

Welcome to IF Consulting's weekly e-mail newsletter

October 31, 2003

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

This newsletter is also available as a PDF on our Website (<http://www.i-f.com/E-comLinks02.htm>) if you want to download a version for your hard copy file.

Unhappy franchisees take legal action

According to the Wall Street Journal, 37 out of 109 of McDonald's Brazilian franchisees have filed suit against the burger giant. In their lawsuit, the Brazilian franchisees claim that McDonald's cannibalized their sales and overcharged them for rent. Reports state that the chain tripled the number of franchised restaurants to 280 between 1996 and 2000 and became Brazil's largest employer.

Although McDonald's was a tremendous success in Brazil from its entry into the market in 1979 through the 1990s, a currency devaluation in 1999 changed Brazil's economy and seriously affected the franchisees' profit margins.

McDonald's sales in Brazil, once considered a model of McDonald's success, have pulled company earnings down for several years.

<http://www.mcspotlight.org/media/press/mcnds/dowjonesbusines211003.html>

IF Comment

McDonald's is one of a number of fast food companies to have encountered difficulties in the Brazilian market. Pizza Hut, failed twice before it successfully re-entered the market about two years ago. In addition to the global giants, there are many home grown Brazilian fast food franchises, a few of which are looking for international expansion.

The complaints currently levied against McDonald's for opening too many stores have been made in a number of markets. Unlike most franchises that provide territorial protection, McDonald's franchise agreements normally award a franchise for an address only.

Unfettered expansion works well in markets where there are strong economies, a growing population and high consumer demand. However, many international franchisors do not factor in potential currency devaluations which can often have a negative effect on ingredients' prices.

While the article refers only to franchised restaurants, it's possible that a number of new restaurants opened were owned by the company, as McDonald's has a policy of opening company-owned stores in the best neighbourhoods.

Snippets

Sotheby's International Realty, a division of the company renowned for being one of the world's oldest and largest auction houses, has recently opened the first of its ten franchise offices in South Africa. The real estate division accounts for three-fifths of the Sotheby's group income.



Marketing Channel
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through creating the best route
to market

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DHL, the global logistics and express leader, and its Chinese partner Sinotrans, have announced plans to invest \$200 million in their joint venture. Since 2000, DHL has invested nearly \$1 billion in Asia. If included with Hong Kong, China is currently DHL's largest market in the region and, as the world's fastest-growing large economy, offers enormous potential. In 1986 DHL gained access to this once highly-restricted market, through its joint venture with state logistics operator Sinotrans.

<http://www.datamonitor.com/~f11cf4d0066e4265bcc77e75a13d531e~/all/news/product.asp?id=8521D95C-ABC9-487A-B417-17F46F413552>

Three of Wal-Mart's largest Mexican competitors have decided to join forces to compete in the world of power retailing. Last week, Gigante, Soriana and Controladora Comercial Mexicana (or Comerci) announced the creation of a joint purchasing and distribution alliance. The new partnership hopes that they'll be able to enjoy the big discounts from suppliers that are necessary to implement the same low-price strategy as Wal-Mart de Mexico, the retail giant's second-largest international operation.

http://www.forbes.com/business/2003/10/29/cx_al_1029walmex.html

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