International

BY BILL EDWARDS

Opportunity Beckons

International expansion requires change

The first U.S. food and beverage franchises expanded into other countries more than 50 years ago. Brands early to international include Kentucky Fried Chicken, McDonald's, and Pizza Hut. The first outposts for these mega-brands were Canada and Mexico. In those days, it was known that a brand had to have hundreds or thousands of U.S. units to "go global."

Today it is estimated that more than 250 U.S. F&B franchises have entered other countries. U.S. burger, chicken, coffee, pizza, ice cream, Mexican, and sandwich brands are in more than 100 countries. U.S. F&B brands with as few as 10 domestic units are also in other countries.

Despite the more than 50 years of U.S. F&B brands going global, considerable potential remains for brands of all sizes outside the U.S. Indeed, the largest interest in new brands comes from the Middle East, where a large number of U.S. brands are already well established.

Mega brands abroad

McDonald's (35,000 units open in 119 countries) entered Canada in the 1960s, Australia and Hong Kong in the 1970s, and China and Russia in the 1990s. McCafés were first opened in Australia in the 1990s. According to the Big Mac Index published by the *The Economist*, the most expensive Big Macs today are in Norway (US$7.80) and the least expensive (where it is made with beef) is South Africa (US$2.16).

KFC (19,000 units open in 118 countries) opened in Mexico and the U.K. in the 1960s, and now has more outlets in China (4,600) than in the U.S. (4,500). Pizza Hut (13,000 units open in 87 countries with 5,500 outside the U.S.) is part of Yum Brands, which also owns KFC and Taco Bell. Subway has 42,900 units open in 107 countries with 16,000 outside the U.S.

Adaptations

Carl's Jr. added pasta in the Philippines. In Japan the diet is low dairy and low salt, requiring recipe changes from those normally used by U.S. F&B brands. India requires the elimination of beef. In West Africa groundnut stew is on the fast food menu. In India, Israel, and Muslim countries there is no pork on the menu. Potbelly Subs uses turkey "ham" in the Middle East. The Middle East also requires halal meat. Wikipedia correctly states, "The criteria for non-pork items include their source, the cause of the animal's death, and how it was processed."

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Opportunities

Today's opportunities for U.S. F&B brands lie in the emerging markets where the middle-class population is growing. Newly middle-class consumers are large users of fast food brands, especially those from the U.S. Sources indicate there are more than 600 million middle-class consumers with discretionary income in Brazil, China, India, and Indonesia. These consumers often prefer U.S. food franchises to local brands. Going to a U.S. brand to eat with your friends is seen as showing you have the money to do so!

Challenges

The largest challenge in other countries for U.S. F&B brands is supply chain and the associated food quality. Recent problems for major U.S. brands in China because of poor and uncontrolled food quality, as well as fraud in labeling, are huge. Indonesia put into place regulations a year ago that required 80 percent of the products used by food brands to be locally sourced. There are not many high-quality food suppliers in Indonesia that can supply the large volumes required by F&B franchises, and importation of food is often subject to high tariffs. Some countries, such as Australia and Canada, make it almost impossible to import dairy products. And some countries want U.S. brands to use local suppliers, which can raise food costs to the point where a new brand cannot compete with established local brands.

Another major challenge is the cost of real estate. While we may think retail rents are high in the U.S., try renting a good space that will see lots of consumer foot traffic in the U.K., China, and other emerging markets. Expect a deposit, or "key money," of as much as US$1 million for a three- to five-year lease. Expect rent that reaches US$750,000 a year for 2,500 square feet.

A new trend in these countries is the desire for young middle-class families to frequent food brands with "healthy" menus. They are very careful what they feed to their children. This also is causing U.S. F&B franchises to alter their menus. ■

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