

# Global expansion plan

Business, Company



## **Executive summary**

This report critically examines the possibility of Vietnam to be the next stop in Secret Recipe's global expansion plan. Initially, the report highlights the current great achievements that Secret Recipe has been attaining from its very first internationalized activity. Employing the proper strategy and being favored by consumers all guarantee an auspicious future for the chain. Taking all of these merits, the company consecutively looks for new marketplaces with new resources.

Simultaneously, findings have shown that Vietnam is an appealing market because of its potentials in a fast-growing economy and long-term profitability, as well as rich resources. Then, the country risk analysis and the country market and industry opportunities analysis were introduced to evaluate Vietnam's benefits and drawbacks. The result is that there are rooms for both of them. Therefore, so as to be successful, recommendations on appropriate entry mode, strategy and organization structure are specified.

To be more detailed, the most suitable entry mode is master franchising via a joint venture because it brings about the positively high certainty in operating. As for strategy, it is an international one to ensure consistency in the menu and concept by taking control over the core competencies and leaving other decisions to foreign subsidiaries. Besides, the Worldwide Area Structure is vital in terms of managing the company's global expansion as it enables local responsiveness and decentralized authority, which both matter for future growth.

Finally, the main conclusion is that Vietnam is the right solution for the Board's decision to expand overseas. Nonetheless, the management should cautiously take into account the recommendations so that Secret Recipe can win.

## **Introduction**

Secret Recipe has gained its popularity not only in Malaysia but also across the region. The great success stemmed from the ambience brought to customers and the high-quality food served at reasonable prices. The number of foreign outlets is now exceeding 40 and is expected to increase.

According to Welch and Luostarinen (1988), internationalization can be described as a process by which the level of involvement in overseas activities of a firm rises. Indeed, adding the number of overseas outlets up to 100 was part of the ambitious global expansion plan. Recently, the company has spent RM60 million to invest in 2 more new markets which are India and Cambodia (TheSundaily.com, 2011). Evangelista (1994) argues that the readiness to fund international activities proves that firms desire to move further.

In the past 3 years, the company has witnessed an annual growth rate of 30% (Articlebase.com, 2011). Taking advantage of both the reputation and the growth pace, it is the right time to put one step further and seize the opportunities available in a new market to grow even larger. The Global Strategy Team, after doing research on several potential markets within the Asian area, strongly recommends Vietnam. In this report, the motives of

internationalization of Secret Recipe will be disclosed, as well as the motives of choosing Vietnam as a new international market will also be revealed.

And as for a smooth penetrating process, recommendations relating to the strategy to be implemented, to the entry mode to be executed, and to the organization structure to be formed will be offered.

## **Methodology**

The information and data given were collected from many government and organization websites, namely Datamonitor, Trading Economics, General Statistics Office of Vietnam, etc. Besides, a proportion of them were also taken from reliable online newspapers such as TheSundaily. com.

In addition, knowledge from International Business books and journals was also introduced to help provide a better understanding. Nevertheless, due to the unavailability of official information about Secret Recipe performance, the analysis had to rely entirely on online newspapers and the CEO's reported interviews. In addition, the focus of the report is mostly on the food sector, not the franchising one. It is due to the well-structured characteristic of the franchising that it promotes a simple way to interpret and analyze.

By contrast, food is a subjective topic as it relates to personal opinion, thus there are limits on suggestions.

## **Findings and Discussion**

### **Motives of internationalization**

Secret Recipe is now among the fastest-growing restaurant chains both domestically and regionally. For the last 5 years, the growth rate has been an amazing double-digit figure (TheSundaily, 2011), accompanied by a rapid

increase in the number of outlets. Currently, its outlets present in 8 Asian countries including China, Australia and Pakistan.

In any market, there is always a positive reaction from the consumers. A proven fact is that Secret Recipe has been awarded with many titles such as “ Best Cheesecake award”, “ Malaysia’s best local restaurant chain”, “ Indonesian's Best Restaurant Award”, “ Singapore's Excellent Food Award”, “ Best Restaurant Award – Philippines Talter”, etc. This is to say, Secret Recipe, after securing its stance in Malaysia, is continuously gaining customer awareness and fame throughout the region. As a result, Secret Recipe’s movement could be best explained using Eclectic paradigm (Dunning, 1980, 1981).

Among the 3 advantage factors recognized by the Eclectic paradigm, the Ownership advantage appears to be most relevant to the context of Secret Recipe. As stated above, the company now possesses a valuable intangible asset which is good brand awareness. Besides, stated in the theory, one of the reasons behind the internationalization of a multinational firm is market seeking investment. In this particular case, Secret Recipe is to exploit new market (i. e. Vietnam) because of its prospects of market size and market growth (Dunning and Lundan, 2008) 4. 2. Justification of entering into Vietnam Vietnam risk analysis:

Political risks Vietnam is famous for its political stability. This diminishes the insecurity and uncertainty of foreign investors deciding to invest in Vietnam. According to Worldwide Governance Indicators (2011), the Vietnamese political environment remains almost steady in the past 15 years. Figure 1 Source: Worldwide Governance Indicators (2011) Note: Percentile ranks

indicate the percentage of countries worldwide that rank lower than the indicated country, so that higher values indicate better governance scores. The line graphs include margins of error shown as dashed lines, corresponding to 90% confidence intervals.

Competitive risks Corruption level in Vietnam is reported to be one of the highest in the world. According to Transparency International, 2011's score was 2.9, which increased 0.2 points compared to the year before. Indeed, in comparison to other countries in Southeast Asia such as Malaysia and Thailand, Vietnam's freedom from corruption index remains low (refer to figure 2). However, the formation of the Vietnam Anti-Corruption Initiative Program 2011 (VACI) supported by World Bank somehow saves the situation. Figure 2. Vietnam's freedom from Corruption in comparison with Malaysia, Thailand and the World Average

Source: Heritage (2012) Operational risks Suppliers play an important role in deciding the quality. In any market, suppliers are abundant but not all of them can provide what Secret Recipe desires for a good menu. Therefore, an insightful search should be carried out before entering the market. Economic risks The inflation rate of Vietnam fluctuates wildly (refer to figure 3). This issue somehow imposes a concern, as the less wealthy class will be more conscious with eat-out whenever the rate is high, which eventually will negatively impact the foodservice sales. Figure 3 Source: TradingEconomics. com | General Statistics Office of Vietnam Vietnam market and industry opportunities: Market: In the World Bank's 2011 Annual Report, Vietnam is perceived to reach a middle-income level country soon enough. The Vietnamese foodservice industry grew at a CAGR of 6% from 2005 to 2009. It

is estimated that the growth rate would be at a CAGR of 4.5% from 2010 to 2014 (Datamonitor, 2011). In recent years, the country has also witnessed a steady urbanization, with a rate of 3.1% in 2010 (ReportLinker, 2012) accompanied by a sharp rise in population, implying an increasing demand for food.

The rationale behind this is that as people move to big cities to work, they will have little time to prepare their own meals. Thus, eating out becomes an optimal choice. Also, according to that report by ReportLinker, there has been a surge in the number of households in Vietnamese economy. Two types of households that contribute the most the industry are single member households and working couples as it fits into their fast-paced lifestyle. Furthermore, Vietnamese population is huge (87.84 million in 2011) and young. Specifically, in 2010, the group 15-29 (i. e. argeting customer of Secret Recipe) appeared to be significantly larger than others. It is predicted that the group will be expanding in the next ten years, indicating a long-term growth for Secret Recipe in Vietnam food industry. Figure 4. Vietnam population by age and sex in 2010 Figure 5. Vietnam population by age and sex in 2020 Resources: Labor: Secret Recipe can be beneficial from a low-cost and huge workforce. According to General Statistics Office of Vietnam, 57.2% of Vietnam's population participated to labor market and 32.5% of them had undergone or completed a vocational/professional training.

It somehow guarantees skilled labor force availability. Raw materials: Basic ingredients are available here in Vietnam. However, only qualified suppliers worth the contracts otherwise they may ruin Secret Recipe's image. Nonetheless, some of the flavors can be costly as they are imported goods

with high prices. An approach to this problem could be buying in bulk and storing them for further process. Location: A number of shopping malls and superior residential areas are being built as a developing plan (Food services in Vietnam, Market Analysis, 2012). Therefore, Secret Recipe can easily reach to its customers.

Apparently, however, rental price should be considered consciously. Competition: Porter's Five Forces model, which consists of five elements, is used to give an overall picture of the food industry in Vietnam. Intensity of rivalry: Medium Currently, in terms of cheese cake, which is a core product of Secret Recipe, there are no direct competitors as none of the existing players emphasize their menu on that. Nonetheless, as for other Vietnamese dishes that will be developed later on, Secret Recipe should be aware that they have been being offered by domestic independents for years (Food Service profile, 2012).

Their primary advantage is the understanding of the market, customers and their taste, which will take times for Secret Recipe to gain. Threats of new entrants: Medium to High Setting up a food business generally does not require high capital in comparison to other businesses. However, the procedure to ask for permission to do business in Vietnam needs good relationship with the authorities. Undoubtedly, food is a recession-free industry; hence business entities can earn profit eventually setting foot into this industry. Bargaining power of suppliers: Low

As mentioned, in order not to ruin Secret Recipe's name, only reliable and qualified suppliers selected. Therefore, once the contract is signed between the two parties, it will be a long-term one and thus the switching cost would



be relatively high, causing the suppliers' bargaining power to be low. Bargaining power of customers: High Vietnamese food consumers are offered with many choices. Currently, there are several cake brands operating in Vietnam such as Paris Baguette, Chewy Junior (Singapore brand), Tour le Jour (Korean brand).

Besides, street vendors' food is plentiful with many different taste and prices to choose from. Consequently, together with a favor in low switching cost, customers can easily go to another restaurant if they want to. Threats of substitutes: High Cakes are not that essential in a person's daily life. Moreover, food in general in Vietnam is diversified and can be found on any street with a relatively reasonable price, mostly serve local cuisines to their largely native customers especially in big cities like Ho Chi Minh City.

Thus, when it comes to hunger, people can choose from a wide range of them.

## **Conclusion**

To put it in a nutshell, the motives of internationalization of Secret Recipe can be best enlightened applying Eclectic paradigm, particularly the Ownership advantage. At the moment, the company's strategy is trying to spread its brand name beyond borders by constantly looking for new international markets and by bravely spending budget on them. Accordingly, one with great potentials would be worth the investment.

All the findings and data have proved that Vietnam comes in the first place in the list of promising marketplaces due to its strongly growing economy, low-cost labor, and dynamic food market. Although entering into the country

poses obstacles (e. g. intense competition, good authorities relationship) and economic threats (e. g. unstable inflation rate, high corruption rate), choosing the right strategy, the right means of going into it and building a suitable organization structure would foster an effective and efficient managing job.

## **Recommendations**

Most appropriate strategy The most suitable strategy to be executed when entering Vietnam market is international strategy. There are two reasons for this choice. Firstly, the Secret Recipe's menu on cheese cakes was originally developed by Malaysian chefs. People come to the restaurant mostly to enjoy the unique fine taste and the ambience there. Therefore, the R; D function should be in the home country so that the uniqueness making the brand name will always be the same. This happens to be parallel with the top management's viewpoint in which the menu stays unchanged in any market.

Secondly, the pressure for local responsiveness is low, not zero. Also, the most crucial characteristic of any organization is the willingness to develop products for foreign markets (Rosson and Ford, 1982). In fact, the success of Secret Recipe in foreign markets has its root in the willingness to include the popular dishes of the local foodculture. Furthermore, Vietnamese consumers favor their traditional dishes such as Pho, spring rolls, etc. Thus, being able to fruitfully offer them in the menu will certainly be an advantage.

Oviatt and McDougall (1994) advise that firms should use " alternative governance structures", such as franchising, licensing. And together with the analyses about Vietnam risks and industry opportunities, the recommended

entry mode for Secret Recipe is establishing a master franchise via a joint venture. The reasons are as follows. First of all, Secret Recipe is in the food industry where the best mean of doing business is franchising. Indeed, the company has achieved its regional prospect thanks to properly implementing that form. In other words, the management is experienced.

Moreover, the franchising is now widely perceived and accepted by Vietnamese business entities and the government, making the process easier and less costly. Secondly, Secret Recipe is still on the progress of opening a foreign market, thus what matters the most to the management would be the development costs and risks. As a result, setting up a master franchise will somehow save the management from many problems as it is now the master franchisee's job to select and train franchisees, select locations, etc. Also, the costs and risks will be shared with the local partner in a joint venture.

Thirdly, there is always a need to reduce control challenges and to protect the brand name, as well as to benefit from a local partners' knowledge of the host country's competitive conditions, culture, language, political and business systems whenever expanding internationally. In this sense, a joint venture appears to be essential and practical. Besides, due to the complexity of Vietnamese market, a Vietnamese partner would be helpful in negotiating with the authorities, finding suppliers, recruiting personnel, etc.

### **Appropriate organization structure**

In terms of global expansion management, the recommendation structure goes to Worldwide Area Structure. The reason is that for farther development, Secret Recipe will obviously expand to other markets in

different countries and territories around the world. Sooner or later, the management will have to deal with problems arising from dissimilarities in customers taste, operational issues, etc. Consequently, to save costs and efforts, it is necessary to have a decentralized bureaucracy, which can be built under a Worldwide Area structure.

Plus, the structure facilitates local responsiveness, which is relatively crucial to a restaurant chain like Secret Recipe. On the other hand, the structure bears the threat of fragmentation of the organization. Hence, it needs close monitor and periodical review. [Words count: 2, 254] 7.

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