

International Business Lectures - Doing Business in Brazil

Prof. Dirceu Tornavoi Carvalho - University of São Paulo

Classroom Case Study

TGI Friday's failure in Brazil



TGI Friday's is an American restaurant that, according to the company website, "offers authentic American food and legendary drinks, served with genuine personal service. Bringing people together to socialize and celebrate the freeing and liberating spirit of 'Friday' was the concept's founding premise, from which the brand promise "In Here, It's Always Friday was born".

TGI Friday's has over 900 restaurants in more than 60 countries around the world (most working in franchise system), but a fact deserves attention: Brazil is not among them.

The company ceased operations in the country in 2010, after 15 years of operation. According to Amir Kremer, the director of development for Latin America, the retreat was due to problems with the local partnership, which was broken amicably. According to him, the Brazilian units were profitable but did not meet the company's expectations.

The distance between the units was one of the reasons that caused the TGI Friday's revision about the operation in Brazil: TGI Friday's had units in five cities in the country, Belo Horizonte, Brasilia, Campinas, Rio de Janeiro and Sao Paulo.

The growth of the competition in Brazil is also appointed as one of the reasons for the failure of TGI Friday. Restaurants like Outback and Applebee's has achieved great results in the country.

From the failed experience of TGI Friday's, some important of lessons that can be taken by foreigners who do not want to repeat the mistakes made by TGI Friday's when opening franchises Brazilian market.

1. Adapt to the Brazilian Market

Remember, to make adaptations is completely different from just changing the company DNA. The essence of the business must be kept, but, it is really important to introduce local ingredients, remove products that Brazilians generally dislike, and, mainly, to understand the local consumer profile. "A tropicalization is needed, the concepts must be adapted", states Friedheim.

Also, keep in mind that your target audience might not exactly be the same in Brazil as it is in other markets. Due to the various taxes and expenses, companies frequently must raise their prices and charge more than usual. This happened, for example, with the clothing stores Zara and Topshop.

2. Aim to Grow in Scale

According to the International Director of ABF, if a company that relies on a high sales volume comes to Brazil, it must have the intention of opening several units in a certain period. Friedheim explains that TGI Friday's could not open a large number of locations, a fact that was later proved harmful.

"Foreign companies must come to Brazil planning lots of units, in order to have bigger gains and be able to offer lower prices", reports the businessman. "TGI Friday's waited too long for a bigger expansion". In 15 years, the American chain opened seven restaurants in five different cities.

3. Make Sure the Timing is Right

The idea of reaching other countries is charming, but take your time to do so. Planning is the key to a successful expansion. Be sure to check the current situation of your business branch in Brazil, and wait for the ideal financial moment to bring your company to the country.

“TGI Friday’s passed through an era where the Brazilian Economy was tough”, affirms Friedheim. “Franchising is really well in Brazil right now, growing high above the Gross Domestic Product (GDP), but, from now on, the trend is to keep improving at a slower pace than the last years.”

4. Choose the Right Partner

One of the main reasons why TGI Friday’s left Brazil was the ruptured relationship with the local partner, who was responsible for the expansion and helped administer the restaurants locally. For the director of the Brazilian Franchising Association, “the franchise partner must be from the same branch of the company coming to Brazil. If it is a food business, then the partner must know and have had experiences in this particular branch”, states Friedheim.

5. Operate a unit by yourself

A local partner that deeply understands the Brazilian market is crucial, but leaving every single operation in his hands is risky, as reported by André Friedheim. “Set up a pilot operation first, so you can get to know the local details. After having at least one unit of your own, start the expansion through franchises with your partners”. This measure may be useful, by not making your business too dependent on another company.

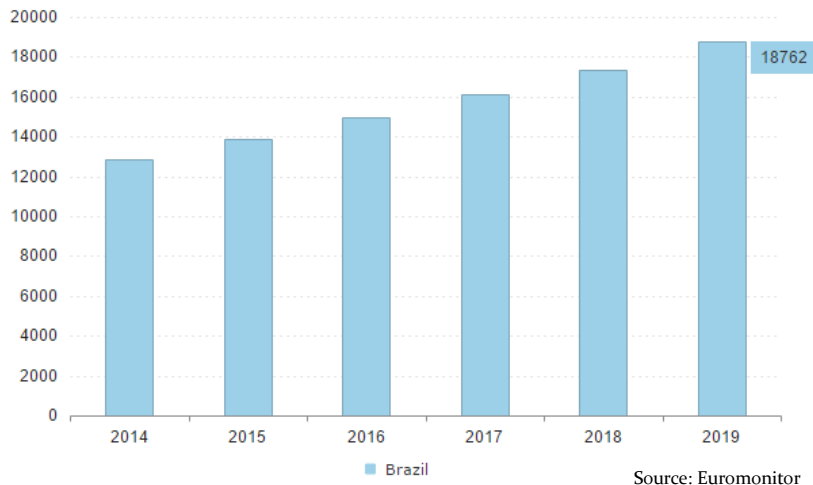
There are rumors that TGI Friday’s will return to Brazil with a new strategy. According to Kremer, one of the goals is to find a partner who is "entrepreneur , strong and has a good network of contacts," in order to form a joint venture and focus operations in São Paulo, with future expansion to Rio de Janeiro.

Attachment 1: Market share for food chain business in Brazil (Retail Selling Price)

Change View	Brand	Company name (GBO)	2009	2010	2011	2012	2013	2014
Brazil								
Chained Consumer Foodservice								
<input type="checkbox"/>	McDonald's	McDonald's Corp	30,9	30,0	29,2	28,8	27,7	26,8
<input type="checkbox"/>	Subway	Doctor's Associates Inc	2,7	3,3	4,7	5,7	7,1	7,9
<input type="checkbox"/>	Bob's	Brazil Fast Food Corp	6,9	6,9	6,7	6,7	6,8	6,8
<input type="checkbox"/>	Habib's	Al Saraiva Empreendimentos Imobiliários e Participações Ltda	9,2	9,4	8,0	7,7	7,2	6,7
<input type="checkbox"/>	Burger King	Restaurant Brands International Inc	-	-	-	-	-	5,9
<input type="checkbox"/>	Giraffa's	Restpar Alimentos Ltda	3,8	3,6	3,7	3,5	3,4	3,3
<input type="checkbox"/>	Spoletto	Grupo Trigo	-	-	-	2,0	2,1	2,3
<input type="checkbox"/>	Outback Steakhouse	Bloomin' Brands Inc	1,2	1,4	1,5	1,7	1,7	1,6
<input type="checkbox"/>	Pizza Hut	Yum! Brands Inc	1,7	1,6	1,5	1,5	1,5	1,5
<input type="checkbox"/>	ampm	British Petroleum Co Plc, The	0,9	1,0	1,1	1,2	1,2	1,2
<input type="checkbox"/>	Vivenda do Camarão	Vivenda do Camarão	1,2	1,2	1,3	1,3	1,2	1,2
<input type="checkbox"/>	Casa do Pao de Queijo	CPQ Brasil S/A	2,2	1,9	1,8	1,3	1,3	1,2
<input type="checkbox"/>	Patroni Pizza	Patroni Pizza Ltda	-	-	0,7	1,2	1,2	1,2
<input type="checkbox"/>	Frango Assado	International Meal Co	0,5	0,5	0,7	1,0	1,0	1,1

Attachment 2:

Food service expenditures at food chains (US millions)



Discussion

- 1) What cultural and economic aspects may have contributed to Fridays failure in Brazil?
- 2) Sketch a new TGI Fridays re-entrance strategy for Brazilian market. Deepen the lessons suggested in the text and propose new things based on what you know so far.

Sources:

<http://thebrazilbusiness.com/article/5-lessons-from-the-failure-of-tgi-friday-s-in-brazil>

<http://mediaroom.fridays.com/tgi-fridays-overview/>

<http://exame.abril.com.br/pme/noticias/tgi-fridays-prepara-volta-ao-brasil>