to sustain the development of the outside market. The feasibility and availability of the resources would limit the choices of internationalization strategies (Edelman, Brush, and Manolova, 2002).

In literature the entry modes have been categorized into two main growth international development strategies: The incremental growth and the Born Globals.

#### ***1. Incremental growth strategy***

Many models refer back to the "Stage" theory category of internationalization strategies. This strategy represents the slow expansion of companies gradually as they build knowledge and coherence between their nationality and that of other countries.

One of the leading models is the “establishment chain” which states that a firm’s engagement in a specific foreign market develops according to a sequential process, first selecting countries that are similar to the country of origin’s environment, then later on entering countries that are dissimilar (Johanson and Wiedersheim, 1975; Vahlne and Johanson, 2017). Dissimilar countries are characterized as those that are physically or psychologically distant, and where the flow of information in and out of the market is obstructed. These countries have different languages, business practices, culture, and technology levels (Vahlne and Johanson, 2017). Basically, internationalization would be directly related to the geographical proximity and the similarity in status between the two countries on an economic, political and cultural level (Cuervo-Cazurra, 2011).

The growth is done through export method to eventually reaching direct investment (DI) method, where the growth it is broken down into 4 stages: (1) No export (2) Export through Agents (3) Sales subsidiary (4) overseas production (Björkman, and Forsgre, 2000).

In previously discussed terms, this means a company starts its internationalization with low risk and low control to eventually reach full control through DI.

Due to the sequential order of the phases in this theory, it is based on the learning and experience of the leadership (Vahlne and Johanson, 2017). This has led many theorists to identify the most important factor of internationalization to be the experience and knowledge of the team. The company should be aware of the markets it is penetrating by building exponential knowledge about the market. It bases the decisions of penetration based on market knowledge and market commitment.

This model assumes that the company has no international experience and therefore has to build it slowly. It also assumes that the specific home country experience and knowledge of customers and competitors are completely irrelevant abroad. Therefore, if a firm has developed sufficient experience, knowledge, and resources in its home country to overcome the challenges of entering a foreign country, the sequential model is no longer valid.

## ***2. Born Globals***

Hedlund and Kverneland (1985) proved that companies do have new and rapid strategies to enter markets, which are much faster compared to the stage theory growth. Especially with tech companies, barriers to entry are low and the size of the enterprise doesn't matter.

Born-global firms are “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (Knight, Koed, and Servais, 2004). Most are regional in their internationalization, especially in the early years (Lopez, Kundu, and Ciravegna, 2009).

Knowledge and international experience can now be gained more easily with the rise of communication technology, globalization, and the internet (Chetty and Campbell, 2003; Madsen and Servais, 1997). As a result, the cost of internationalization is low and affordable by firms with low resources. Firms with entrepreneurial orientation and international marketing now have the ability to internationalizing early and widely (Knight and Cavusgil, 2004). It is assumed that the team has relevant previous experiences in international markets, enough where the foreign sales are

attainable. Business knowledge has relatively small impact on the growth of a born global, the more high tech and highly innovative the firm is (Knight and Cavusgil, 2004; Oviatt and McDougall, 2005).

Being born global requires the company to have distinct intangible resources and capabilities (Jantunen, Nummela, Puumalainen, and Saarenketo, 2008; Knight and Cavusgil, 2004). It also requires the product offered to have low optimization and customization to a certain country, where the firm can benefit from the increased efficiency of economies of scale as this will directly lead to the low responsiveness to local requirements.

Born Globals find profitability and feasibility more realistic globally. Unlike the stages theories, BGs focuses on the rapid, dynamic, complex and less structured strategies that firm should adapt.

They will willingly target markets remote from their home market, regardless of the cultural and economic differences. Their market exists in certain countries that might be far away from home, as they follow the focus on the forecasted demand to increase profitability.

For software firms internationalization is done by spreading through universal platforms. These firms dominate the born to be global market. Global growth is done through remote expansion digitally, as they take advantage of the global IT infrastructure. Coviello and Martin (2005) have shown that most software firms follow this model and rely on their networks to expand.

#### **D. Strategy considerations**

Any firm that needs to internationalize has to consider its own competencies and limitations along with the target market's conditions. Only after thorough consideration and analysis of the previously mentioned criteria that a company can hone in on an efficient method of entry and a good internationalization strategy.

A company has controllable factors which are mainly firm related. An example of those would be the firm's own strategy, the international experience needed within the company, the utilization of core competencies of the firm and its team, the innovation management required, and its financial power. It also shows some uncontrollable factors, which are mainly external to the firm and location specific. Those factors could be the political, social, cultural, and economic status of a foreign market along with the competition existing in that market and the customer's preferences.

Customers in different countries have different religion, language, culture, wealth, and experience (Tallman, 1992; Ricart, Enright, Ghemawat, Hart, and Khanna, 2004). Furthermore, the rivalry in an industry and its structure is also different between countries, which further demands the need for analysis of a market before entering it (Caves, 1989).

## **E. Factors Affecting Internationalization**

It could be interpreted from the various methods of entry and strategies presented, that each method and strategy has certain advantages and disadvantages. But it is necessary to add that what is considered as an advantage is directly related to the firm's nature, operations, competency, limitations and vision. Its whole feasibility and success depends on the aforementioned consideration factors that define the firm's strategy for internationalization.

### ***1. Internal factors***

#### **a. Cost management in operations**

One of the most important factors for a firm is the cost management in internationalization which mostly depends on its vision and capital capabilities. Jones and Hill (1988) discussed how the costs of the company grow with its increased internationalization, where costs are directly related to profitability. Examples of various costs would be the foreign distribution, cultural differences, and foreign labor costs.

Entry costs may vary greatly based on the method of entry chosen. DI requires the whole investment of operation and control within a country to be directly financed from the firm's capital. The more the delegation of foreign operation is channelled to third parties, the lower amounts of capital are needed.

In hardware companies, economies of scale is a pillar for growth. Although manufacturing countries such as China and Taiwan are growing expertise and quality products, some countries require specific accreditations where foreign production doesn't significantly lower the production costs. For software based companies, the

costs are relatively non-existent as customer acquisition cost is very low. The more the competition landscape is active within a country, the more the need for cost management is essential for success.

b. Control VS risk

As previously discussed, the most costly entry method is DI since it grants complete ownership of the company in international markets. As the control decreases through the different mentioned methods of entry, the cost of internationalization decreases at a similar pace. Therefore, the method of entry with the least cost and risk is licensing. The higher the control the higher the profitability but intuitively the higher the risk faced by the firm and more complex the operations are in the internationalization investment.

In the case of exporting and agreements methods of entry, the assets are no longer under the control of the producer. They in fact are under the control and in most cases ownership of the third party in the foreign market.

c. Financial power and firm size

Many of the complications hindering internationalization are caused by a lack of resources, mainly cash. The lack of cash limits the capability, reach, and capacity of the firm. SMEs depend on limited investment loans or selling shares to raise capital, which pushes them to be mostly risk averse. They will less likely pursue high investments with high returns that multinational companies usually go through.

Most startups and SMEs fail to land big loans and investments where traction is yet to be proven abroad. They are forced to weigh the benefits and risks involved for every \$ used in internationalization, which mainly pushes those small companies to rely on third parties, whether through agreements or partnerships, throughout their launching into different markets.

d. Team expertise, knowledge, and network

Those include the structure of the company along with its focus on hiring and retaining talent and expertise. They are the management skills along with the technology that utilize what is available to reach the company's internationalization objectives. Many failures are due to the lack of technology and networking abilities. Those problems could be usually resolved with alliances with foreign companies which would close the gap of the lack of special international management talent (Freeman and Reid, 2006).

A management system is required in many countries such the ISO accreditations. Those management systems are applied by key employees that requires them to have expertise as well.

Management expertise for the different methods of entry to be feasible must tackle foreign recruitment, logistics, partnerships, legalities, customers' persona and sales networks. In the case of DI all of this expertise is essential to be within the company prior to internationalization, whereas other methods of entry require less general expertise and more specific expertise. In the case of franchising and licensing, the expertise needed is in product development, strong binding contracts, and a profitable business model, and all the remaining considerations are subcontracted. This

leads to the consideration that the required expertise within the team directly affects the choice of method of entry into new markets and vice versa.

The more internationally experienced managers, the more likely they will form networks required for internationalization (Mockaitis, Vaiginiene, Giedraitis, 2006; Reuber and Fischer, 1997). With Globalization, growth can now be attained by partnering with foreign countries to build faster market experiences and penetration. Partnering with local presence is sometimes necessary for better market understanding and maintenance. The rise of technology also allows the easier transfer of services, with software firms exploiting their advantages in the market for faster growth. They network to develop collaborations and partnerships for the countries they are entering.

The barriers to entry of a manufacturing firm are different from that of a software firms. Both are affected by the technology level they have to be able to focus on growth and good service.

e. Innovation and Technology

The Organizational culture of a firm needs to be innovative and proactive for a firm to internationalize successfully (Dimitratos and Plakoyiannaki, 2003). Going to a foreign market needs a dynamic team that can innovate to satisfy the needs of different markets. They need to be able to create new products and innovative solutions to compete internationally. They need to create new opportunities and take initiatives daily to ensure growth.

With respect to the effect of technology levels on internationalization,  
technology

-intensive firms have a

proactive position in their internationalization strategies than the traditional firms in the new global economy (Crick and Spence, 2005). It tackles the technology level within the country of the mother firm and that of foreign countries. The right implementation of technology could be the main competitive advantage for the growth of a company.

For example, in case a highly specialized technological product was developed in a specialized factory, export would be the most appropriate method of entry. This will allow the producer to benefit from economies of scale and more efficient quality control. Most importantly it allows for the protection of the production processes and knowledge to be retained. An example of this can be observed in the relocation of the manufacturing of industrial robotics from Europe to China to benefit from lower costs of production. The transfer of that expertise of robot manufacturing to China has allowed the Chinese market to open competing firms with European Robot manufacturers all around the world.

In the case where export is no longer feasible financially or slowing down the company's responsiveness to international customers, the production location needs to be moved to or duplicated at the location of operations. The technology levels of the new market will need to be the same or better than the levels of the original method of production. This has become less and less important with the increase in globalization, where most technologies are shared between firms and universities from different countries for the mutual benefits of all parties. Toyota has proven that during their launching into the US market, where they exported their processes along with their team, changing the cars industry in the US.

## **2. *External Factors***

### **a. Time frame & competition**

Different models of entry into markets allow for different speeds of launching into markets. Investing in market research and direct control through DI in a new country takes more time than duplicating franchising contracts for different markets. Methods of entry associated with lower costs and risks allow for the faster pace introduction of products into new markets.

Competition is also tied to the speed of entry since the more competitive the market landscape is, the faster you would need to move and establish barriers of entry for future competition within a country. Competition will also give access to benchmarks which would force a new market entrant to optimize costs, increase its marketing budget, and have local experience to compete over market share.

### **b. Brand consciousness\Existing Demand**

A company entering a market should incentivise customers to work with them, and brand consciousness is one of the major incentives for cooperation.

Going into a market with a trusted brand knowing that demand exists tackles the uncertainty followed by internationalization, allowing for a better strategic entry method where riskier methods of entry can be adopted.

Also this allows for the ease of locating partnerships with well-established local or regional firms.

c. Labor availability

One of the main internationalization concerns are the availability of production workers, skill workers and senior managers abroad (Badri, Davis, and Davis, 2000; Oviatt and McDougall, 2005). This is mostly apparent in highly technological companies that need highly specialized employees or companies of mass production with a huge number of operators. This is mainly tackled by the automation of the production and processes, and usually with the help of large direct investments.

Furthermore, the more attainable the hiring and retention of local expertise with reasonable wages the more likely a company would hire a team during internationalization. This will grant the company higher quality control over foreign operation and higher profitability.

d. Regulations

Foreign regulations are different between industries when entering a new market. Whether it is import/export of products, direct investment, or virtual software entrance, regulations on quality and control are changing. The government policy, along with the legal and political systems, may be a barrier of entry into a market or even exporting from one.

The more complex and uncertain the regulations are, the more it is preferred to internationalize through the support of third parties. That includes joint ventures, partnerships, contractual agreements, and export. This allows experienced local parties to handle the regulations conformity pains in the market while allowing the mother company to focus more on its business, efficiency, and profitability.

e. Proximity

The closer a market is geographically, the less likely there are major differences in consumer behaviour, regulations, and operations. This is the main driver for the incremental growth strategy, where closer markets are considered easier to enter. This is also due to the increased control on the operation of closer markets along with the decreased costs in exporting, which allows the mother firm to further benefit from economies of scale of centralized manufacturing.

f. Market risk

The operation in international markets brings various risks on the internationalizing firm especially political, legal, and security risks. Entry models with lower risks are always preferred when the entered market has high risks (Agarwal, Dev, and Erramilli, 2002), where the firm is more flexible to adapt to the changing conditions in the market without risking high levels of capital. Research done by Cadogan (2002) shows that there is a direct negative correlation between the performance of the export relative to the uncertainty in a foreign market's social and political instability. This further enforces less risk and less capital investments in uncertain markets.

## CHAPTER II

### CASE STUDY

#### **A. Introduction to Mekaprep**

##### ***1. History of Mekaprep***

Mekaprep is a startup founded on the idea of vending tasty freshly made food for people on the go in a pristinely clean and hygienic environment (untouched by human hands), and lightning fast (under 90 seconds from order to consumption). Mekaprep decided to validate its vision through the launching of vending machines (Bake&Go) that freshly prepare an authentic Lebanese food product, the Manoushe. The Manoushe is a 20-25 cm circular pizza-like fast food, made up of a baked dough that is topped most commonly with cheese or thyme. It is then folded in half and eaten like a wrap.

A consumer would order the Manoushe on a screen placed on the Bake&Go machine, where after he pays through his credit card the machine will start baking a fresh Manoushe to be served in two minutes in a paper bag, ready to be eaten on the go.

From the time the idea was discussed, Mekaprep has so far won the MBA entrepreneurship award at AUB. This award allowed Mekaprep to guarantee a free space in Beirut Digital District (BDD) to deploy its first machine to test it. Then Mekaprep got to the finals in Al Darwazah innovation competition at AUB, where it was competing against 80 different teams.

Mekaprep team was enrolled in Agrytech's accelerator, where it received the funding to build the first prototype and was granted free business plan consultancy from industry leaders. Agrytech, which is part of Berytech, also gave Mekaprep exposure to consumers, professionals, and potential customers and investors, where Mekaprep collected all the feedback to better position the company. During that period, Mekaprep persuaded a gas station franchise, a university, a school, work clusters, and a factory to show intent in hosting the machines in their premises.

Mekaprep intends to raise \$500,000 to launch and validate the business in Lebanon. The \$500,000 will include building a kitchen that has the capacity to cover production during the first year of operation, in addition to the cost of manufacturing 10 machines to test the feasibility of the business in different market segments in the Lebanese market before starting to franchise abroad.

With the first cash injection into the company, Mekaprep will aim to spread into Lebanon at a fast pace, while testing the efficiency of machines, taste of the Manoushe, and the feasibility of the business model.

With the second fund raising round, Mekaprep intends to internationalize to the MENA region then the world. Mekaprep has a list of interested partners that showed great interest in working with Mekaprep in their local markets.

## ***2. Mission and Vision***

The mission of Mekaprep is to offer people on the go freshly prepared fast food through vending machines.

The vision of Mekaprep is to be the world's leading company with a worldwide diversified portfolio of vending machinery that serves fresh and fast-to-prepare food.

### ***3. Strategy, Goals, and Objectives***

#### ***a. Going to Market***

Testing on business components such as the efficiency of the machines and perceived taste of the Manoushe for "Bake&Go" will be easier and cheaper to do in Lebanon. During the launch in Lebanon, the machines' performance and the customers' feedback on taste will be monitored daily, to be able to adjust and iterate on the food components while Makeprep's team is still close to the machines and its suppliers. Testing will be on the level of consumption, human interaction with the interface, failure tests for the machines, taste feedback, and the consumer journey to eventually build a model for expansion.

The model will identify key criteria for expanding into the Lebanese market, where the demand already exists. An example of one of the criteria will be the population size required to be around the machine, set as a KPI, for better location targeting during expansion. Another example will be the new product offerings through the machine.

During the testing of the several initial prototypes in different locations targeting different market segments, the raw material will be outsourced, without Mekaprep initially investing in a kitchen. As soon as the demand for new machines grows internationally given the validation of the business model, machine performance and demand of the food products, Mekaprep will open its own centralized kitchen in

Lebanon and start automating the Manoushe production and packaging, ready to be shipped to the MENA region. The centralized kitchen strategy will allow Mekaprep to benefit from:

1. High profit margin on food sales
2. Economies of Scale in food production
3. Higher purchasing power over suppliers
4. Consistent Taste
5. Less costly quality control
6. Perfecting the authentic Lebanese taste of the Manoushe for Bake&Go
7. Preserving the secret sauce which lies in the taste and new tastes / flavors/ and products developed by the company
8. Lower costs of production with laws subsidizing the dough prices in Lebanon

Globally, Mekaprep will need to replenish and maintain its machinery for the success of the business. It also needs to monitor consumer behaviour in the different markets. The manufacturing of the machine parts will be outsourced to a mass producer during the large order to cover international markets, which further highlights the importance of the design optimization during the launching and testing phase in Lebanon.

b. Goals, and Objectives

Internationally, “Bake&Go” will compete in larger markets where the competition on fast Lebanese food is low and knowhow is practically non-existent. Mekaprep will compete globally with its machines with similar kinds of vending machines serving food on the go.

New product offerings will be introduced to Bake&Go along with the addition of new flavors on existing food products within the machine. New machines with new types of food products will be also introduced through the same tested network of “Bake&Go”

First international launching location will be in the UAE and KSA, to further test the internationalization strategy developed. Those markets has been chosen based on the existing demand for the Manoushe as the Manoushe is known by the public, the lack of expertise in preparing the Manoushe through existing competitors in the market, and the high market exposure to international markets specifically in the UAE market. These markets also have large groups of Lebanese expats who have confirmed that finding a good Manoushe is a challenge. Aside from the expats, foreign nationals in these countries, for the most part, are very familiar with Lebanese food and are themselves fond of the Manoushe.

The machines are connected online and will be monitored around the clock (# of times opened, # of cleanings, # of purchases, etc.).

#### ***4. Product and Services***

The problems and solutions stated below are common for many types of fast food companies internationally. The examples and focus will be on Bake&Go, Mekaprep's first product offering that automates the Manoushe preparation process.

##### a. The Features

##### i. Time

People are becoming busier and having time for food preparation is a thing of the past. This limits people's choices when they are looking for fast food on the go. Even when the food producer is really fast in food preparation, a consumer will still have to consider the delivery time from time of order and additionally the time needed to get to the shop when hungry or alternatively the time of the delivery to their whereabouts.

Vending machines with reasonable electrical consumption and relative small dimensions can be deployed anywhere with a nearby electric plug, allowing the end consumer to feel the convenience of his physical proximity from the food source. The machines are designed to prepare the food in under 2 minutes.

##### ii. Quality

With the degradation in the quality of fast food due to price competition, in addition to the rise of health awareness worldwide, a person has less choices to eat from while he is on the go, based on his lifestyle and the area he is in.

Due to the reduced labor costs through automation of the food preparation process, the economy of scale in the purchasing and production of the raw materials, and the decreased energy consumption of our system, food products will cost Mekaprep less to produce than the market standards. This allows us, if we choose, to differentiate

ourselves from the competition by using those higher-quality ingredients than our competitors, while offering the products at market price.

iii. Freshness

Most of the cafeterias in schools, hospitals, and universities pre-purchase all their ready to eat food based on their forecasts. These are preserved in fridges (with a very low shelf life) and later reheated before serving.

iv. Hygiene

Trust in the hygiene of the food preparation process has been compromised throughout the years. It is unfortunately easier to control the food quality and safety through machines than low wage jobs where the job requirements don't necessarily require high skills (Potter, 1967). Food that is untouched by humans is trending where several new shops the US and Europe are expanding based on this concept (Potter, 1967). Machines are trusted to guarantee the complete hygiene of products as almost all the high quality F&B factories in the world are fully automated.

v. Consistency

Because of our proprietary technology, which monitors the baking conditions in real time, we are guaranteed to deliver an extremely consistent taste when compared to traditional bakeries.

b. Competitive Advantages

i. Patent

The critical technologies in the automation of the Manoushe are patented in the countries of designated launching and future markets such the MENA, Americas, and EU.

ii. Closed System

Although the machines Mekaprep will produce are patented, the assembly, maintenance, and replenishment of the machines will be done exclusively by Mekaprep. If a machine is opened by someone other than Mekaprep's team, the machine will lose warranty and stop functioning immediately, the software responsible for the operation will also be suspended, and this might also lead to the withdrawal of the franchising contract in case the tampering was proved to be done by the franchisee. The machines are all connected to the internet to allow for remote monitoring.

iii. New Product Development

The consistent innovation and development of new products along with the in time updates and upgrades for every machine will allow Mekaprep's technology to be in the lead. Mekaprep will utilize its position as a market leader in the area to tailor the machines and the raw material to the highest level of consumer satisfaction with continuous feedback from the market.

iv. Cost optimization

Mekaprep needs to produce fleets of machines where it is able to reduce the costs of each machine, especially with the ongoing R&D to reduce costs. Engineers will be allocated to further enhance the designs of the existing machines continuously to further reduce costs and increase efficiency using the market feedback and operating machine's analyzed metrics.

Orders for raw materials, as all of the raw materials are sourced in Lebanon, gives Mekaprep a significant bargaining power over its suppliers, further reducing its costs of operation. Mekaprep's engineers will design an automated dough production line to further reduce the costs of production and increase the consistency of the taste and size of dough. The production line key components will then be patented and duplicated in markets where it is not feasible to export to from Lebanon's main kitchen.

The optimization of costs will give Mekaprep the ability to maintain its margins with any competitive new market entrant.

v. Exclusivity contracts

Each machine lives up to 10-15 years, while the maintenance, upgrades, replenishment, and new freshly baked product offering are handled by Mekaprep. The model, requiring little efforts from the partnered locations, while offering profitability and genuine product offering, has allowed Mekaprep to sign exclusivity contracts with each location to protect Mekaprep from future competitors.

vi. Brand

The Lebanese origins of the machine and the recipes for all the machines worldwide strengthen the authenticity of the food boosting the brand. With new product offering almost every end of year, Mekaprep will have an international brand that would engage with customers.

**B. Mekaprep considered factors for entry model analysis**

Looking back at the firm's strategy of Mekaprep and the preceding literature review along with the mentioned factors, we evaluate the most relevant considered factors for a calculated method of entry specific to Mekaprep. The factors will be analysed where key findings specific to Mekaprep's internationalization will be extracted. The most relevant key findings will be crossed with the methods of entry in order to define Mekaprep's internationalization method and strategy.

***1. Time Frame & Competition***

There have been new startups entering the fresh food vending machine market (e.g. Let's pizza, Just fries, Burritobox), which have failed to grow big with slow market penetration (Burritobox), technical and cleaning problems (Just Fries), and consumers complaining about the taste (Let's Pizza) (Pennyarcade, 2013).

In order to succeed, Mekaprep has to learn from the mistakes the previously mentioned early entrepreneurs went through, and to plan ways to overcome any possible issues that may arise.

The founders have to launch quicker into markets and in mass, with an easy to prepare first product offering. The choice of Manoushe has made the machine simple and easy to maintain to run effectively, since its preparation is not messy and has no variable ingredients, unlike the pizza. Mekaprep will focus on only two global product offerings of the Manoushe, cheese and thyme, where market research showed those two offerings comprise 90% of all Manoushes offered.

It would make sense if this company had the time and money, to do directly through DI, since the profitability would be much higher, but that requires high operating capital for the startup which is unattainable.

## ***2. Team expertise, knowledge, and network***

### **a. Main concerns**

Mekaprep's operation abroad has 4 main internal concerns:

1. Entering high demand markets to place machines in spots with high foot traffic aboard
2. The machine's performance and production management, which would allow for low and ease of maintenance
3. The taste of the dough and the rest of the ingredients. This would require local control on the taste and quality of the ingredients in a specific country. The ingredients are split into the preparation of dough by Mekaprep and the purchase of the thyme, cheese, and oil.
4. Closeness to customers 'feedback which will be the backbone of new product development
5. The timely replenishment of the machines

b. The Team

The cofounding team of Mekaprep is young and experienced in manufacturing and sales. In their past experiences they have sold machinery for the Middle East and operated there through big firms that had local support in each relevant country. This makes the launch in Lebanon controllable, but the team doesn't have sufficient knowledge when it comes to international business development.

Given the small size of the founding team, with the lack of expertise in international markets, partnerships should be formed in each of the targeted countries. The company must have access to: (1) local knowledge of food management, (2) premium locations to install the machines, (3) capability to audit quality, (4) feedback from clients, (5) maintenance and cleaning teams, and finally (5) the replenishment of the machines. Given that there are many variables included in each foreign country, and Mekaprep being a startup that needs rapid launch to leverage its lead into a market, experienced employees and/or experienced third parties are needed in different areas around the world.

The local team and facilities, whether directly owned by Mekaprep or by a third party, need to have extensive operations and marketing efforts in each country. The replenishment, audit of ingredients, and maintenance don't need a highly skilled team. The marketing efforts on the other hand, along with the strategic location choices would need strong networks within a country. And those efforts contribute mostly to the growth of the company. This leads to the assumption that if a country's networks are hardly accessible for Mekaprep, the company should find a connected third party to run its business in a specific foreign country.

### ***3. Financial Power and firm size***

The founders are low on personal cash to invest in the production of more machines. The grants' and competitions' money will not be sufficient to build more machines as each machine costs around \$10,000 to build. This forces the founders to raise money either through investment or loans.

### ***4. Cost Management in operations***

Cost management considerations favour the launching of Mekaprep into different markets through the help of a third party in order for Mekaprep to reach different markets quickly enough, without huge investment, and with lower risks.

### ***5. Innovation and Technology***

The need for innovation is critical in the case of Mekaprep's growth.

To raise the barriers to entry, Mekaprep needs to produce a diversified portfolio of Vending machines serving different kinds of food products. For example, a Manoushe production leading company might adopt the idea of Bake&Go but will not have the flexibility on competing with Mekaprep's Shawarma sandwich vending machines.

### ***6. Network***

Reaching the right partners in different countries will need international public relations, and local relations specific to each country, which Mekaprep now lacks.

This leads into two options for proper growth. The hiring of talented public relations managers or the outsourcing of networks access.

### ***7. Proximity***

Mekaprep's profitability lies in the supply of raw materials for its machines. Given the low shelf life of the ingredients and cost of logistics, Mekaprep has to source all its raw materials within each country of operation, only when the local demand is great enough to outweigh the benefit of the use of the centralized kitchen in Lebanon. Also the fact that Mekaprep is assembling the machines, the cost of export of those machines to countries is costly. Furthermore, the maintenance of the machines will get tougher as the machines get further from the HQ in Lebanon.

### ***8. Protection from copying***

As soon as the first machine is launched there is a risk that a machine would be reverse engineered and copied. Especially with markets like China and India, copying products is no longer a hassle and can be done quite easily.

### ***9. Brand Consciousness/Existing demand***

The Lebanese market already has the demand on the Manoushe, with bakeries opening on every corner of every street.

The Manoushe is famous in the Arab region, and it already exists but with poor quality. The poor quality is due to the lack of expertise of foreign chefs in the Lebanese food as well as the usage of less than optimal quality raw materials.

Lebanon exports around 54% of its food products to the world (Bank Med, 2013), mostly to the Arab countries then to the US, Canada, Australia, and Africa. This further shows how the Lebanese food is trusted around the world to have a tasty middle-eastern flavour.

The Manoushe and most of the Lebanese food is also demanded in Australia, USA, Canada, and Africa where lots of the Levant area refugees, expats, and multiple nationality citizens live (Roberts, 2016). Research shows that 50% of the consumption of Manoushe in the US is through consumers with no Lebanese origins.

#### **10. *Labour Availability***

The labour needed for foreign countries' operations is divided into 3 parts: (1) the replenishment team, (2) the maintenance team, (3) and the marketing and PR team. The replenishment team needs no expertise and little skills to operate immediately. After receiving an online notification, the driver adds a machine to his schedule. The machines have special keys that open the refrigerated reservoirs, where the driver counts the inventory of dough and refills the reservoirs from ingredients present in his cooled van.

The maintenance is also straightforward and can be done by a small team that responds to the preventive monitoring of machines at the head-quarters or to inbound calls from the customer service department. The maintenance of the machines locally is done by the replacement of wearable components that are easily changed due to the optimized designs. Maintenance is then done by average experienced employees, where in countries of production could be done by Mekaprep's assembly team.

The marketing and PR team responsibilities on the other hand are crucial for the company's success in internationalization. The key points for the success of the company is in the selection of premium locations and actually getting those locations to sign agreements of exclusivity. It was apparent in the firm specific analysis that a major element of the success of the company lies in the selection of premium locations and actually getting those locations to sign agreements of exclusivity. That along with the good management of the operation and marketing teams.

The problem lies in the hiring of the management team across another country. Besides the highly specialized HR competencies Mekaprep should acquire before attempting to follow this model, the monitoring of performance and retention is diminished with the increase in bureaucracy.

## ***11. Regulations***

Country specific regulations tackling import and varying the barriers to trade between countries, could directly affect the costs of production and deployment of machines and growth of Mekaprep.

Food safety laws also differ between countries, which would force Mekaprep to keep the R&D team busy by accommodating different regulations in production, assembly, and overall safety of the consumers.

Lawyer fees and tax laws would also affect the direct profitability of the operation in a country, which in turn would affect the pricing level within the country. This clarifies the incremental growth theory where countries target similar countries during growth. Even though Lebanon is a food exporter, till today Lebanon can't export

food to Europe due to high regulations not usually met by manufacturers in developing countries. This was validated by an interview between the author and the CEO of one of the biggest manufacturers of food in Lebanon, who exports all around the world except for Europe.

## **12. Market Risk**

Given the planned targeting of various markets by Mekaprep, it's worth noting that many countries in the region are not stable politically and socially after the Arab Spring revolutions and wars happening in Syria and Yemen.

When the risk is highest in a country due to economic and political instability, it is argued that a third party partnership is the best model with the least capital and fixed costs considerations (Buckley, and Casson, 1998). The partner uses his networks that developed over years of experience in the foreign market to overcome different obstacles while allowing the mother company to retain its flexibility and decrease its risks.

## **13. Key Findings**

### **a. Business considerations**

1. Mekaprep has to be very fast in entering international markets, to beat future competition
2. Mekaprep to find faster and safe access to cash for its growth after its access to the first investing round with each entry into a new market

3. Closer markets to Lebanon are chosen during the validation of internationalization

b. Local markets considerations

1. Marketing and management abroad is capital intensive, where it is best if it is handled by third parties through revenue sharing
2. Mekaprep needs partnerships in each country abroad to access local PR, premium machine locations, access local networks, and to audit the quality of food received by consumers
3. Mekaprep needs the help of developed businesses in foreign countries for fast launching legally and to access their local support

c. Food Considerations

Quality control and food safety needs to be monitored with every batch for the machines and the raw material in order to protect the brand

d. Machines considerations

1. The machines needs to be owned by Mekaprep globally
2. The machines have to be reliable given the nature of their 24/7 operation, and this is the reason behind the import of the critical machine components from Europe and their central testing.
3. Access to machines' mechanical designs and software should only be done by Mekaprep team all around the world. Therefore, the replenishment zone and the

mechanism maintenance zones in the machine should be separated to protect the technology, since the replenishment will be outsourced to local partners.

### **C. Mekaprep's international entry model analysis**

The analysis of the methods of entry stated in literature shows the dominance of the contractual agreement method as an internationalization method. This is shown through the brief analysis of the methods of entry given the key finding of international strategy considerations.

#### ***1. Export***

For fast and successful internationalization, local knowledge and relations along with the monitoring of the performance of the machines and customer behaviour needs to be held paramount. Export method of entry would eliminate the feedback from market, speed of deployment during the international expansion, and would cause Mekaprep to lose control over its performance abroad.

#### ***2. Direct investment***

It is true that DI might be the most profitable way to operate, but it is also the riskiest method of entry and the most capital intensive. Since Mekaprep is a startup, raising capital for DI isn't manageable.

#### ***3. Strategic Alliances***

Alliances would also require the startup to raise capital, and forces it to share its control over its business abroad. Furthermore, finding the suitable ally and

negotiating deals for different countries with different laws will take time that Mekaprep doesn't have.

#### **4. *Joint ventures***

Since the food management and machine design experience are the main points of strength of Mekaprep, joint ventures will mainly lead Mekaprep to share its “secret sauce” with different. There is also the risk of disagreements and lost control between the parties' members.

#### **5. *Franchising***

Given the nature of the company's operation, franchising will allow Mekaprep to have the following:

1. Fast internationalization
2. Fast access to local knowledge and expertise
3. Fast access to local labour, talent, and networks
4. Low overhead costs during concept validation and operation in markets
5. Allow the initial franchise/guarantee fee paid by the franchisee to Mekaprep during order confirmation, to cover most of the costs of the machines with each internationalization decision. This will reduce the initial funds raised by the company to launch and will reduce the financial risk on Mekaprep during expansion.
6. Mekaprep can depend on the franchisees' expertise and incentive to handle the regulations of the country to Mekaprep's benefit

7. The franchisee is incentivized, by revenue sharing on each sale, to send timely feedback to Mekaprep regarding the machines and the local customer's preferences, which will build a stronger brand for Mekaprep
8. The franchisee is incentivized to control the quality of food as he shares revenues on each food sale
9. Mekaprep will have control over its franchisees through contracts to enforce its key success factors to be applied. Those key success factors will be determined during the launching and testing of the business model in Lebanon.

#### **D. Implementation of the franchising strategy**

##### ***1. Sales and Distribution***

The franchisees' main tasks are the successful installation of machines in high foot traffic locations and the replenishment of the food products into the machines.

They need to have access to premium locations, can manage logistics, and are able to suggest business model and machine customizations to fit the market demand of a country.

The replenishment of the machines is daily and requires a local team with knowledge of the best routes to locations, traffic, and local language.

##### ***2. Machines production***

The machines will be owned globally by Mekaprep and their use leased to the franchisees.

The assembly of the machines will remain under Mekaprep's control and not the franchisees' for the following reasons:

1. To benefit from higher efficiency in building the machines in a centralized location under the direct monitoring of the company's chief engineers
2. To be able to guarantee that the each machine testing is done thoroughly for the maintenance interventions to be as low as possible.
3. To be able to keep the designs confidential inside Mekaprep

Having the assembly of the machines centralized means Mekaprep has to export its first machines into the world from Lebanon.

Exporting the machines to the Arab world from Lebanon would not cause complications for Mekaprep on the overall strategy. Only the UAE has limitations on machine specifications that are closer to those of Europe and the US. Mekaprep will manage to assemble world class quality machinery using high quality mechanical and electrical components for countries with high limitations imposed on quality, where each machine will meet the global CE and ISO standards required for foreign operation.

### ***3. Machine Maintenance***

The machine's maintenance will be done through Meakprep's main team. Although the machines are designed to be maintenance free, they are connected online to monitor their behaviour and efficiency worldwide. This will allow for the perfect scheduling of preventive maintenance visits to different markets as well as continuous optimization in the machine designs as the engineers will be responsible for the maintenance. Each franchisee will be given extra machines that could serve as replacement for existing machines in case of emergency failure.

#### ***4. Food Management***

Food production and control will remain under Mekaprep's direct operations in order for Mekaprep to benefit from:

1. Highest levels of quality control
2. Higher profit margins on food production
3. Economies of scale in the supply of raw materials used for food production
4. Incentivized R&D on new food products

Mekaprep will start by exporting the food from its centralized kitchen in Lebanon to the franchisees in different countries. As soon as a market's demand develops and grows enough for local food manufacturing to outweigh the cost reduction of shipping from the main Lebanese centralized kitchen, Mekaprep will open a centralized kitchen in that specific country. The kitchen abroad will benefit from all the automation and experience built in previous Mekaprep centralized kitchens.

#### ***5. Franchise fee***

The initial franchising fee will be based on the number of machines and relative population within a country. The increase is linear, as the profitability for the franchisee should be the same for each machine or location where a machine is deployed.

## ***6. Locations of machines***

The franchisee is bound by contract to a minimum number of machines, locations, and sales. In case one location doesn't satisfy Mekaprep's KPI abroad, the franchisee will have to relocate the low sales machine to a higher yield location.

## ***7. Revenue sharing***

The franchisee will receive a revenue share on each food item sold through the machines. The franchisees' revenue sharing percentage depends on the country, sales volume, revenue sharing percentage negotiated with each installation location, and nature of sold SKU's profitability.

## ***8. Franchisee selection***

The franchisee is preferred to have a developed country-specific distribution network as well as knowledge and access to premium locations such as universities, work clusters, corporations, schools, airports. He also needs to have entrepreneurial knowledge in his market to handle the legal and cultural constraints, as well as the financial strength to maintain distribution and replenishment teams.

## ***9. Franchisee order selection***

The selection of the country will be done by Mekaprep's board, based on the validity of the data collected from countries of similar conditions, and the availability of a good franchisee.

#### **10. *Feedback from Market***

The machines are connected online, allowing Mekaprep HQ to collect data points for every operating machine worldwide. Mekaprep will use this data to optimize its model in each country.

The franchisee has a strong role in collecting consumer feedback from the market along with new product development suggestions and aid with market studies in his local market. The collection of feedback methodology and KPIs will be set during the launch and testing in Lebanon.

#### **11. *Marketing Fee***

The marketing fee will be withdrawn from the total revenues and allocated to a marketing company that operates and specializes in the areas of operation of Mekaprep. The marketing will be the responsibility of Mekaprep's HQ and its implementation aided by the franchisee.

#### **12. *Franchisee network***

All franchisees worldwide will benefit from the franchisees' knowledge network, where any increase of efficiency, cost reduction innovation or process developed by a franchisee in a country will be shared with other franchisees in other countries.

The franchisee network will also allow the franchisees to inquire about problems faced in their local markets, and how other markets have solved similar problems.

## CHAPTER III

### CONCLUSION

The method of entry into foreign markets directly affect the feasibility of a born to be global business, since its growth and success depends on the success of the internationalization process. Although Mekaprep is a hardware company with a relatively expensive machines to produce, the model that fits its strategy and growth according to previous literature is the born to be global strategy through rapid succession. Through the application of the franchising model to the financial projections and valuation of the enterprise, the company have shown to be feasible. This can be shown through the projected cash flow for the next 5 years of the startup's operation in the Annex.

Through the analysis of several business specific factors for the startup, such as the growth strategy and revenue management, it is concluded that franchising would give Mekaprep the control it needs over its operation to maintain its competitive advantages, while utilizing the needed relevant franchisees' experience, PR, and cash investment.

During the launching and testing phase in Lebanon, Mekaprep has to validate its model before attempting to internationalize. The validation will be shown through a minimum of 100 average daily product sales target for each machine. Iterations on the machine's user interface, machine design, food recipe, or locations would have to take place to reach the required sales KPI per machine.

Although Mekaprep's most profitable markets are in Europe and the Americas, according to the market research done in the startup's feasibility study, the model of internationalization needs to be launched, tested and perfected in the Arab region since the regulations on food and machine's import are less strict. Mekaprep will first start by exporting to the Middle East and GCC where the Manoushe doesn't need marketing as it is already known and spread. Only after proven successful in those markets, Mekaprep will launch new machines and operating processes specific to the EU and American markets.

Throughout Mekaprep operation, the used models of entry will be either duplicated in targeting other countries or modified as the management team gains more expertise. The learnings and profitability data from the franchisees in the close-to-Lebanon markets will allow Mekaprep to tailor higher end machines and recipes for more challenging to enter yet more profitable markets. It might also change the method of entry from franchising to DI in later stages for Bake&Go in different markets or during the launching of new products in operational markets. This can only be done after Mekaprep collects enough expertise and knowledge in handling different risks in different markets. This will allow the company to benefit from higher profitability in the future. Even if the mutual learning from franchisees is not explicitly part of an alliance, Mekaprep will benefit from the institutional knowledge and network learning from different allies in different markets.

The above shows that Mekaprep should develop a method of entry specific to its current status, which might be changed at later stages, when Mekaprep is no longer a startup. Its strategy needs to be reviewed quarterly, where methods of

internationalization would be altered between countries and products depending on the specificity of each case.

# ANNEX



	Year 1	Year 2	Year 3	Year 4	Year 5
Change in Cash	\$46,810	\$2,440,802	\$4,181,648	\$7,723,908	\$12,060,802

## REFERENCES

1. Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International business studies*, 23(1), 1-27.
2. Agarwal, S., & Dev, C. S., Erramilli, M. K.(2002). Choice between non-equity entry modes: an organizational capability perspective. *Journal of International Business Studies*, 33(2), 223-242.
3. Alon, I., & McKee, D. (1999). Towards a macro environmental model of international franchising. *Multinational Business Review*, 7(1), 76.
4. Andersson, S. (2000). The internationalization of the firm from an entrepreneurial perspective. *International studies of management & organization*, 30(1), 63-92.
5. Aspelund, A., Koed Madsen, T., & Moen, Ø. (2007). A review of the foundation, international marketing strategies, and performance of international new ventures. *European Journal of Marketing*, 41(11/12), 1423-1448.
6. Azoulay, P., & Shane, S. (2001). Entrepreneurs, contracts, and the failure of young firms. *Management Science*, 47(3), 337-358.
7. Badri, M. A., Davis, D., & Davis, D. (2000). Operations strategy, environmental uncertainty and performance: a path analytic model of industries in developing countries. *Omega*, 28(2), 155-173.
8. Bank Med. (2013). Analysis of Lebanon's Food Market.
9. Beamish, P. W., & Kachra, A. (2004). Number of partners and JV performance. *Journal of World Business*, 39(2), 107-120..

10. Bilkey, W. J. (1978). An Attempted Integration of the Literature on the Export Behavior of Firms. *Journal of International Business Studies*, 9(1), 33-46.  
doi:10.1057/palgrave.jibs.8490649
11. Björkman, I., & Forsgren, M. (2000). Nordic international business research: a review of its development. *International Studies of Management & Organization*, 30(1), 6-25.
12. Buckley, P. J. (1995). The role of management in internalization theory. In *Foreign Direct Investment and Multinational Enterprises* (pp. 47-59). Palgrave Macmillan, London.
13. Buckley, P. J., & Casson, M. C. (1998). Analyzing foreign market entry strategies: Extending the internalization approach. *Journal of international business studies*, 29(3), 539-561.
14. Cadogan, J. W., Diamantopoulos, A., & Siguaw, J. A. (2002). Export market-oriented activities: their antecedents and performance consequences. *Journal of International Business Studies*, 33(3), 615-626.
15. Caves, R. E. (1989). International differences in industrial organization. *Handbook of industrial organization*, 2, 1225-1250.
16. Cavusgil, S. T. (1998). International partnering: A systematic framework for collaborating with foreign business partners. *Journal of International Marketing*, 91-107.
17. Cavusgil, S. T., & Knight, G. (2009). *Born global firms: A new international enterprise*. Business expert press.
18. Chetty, S. K., & Hamilton, R. T. (1993). Firm-level determinants of export performance: a meta-analysis. *International Marketing Review*, 10(3).

19. Chetty, S., & Campbell-Hunt, C. (2003). Explosive international growth and problems of success amongst small to medium-sized firms. *International Small Business Journal*, 21(1), 5-27.
20. Contractor, F. J., & Kundu, S. K. (1998). Modal choice in a world of alliances: Analyzing organizational forms in the international hotel sector. *Journal of international business studies*, 29(2), 325-356.
21. Crick, D., & Spence, M. (2005). The internationalisation of 'high performing' UK high-tech SMEs: a study of planned and unplanned strategies. *International business review*, 14(2), 167-185.
22. Cuervo-Cazurra, A. (2011). Selecting the country in which to start internationalization: The non-sequential internationalization model. *Journal of World Business*, 46(4), 426-437.
23. Das, T. K., & Teng, B. S. (2000). A resource-based theory of strategic alliances. *Journal of management*, 26(1), 31-61.
24. Dimitratos, P., & Plakoyiannaki, E. (2003). Theoretical foundations of an international entrepreneurial culture. *Journal of International entrepreneurship*, 1(2), 187-215.
25. Edelman, L. F., Brush, C. G., & Manolova, T. S. (2002). The impact of human and organizational resources on small firm strategy. *Journal of small business and enterprise development*, 9(3), 236-244.
26. Elango, B., & Fried, V. H. (1997). Franchising research: A literature review and synthesis. *Journal of Small Business Management*, 35(3), 68.
27. Feldman, M., Feller, I., Bercovitz, J., & Burton, R. (2002). Equity and the technology transfer strategies of American research universities. *Management Science*, 48(1), 105-121.

28. Freeman, S., & Reid, I. (2006). Constraints facing small western firms in transitional markets. *European Business Review*, 18(3), 187-213.
29. Glaister, K. W. (1998). Strategic Motives for UK International Alliance Formation. *International Strategic Management and Government Policy*, 40-77.  
doi:10.1007/978-1-349-26646-3\_4
30. Gong, Y., Shenkar, O., Luo, Y., & Nyaw, M.-K. (2007). Do multiple parents help or hinder international joint venture performance? The mediating roles of contract completeness and partner cooperation. *Strategic Management Journal*, 28(10), 1021–1034.
31. Hedlund, G., & Kverneland, A. (1985). Are strategies for foreign markets changing? The case of Swedish investment in Japan. *International Studies of Management & Organization*, 15(2), 41-59.
32. Hill, C. W., Hwang, P., & Kim, W. C. (1990). An eclectic theory of the choice of international entry mode. *Strategic management journal*, 11(2), 117-128.
33. Hunt, H. G., Froggatt, J. D., & Hovell, P. J. (1967). The management of export marketing in engineering industries. *European Journal of Marketing*, 1(1), 10-24
34. Jantunen, A., Nummela, N., Puumalainen, K., & Saarenketo, S. (2008). Strategic orientations of born globals—Do they really matter?. *Journal of world business*, 43(2), 158-170.
35. Johanson, J., & Vahlne, J. E. (1990). The mechanism of internationalisation. *International marketing review*, 7(4).
36. Johanson, J., & Wiedersheim  
-Paul, F. (1975). The internationalization process of the firm—four Swedish cases. *Journal of management studies*, 12(3), 305-323.
37. Jones, G. R., & Hill, C. W. (1988). Transaction cost analysis of strategy  
-structure choice. *Strategic management journal*, 9(2), 159-172.

38. Jones, M. V., & Coviello, N. E. (2005). Internationalisation: conceptualising an entrepreneurial process of behaviour in time. *Journal of International Business Studies*, 36(3), 284-303.
39. Kaufmann, P. J., & Rangan, V. K. (1990). A model for managing system conflict during franchise expansion. *Journal of Retailing*, 66(2), 155.
40. Klimek, A. (2011). Greenfield foreign direct investment versus cross-border mergers and acquisitions: the evidence of multinational firms from emerging countries. *Eastern European Economics*, 49(6), 60-73.
41. Knight, G. A., & Cavusgil, S. T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of international business studies*, 35(2), 124-14
42. Knight, G. A., & Cavusgil, S. T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of international business studies*, 35(2), 124-141.
43. Knight, G., Koed Madsen, T., & Servais, P. (2004). An inquiry into born-global firms in Europe and the USA. *International Marketing Review*, 21(6), 645-665.
44. Kotabe, M., & Helsen, K. (Eds.). (2009). *The SAGE handbook of international marketing*. Sage.
45. Leonidou, L. C., & Katsikeas, C. S. (1996). The export development process: an integrative review of empirical models. *Journal of international business studies*, 27(3), 517-551.
46. Li, J., Zhou, C., & Zajac, E. J. (2009). Control, collaboration, and productivity in international joint ventures: Theory and evidence. *Strategic Management Journal*, 30(8), 865-884.
47. Lopez, L. E., Kundu, S. K., & Ciravegna, L. (2009). Born global or born regional? Evidence from an exploratory study in the Costa Rican software industry. *Journal of International Business Studies*, 40(7), 1228-1238. CrossRefView Record in Scopus

48. Luo, Y., Hongxin Zhao, J., & Du, J. (2005). The internationalization speed of e-commerce companies: an empirical analysis. *International Marketing Review*, 22(6), 693-709.
49. Madhok, A. (1997). Cost, value and foreign market entry mode: The transaction and the firm. *Strategic management journal*, 39-61.
50. Madsen, T. K., & Servais, P. (1997). The internationalization of born globals: an evolutionary process?. *International business review*, 6(6), 561-583.
51. Malhotra, N. K. (2003). Internationalization and Entry Modes: A Multitheoretical Framework and Research Propositions. *Journal of International Marketing*, 11(4), 1-31. doi:10.1509/jimk.11.4.1.20144
52. Michael, S. C. (1996). To franchise or not to franchise: An analysis of decision rights and organizational form shares. *Journal of Business Venturing*, 11(1), 57-71.
53. Miesenbock, K. J. (1988). Small Businesses and Exporting: A Literature Review. *International Small Business Journal: Researching Entrepreneurship*, 6(2), 40-61. doi:10.1177/026624268800600204
54. Miller, S. R., Li, D., Eden, L., & Hitt, M. A. (2008). Insider trading and the valuation of international strategic alliances in emerging stock markets. *Journal of International Business Studies*, 39(1), 102-117.
55. Mockaitis, A. I., Vainienė, E., & Giedraitis, V. (2006). The internationalization efforts of lithuanian manufacturing firms—strategy or luck?. *Research in International Business and Finance*, 20(1), 111-126.
56. Oviatt, B. M., & McDougall, P. P. (2005). Defining international entrepreneurship and modeling the speed of internationalization. *Entrepreneurship theory and practice*, 29(5), 537-554.

57. Oviatt, B. M., & McDougall, P. P. (2005). Defining international entrepreneurship and modeling the speed of internationalization. *Entrepreneurship theory and practice*, 29(5), 537-554.
58. Pan, Y., & Li, X. (2000). Joint venture formation of very large multinational firms. *Journal of International Business Studies*, 31(1), 179–189
59. Potter, N. (1967). THE AMFARE AUTOMATED RESTAURANT SYSTEM-SANITARY ASPECTS. *Journal of Milk and Food Technology*, 30(5), 141-144.
60. Reuber, A. R., & Fischer, E. (1997). The influence of the management team's international experience on the internationalization behaviors of SMEs. *Journal of International Business Studies*, 28(4), 807-825.
61. Ricart, J. E., Enright, M. J., Ghemawat, P., Hart, S. L., & Khanna, T. (2004). New frontiers in international strategy. *Journal of International Business Studies*, 35(3), 175-200.
62. Roberts, N. (n.d.). Why This Lebanese Street Food Is Gaining Traction in the U.S. Retrieved September 13, 2016, from <http://fortune.com/2016/09/13/manoushe-street-food/>
63. Sapienza, H. J., Autio, E., George, G., & Zahra, S. A. (2006). A capabilities perspective on the effects of early internationalization on firm survival and growth. *Academy of management review*, 31(4), 914-933.
64. Sengupta, S., & Perry, M. (1997). Some antecedents of global strategic alliance formation. *Journal of International Marketing*, 31-50.
65. Sheppard, M., & McNaughton, R. (2012). Born global and born-again global firms: a comparison of internationalization patterns. *Handbook of research on born globals*, 46-56.

66. Siebert, M. (n.d.). Should You Franchise Your Business? - Entrepreneur. Retrieved July 18, 2004, from [www.entrepreneur.com/article/71886](http://www.entrepreneur.com/article/71886)
67. Tallman, S. B. (1992). A strategic management perspective on host country structure of multinational enterprises. *Journal of Management*, 18(3), 455-471.
68. Tookey, D. A. (1964). Factors associated with success in exporting. *Journal of management Studies*, 1(1), 48-66.
69. Turnbull, P.W. (1987), "A challenge to the stages theory of the internationalisation process", in Rosson, P.J. and Reed, S.D. (Eds), *Managing Export Entry and Expansion*, Praeger, New York, NY
70. Vahlne, J. E., & Johanson, J. (2017). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. In *International Business* (pp. 145-154). Routledge.
71. Vahlne, J. E., & Johanson, J. (2017). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. In *International Business* (pp. 145-154). Routledge.
72. Welch, D. E., & Welch, L. S. (1996). The internationalization process and networks: a strategic management perspective. *Journal of international marketing*, 11-28.
73. Wood, V. R., & Robertson, K. R. (2000). Evaluating international markets: The importance of information by industry, by country of destination, and by type of export transaction. *International Marketing Review*, 17(1), 34-55.
74. ZEKIRI, J. (2016). Motivating Factors And The Modes Of Entry In Other Markets. *Ecoforum Journal*, 5(3).

75. Zeng, S., Xie, X. M., Tam, C. M., & Wan, T. W. (2009). Relationships between business factors and performance in internationalization: An empirical study in China. *Management Decision*, 47(2), 308-329.
76. [Web log comment]. (2013, March). Retrieved from <https://forums.penny-arcade.com/discussion/176191/lets-pizza>

