Assessing the american fast food industry business essay

The world has become a fast paced environment where people operate on tight schedules. This has reduced time to prepare home cooked meals and has made quick fast food meals very popular especially for adults who shuttle to and from work and the kids who see it as a treat. This trend has made it possible for the fast food industry to thrive. This very competitive industry has a large market made of all ages of the population. The restaurants now produce healthy innovative and nutritious food which surmounts the fears customers have about unhealthy diets. The industry has been highly successful in the United States and has gradually increased its reach to tap into the growing world market. This has made the fast food industry develop rapidly into an international industry.

1. 2 INDUSTRY OVERVIEW

A fast food restaurant is synonymous with quick and freshly prepared food which is convenient to the buyers. The most common meals served are: hamburgers, hotdogs, sandwiches, chicken and pizza. The side dishes usually include: salads, fries, baked beans, baked potatoes, onion rings and a wide variety of desserts. Beverages like soft drinks, bottled water, hot chocolate, coffee, tea, milkshakes and juice are also offered alongside with the meals (Hovers, 2010). Fast food franchise chains such as Subway, Burger King, McDonaldHYPERLINK “ http://www. buzzle. com/articles/mcdonalds/”‘ HYPERLINK “ http://www. buzzle. com/articles/mcdonalds/” s, Prêt-a-Manger and Pizza Hut cater to demands for seafood, lean meat, special diet meal components, and other considerable regional variations (Buzzle, 2010).

1. 3 ORIGIN OF FIRMS IN THE FAST FOOD INDUSTRY

The origins of fast food restaurants in the USA which is also known as fast food capital of the world can probably be traced to a specific date – 7 July 1912 when a fast food restaurant was opened in New York City by Horn & Hardart. The establishment offered its happy customers a selection of pre-prepared fast foods which were displayed behind small glass windows and coin-operated slots (Yusef, 2002).

The development of fast food which is a big business as at today can be traced back to America which made great impact internationally (Yusef, 2002). Although there was undoubtedly fast food all over the world in some shape or form centuries ago, it really started to become a business enterprise when social, manufacturing and economic conditions made it cheaper to eat out (Rowlinson, 2002).

1. 4 INTERNATIONALIZATION OF THE FAST FOOD INDUSTRY

The internationalization of the food service industry was pioneered by, and is still being dominated by, U. S. – based quick-service restaurants (QSR), e. g. McDonald's, Burger King, KFC, and Pizza Hut. The decision by these companies to go international was associated with the great prospect of foreign food service markets and to service Americans travelling abroad. It is interesting to note that American fast food is embraced by young people in many foreign countries as " fashion food," an element of the popular Western culture. This has contributed to the success of quick-service restaurant operations in many foreign countries. (Yu, 1999).

According to the National Restaurant Association in the United States, there are approximately 160 U. S. owned food service companies operating internationally, this is illustrated in figure 1

Restaurants chain

Total us units

Total foreign units

Mc Donald's

21, 022

8, 923

KFC

9, 863

4, 784

BURGER KING

8, 874

1, 817

SUB WAY

12, 516

1, 668

WENDY

4, 933

564

Table 1: Total US units include both company-owned and franchise- owned units.

Source: Personal communication, National Restaurant Association. (Washington, DC, 1997)

The firms in the fast food industry (QSR) tend to internationalize fast by adopting franchising as a mode of entry (Yu 1999). Yu also identified that the fast food industry tends to follow lodging industry in internationalizing its operation. This is because of growth in population and economic development. The author identified six world regions these firms have internationalized as Europe, Asia, Africa, Latin America and the Middle East.

The internationalization history could be traced to the 1990's and has internationalized greatly spreading to different parts of this world . This could seen to concur with Uppsala's Model of internationalization where firms tend to gradually move to closer countries to reduce uncertainty i. e. psychic distance. Also, the model addresses the issue of objective knowledge which has contributed to their reasons for internationalizing as a result of easy transfer of knowledge. (Johanson and Wiedersheim, 1975).

2. 1 POPULAR TARGET MARKET

The industry generated its strongest growth outside the US, such that their target markets were in Europe, Asia/Pacific, Middle East-Africa (Apmea) operations. Europe region has been the most popular target market for firms in the industry because of its political and cultural stability (Yu, 1999) while other regions were based on factors like population.

2. 2 GEOGRAPHICAL CLUSTER

The main target market for the USA fast foods are Europe, Asia pacific, Middle East and Africa. In these countries they have some form of concentration of fast food restaurants in areas close to schools to characterize school neighborhood food environments, shopping malls and the airports.

The geo-coded databases research shows that restaurants are strategically positioned at schools, shopping malls and airports which have been used to examine locational patterns of fast-food restaurants in kindergartens, primary and secondary schools in Chicago. The use of bivariate K function statistical method by most researchers to quantify the degree of clustering (spatial dependence) of fast food restaurants around school, shopping mall and airport locations.

Fast-food restaurants are concentrated within a short walking distance from schools, and also close to shopping mall, airport which might expose children in school to poor-quality food environments in their school neighborhoods. This might help others such as the travelers and shopaholics' (Austin et al, 2005).

According to Austin from the Harvard School of Public Health's Prevention Research Center compiled a comprehensive list of 613 fast-food restaurants in the city of Europe, as well as a list of 1, 292 public and private kindergartens, elementary schools, middle schools and high schools. Whereby each restaurant and school was assigned longitude and latitude coordinates and census tract identification codes. Using statistical methods, the researchers quantified the distances between schools and restaurants and calculated the degree of clustering.

3. 0 FOREIGN MARKET ENTRY MODE

Firms

Number of foreign outlets

Mc Donald’s

8, 923

KFC

4, 984

Burger King

1, 817

Sub way

1, 668

Wendy

564

Taco Bell

348

Pizza Hut

482

Little Caesars

379

Table 2: Firms location in various continents

Source: Personal communication, National Restaurant Association.

(Washington, DC, 1997) and annual Report

The table identified some countries the number of foreign outlet where the above US fast food firms operate. The major market entry modes employed by these firms in this industry is franchising.

Franchising could be seen as one of the entry modes employed by organizations, which involves a contractual agreement between a company and an individual or another company where the franchisor gives the right to do business under a common trade name in a prescribed manner, over a specified period of time and place in exchange for royalties or the payment of other fees. The company offering the right is called the “ franchisor,” the company/ individual who buys and maintains the right is the “ franchisee,” and the right been bought is referred to as the “ franchise” (Mendelsohn, 2004).

3. 1 THE APPROPRIATENESS OF THE STRATEGY

According to Alan et al (1999), the benefits that accrue to firm that engages in franchising as a mode of entry into foreign markets includes:

- Reduced cost and financial risk associated in entering a foreign market

- Serves as a good incentive to build profitable operation faster.

- It offers strategic alliance which aids the franchisee to benefit from economies of scale and allows the franchisor the regulatory flexibility of a smaller firm.

Erramilli et al (1990), in his study identified that the service industry makes use of Franchising as a mode of entry. This is particularly so because Fast food firms offer soft service and his ideas about soft service firms are based on the fact that such firms cannot export their product because exporting necessarily require a separation of producer and consumer and therefore they have to rely on contractual method i. e. franchising/licensing in order to expand their market.

Arnold (2003) identified that franchising is the most appropriate for duplication of a business model or format, such as a fast-food retail format and menu. He further identified that ' fast food is not culture bound in which marketing knowledge (i. e., the product- or service-specific knowledge involved in marketing this particular offering) is at least as important as local market knowledge (i. e., the knowledge required to operate successfully in a particular territory). It is also important to note that in such businesses, the local service personnel are a vital differentiating factor, and these will obviously still be local in orientation even if they operate within an internationally consistent business format'.(Arnold 2003: 2)

Another idea suggested by researchers is based on Governments in many developing countries are becoming aware of the economic benefits that franchising can bring, and are facilitating the entry of foreign franchisors in their markets (Pelton et al, 1997). Tayeb (2000), suggested that Franchising seems appropriate for firms who want to retain control which will be associated with reduced risk. Erramilli et al (1990) acknowledged that firms in this industry (shown in the table below) tend towards adopting franchising as a mode of entry, basically for market seeking. This can be identified to fit in well with the eclectic theory. This is based on the ownership factor where firms transfer their ownership specific assets to combine with the most favorable sets of traditionally fixed elements in the global economy. This is paramount in order to maintain control which indicates that Franchising is the appropriate strategy for firms in this industry.

Table 3: Showing type of service offered by Fast food firms and motive of internationalization

Source: Erramilli and Rao (1990: 141)

Despite the benefit that usually accrue to firms that use franchising as a mode of entry, (Hill, 2009) identified a disadvantage that is Peculiar to the Fast food industry. He was of the opinion that quality control always persists. This is because the geographical distance of the firm from its foreign franchisees can make poor quality difficult to detect.

4. 0 THE STRUCTURE AND CONTROL OF FAST FOOD INDUSTRY.

The fast food industry has about 200, 000 restaurants in the United States and their annual revenue when combined is about $120billion (Hover, 2010). The highly fragmented industry has 25% of the industry market share controlled by top 50 companies (Hover, 2010). The production within the industry is split between a few of the different companies but there is no particular company that has a large enough market share to be able to influence the price levels (Global Edge, 2010). The fast food industry operates on product diversity, service differentiation and internationalization (Stuart, 1993). The fast food restaurants are involved in local market adaptation and adjust some parts of their menu based on the each country's specific dietary preference. This is in line with Hill (2009), which states that despite the proliferation of standardized products, McDonald's had to find a way to customize its product offerings to suit the differences in taste and preference around the world. The control system that exists is the cultural control. According to Hill (2009), this control is achieved when staffs of the company take interest in the norm and value systems of the company. The employees can control their behavior which improves operations and management assistance when needed. The fast food industry operates on the transnational strategy. This strategy involves companies that try to realize location economies and experience effects, to leverage products internationally, transfer core competencies and skills and also give consideration to local responsiveness (Hill, 2009).

Figure 1: Food service structure

Source: Tourism: Goeldner et al, (2000: 179)

The fast food restaurants in this report fit under the chain – broad menu structure. The restaurants have the same name, offer the same kind of service and have standardized menus in different locations.

5. 0 EXPLANATION OF ABOVE POINTS

The fast food industry tends to internationalize very fast. This imploding pattern of internationalization is prevalent because these various restaurants aim to increase their various outlets and hold a larger market share than that of their competitors. The restaurants are able to control the huge boost of business activities through the tight and stringent quality control measures over franchisees that run the businesses.

The location choice for Europe as one of the major destination place for the fast food industry is because of the relative low political risk experienced in these countries compared to other continents. For example in 2001, when the Unites States invaded Afghanistan, McDonald's restaurants were vandalized in Pakistan and Indonesia and there was a call for boycott of US products (Rugman and Collinson, 2009). There is no threat in these European countries and these countries are developed nations which are highly globalized. This makes fast food popular in the counties.

The franchising entry mode is prevalent in the fast food industry because it facilitates the low cost global expansion of the restaurants without great risk to the franchiser. The franchisee deals with the day to day running of the business operations and the franchiser controls the operations through rules o

The prevalent local menu adaptation as opposed to standardization in the fast food industry is due to different taste and preferences of customers all over the world. For example, For example, in India McDonald's developed a menu which is entirely free of beef and pork to suit the vegetarian preference of the Indian population (Rugman and Collinson, 2009).

6. 0 CRITICAL REVIEW OF DUNNING'S OLI PARADIGM

This section will critically review how well international business theories best explain the internationalization process, the choice of foreign market entry mode within the Fast food industry. Based on the analysis of entry modes used by key industry players such as Mc Donald's, Burger King Etc the Dunning's OLI paradigm models best explain internationalization behavior within the industry. For this reason, this theory will be discussed in relation to the Fast Food industry.

6. 1 DUNNING'S OLI PARADIGM

Dunning theory suggest three essential factors are required to engage in FDI place. These factors include the O- ownership, L- location, I- internationalization. Majority of the fast food companies benefit and interact using the internationalization of the Dunning's OLI paradigm to determine the extent of foreign production and activities.

The relationship between these factors and franchising as a mode of entry is beneficial and economical to franchisors by taking advantage of franchisees' working capital and local knowledge (Teegen, 2000).

Usually international franchisers of foreign ownership behaviours involve resource-seeking activities and asset exploitation which was analyzed by (Chung et al, 2004). Dunning's OLI paradigm, which embraces asset-augmenting foreign operations of multinational enterprise (MNE), examines foreign ownership choices of international franchisors which are directly related to their strategic intent. (Dunning, 2007). Considering the data from section 1, an analysis of Dunning theory will be done in the subsequent section.

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6. 2 O-Advantages of the FAST FOOD (FF)

O-advantages can be viewed from the owners assets of the international firm, making provision for ability and skill that are the due to strategic advantage. Owner's assets can be in two dimension such as tangible and intangible. The intangible assets of the MNE include different types of tacit as well as experiential knowledge. In FF business, O-advantages reside mainly in intangible owner assets, which can be social capital and human capital. Such assets include specific managerial potential within the managers and their network, (Bian, 2002). The importance of relational O-advantages originated as a role in reducing inter-firm transaction costs, which can be explained in terms of preference interdependence among members of the same social group (Buckley and Casson, 2003). The main O-advantages of the FF with respect to section1includes: deal-making, relational contracting, operational control, risk management, and firm size.

6. 3 L-Advantages of the fast FOOD (FF)

Fast Food industries also seek advantages by considering its geographical location choices with its O-advantages. This indicates that firms would always want to create a blend between the O-advantages and the L-advantages of the host market.

Most firms target locations that benefit them and also where there is a strategic fit between the capacity of the firm and it requirements and formulation of its operating environment. At this point the main O-advantage of the FF is its relational contracting ability; it must seek out locations where the environment for business is opaque rather than transparent, and relational contracting skills are crucial to successful performance (Yeung, 1999, pg. 120)

Another impact of aligning L- and O-advantages is that FFs thrive in other locational environments that may be considered attractive by the Western MNE. i. e. there are specific locational advantages for the international FF to enter regions where it can utilize its ability carry out its operation effectively, economic environments where codified market-enhancing institutions are weak and / or where personal connections are required. A similar argument can be made with respect to industry preference. MNEs and FFs usually operate and succeed in different industries.

There is strategic importance of the FF's superior relational contracting ability which is industry-dependent. FFs are found in a range of industries, usually including real estate property development, banking and finance, as well as certain kinds of manufacturing, such as garments and food processing. While individual companies typically engage in non-related diversification, the overall pattern of industry. Cultural familiarity and proximity are an important source of location advantage for firms that understand the culture of the local environments whose characteristics match the locational characteristics of the host country. Thereby with the alignment of the psychic distance, such advantages relate to specific cultural knowledge and skills. In the case of America, they may include familiaring the firm to the language of the host country. This therefore leads to a cluster of these firms in order to achieve this benefit.

6. 4 I-Advantages of the FAST FOOD (FF)

In MNE theory, I-advantages provide the benefit to undertake related international business activities within the firm, rather than contracting them out to other firms or exporting them. The I-advantages of the international FF center on its characteristic ability to quickly mobilize coordinated action and resources, thereby gaining advantages of timing and flexibility vis-à-vis competitors (Yeung, 1999). The focus is positioned in the network structure, which enable it to gain assets and capabilities of others in the network.

The tatics behind internalization can be explicit in terms of transaction costs. When inter-firm transaction costs exceed the cost of intra-firm transacting, efficiency is improved by internalizing market transactions within the firm. Conversely, when intra-firm transaction costs exceed the cost of inter-firm transacting, efficiency is improved by externalizing transactions to the market. The comparison cost of conducting inter-firm transactions among members of a network with the cost of intra-firm transactions within the internalized firm shows a grounded network can be the more efficient way to organize (Buckley and Casson, 2003).

The Ownership assets that give the international FF its distinctive O advantages are on the basis that are highly intangible human capital assets involved in relational contracting capabilities and deal making skills (Hamilton, 1996). These are characteristics that cannot easily be sold in markets and must therefore be exploited internally, within the firm. The resulting timing advantages account for the prevalence of the FF in industries where windows of opportunity open and close faster.

Conclusion

Finally, since FFs are relatively big in comparison with Western MNEs, they are able to achieve a high degree of operating flexibility without sophisticated internal organizational processes and systems. However, it also leaves them unable to expand the size of their organizations when it would be strategically advantageous to do so. In such cases, the business network can allow the big firms to surmount some of the limitations of size (Child, 1973, 1984), including economic and geographic limitations (Hamilton, 1996) and transaction costs (Buckley and Casson, 1993). Hence this study concurs with the factors responsible for internationalization as stated by Dunning theory of internationalization