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The U.S. Foodservice Industry Looks Abroad

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U.S. foodservice companies are moving more and more into international markets as U.S. markets become saturated. Japan, Canada, Australia, and Mexico are already popular locations for many U.S. restaurant chains, and more are scheduled to open around the world in the next several years. Lucrative profits and explosive population growth in developing countries are big incentives. Also, many of the rapidly developing countries have emerging middle classes with the incomes and urban lifestyles that started the tremendous growth of foodservice establishments in the United States in the late 1940's and 50's.

Foreign firms are also gaining ground in U.S. markets by purchasing U.S. foodservice firms. Burger King, once U.S.-owned, is now a foreign-owned chain.

Investment Abroad Has Grown Dramatically for U.S. Restaurant Chains

In 1993, the latest year for which industry-wide data are available, there were 10 U.S. foodservice firms with 76 foreign affiliates. These affil-

iates had sales of \$9 billion, 7 percent above 1992 sales. Foreign affiliates are defined as entities in which a foreign parent firm holds at least a 10-percent ownership interest and no other firm has as large a share. The Commerce Department's Bureau of Economic Analysis data were used to report affiliate information. Trade data were used to compile foodservice information at the firm and chain level.

Twenty-nine of the top 50 U.S. restaurant chains operated 17,038 units in other countries in 1994 (table 1). Most of these units were franchise arrangements, not true foreign affiliates. Under a franchise arrangement, the franchisor provides menus, recipes, and advertising support, but ownership and operation rests with the franchisee. At the beginning of the 1970's, only 900 U.S. franchised units operated outside the United States.

Seven U.S. restaurant chains accounted for 15,472, or 91 percent, of those units operating abroad in 1994 (table 2). Asian/Pacific countries such as Australia, Japan, Hong Kong, and New Zealand accounted for the largest share of these units (37 percent). Twenty-nine percent operated in European, African, or Middle Eastern countries. Canada accounted for 24 percent of the

units, and Latin American countries, 10 percent.

Hamburger, chicken, and pizza chains dominate the international market. U.S. foodservice companies generally offer their U.S. menus in their foreign franchises. However, adjustments are made to match the cultural needs of foreign customers. For example, in India, where the cow is sacred among the majority Hindu population, U.S. companies are experimenting with lamb burgers and chicken pepperoni. The rice burger has been a big success for U.S.-based companies in Japan. Foodservice companies with foreign operations generally use local labor and food supplies. However, there are exceptions, such as McDonald's worldwide use of Idaho potatoes for its french fries (see "Processed Foods Trade Benefits U.S. Agriculture and Consumers," elsewhere in this issue).

According to Technomic, a food industry consulting firm, the number of units of U.S. firms operating abroad increased more than 100 percent between 1987 and 1994. By the end of 1994, the top 100 restaurant chains in the United States operated more than 16 percent of their units outside the United States. McDonald's and KFC generate a large percentage of their profits outside the country.

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Table 1

McDonald's Is the Leader in Foreign Foodservice Units and Sales

Chain ¹	Total units	Foreign units		Total sales	Foreign sales	
	Number	Number	Percent	Million dollars	Million dollars	Percent
McDonald's	15,205	5,461	36	25,986	11,046	43
KFC	9,407	4,258	45	7,100	3,600	51
Pizza Hut	11,546	2,928	25	6,900	1,900	28
Subway	9,893	944	10	2,500	265*	11
Domino's Pizza	5,079	840	17	2,500	415	17
Dairy Queen	5,542	628	11	5,542	300*	9
Wendy's	4,411	413	9	4,277	390*	9
Church's	1,171	233	20	590	125	21
Arby's	2,789	168	6	1,770	74	4
Taco Bell	5,615	162	3	4,290	130	3
Little Caesar	4,855	155	3	2,000	70*	4
TCBY Yogurt	2,801	141	5	388	22*	6
Sizzler	600	119	20	858	230	27
A&W	671	104	15	236	68	29
Big Boy	940	90	10	1,130	100*	9
Denny's	1,548	58	4	1,779	63	4
Popeye's	772	48	6	584	35	6
Sbarro	729	41	6	384	22	6
Ponderosa	680	40	6	690	40*	6
International House of Pancakes	657	37	6	632	32*	5
TGI Friday's	314	37	12	897	114	13
Bonanza	264	30	11	267	32	12
Round Table Pizza	576	29	5	351	15*	4
Carl's Jr.	649	20	3	587	30*	5
Long John Silver's	1,456	16	1	938	6	1
Jack In The Box	1,224	16	1	1,050	23*	2
Whataburger	517	9	2	383	5*	1
Perkins	432	8	2	626	12	2
Showbiz Chuck E. Cheese	332	8	2	370	7	2
Total	90,675	17,038		72,333	19,171	27

Notes: 1994 data. ¹Includes U.S. company-owned and franchisee-owned establishments. *Estimated by Technomic, Inc., a food industry consulting firm. Source: *Restaurant Business*, June 1994.

McDonald's, the largest foodservice organization in the world, operated 15,205 units worldwide in 1994, with sales amounting to nearly \$26 billion. McDonald's operates 5,461 units in 79 countries outside the United States, with foreign sales of \$11 billion in 1994. Foreign sales account for about 43 percent of McDonald's sales. Thirty-six percent of McDonald's units operated outside

the United States in 1994, compared with 34 percent in 1993. Most of McDonald's units are franchised. Major markets for McDonald's units include Japan, Canada, Germany, England, Australia, and France.

In 1994, McDonald's opened its first restaurants in Bulgaria, Bahrain, Kuwait, Latvia, Oman, United Arab Emirates, New Caledonia, Romania, Egypt, Trinidad, and Saudi Arabia. McDonald's expects to open 900 to 1,200 restaurants around the world in each of the next several years,

with two-thirds of those being outside the United States. England, France, and Germany will be popular locations.

The McDonald's chain not only operates traditional restaurant units but satellite stores as well—smaller units such as kiosks or mobile carts—which offer simpler menus. McDonald's opened about 1,000 satellites around the world in 1995;

Table 2

Asian and Pacific Countries Home to a Third of Foodservice Chains' Foreign Outlets in 1994

Chain	Asia/Pacific	Europe, Africa, and Middle East	Latin America	Canada	Total
	<i>Number</i>				
McDonald's	2,111	2,197	436	717	5,461
KFC	2,172	817	396	873	4,258
Pizza Hut	910	1,148	415	455	2,928
Subway	115	31	62	736	944
Domino's	232	160	203	185	840
Dairy Queen	125	36	16	451	628
Wendy's	143	41	51	178	413
Total	5,806	4,426	1,565	3,687	15,472

Source: Company annual reports.

about two-thirds of these were outside the United States. McDonald's says the key to aggressive satellite programs is alliances with retailers and oil companies that operate convenience stores. In 1994, McDonald's satellite units operated in 377 Wal-Mart's throughout the United States, Canada, Mexico, and Puerto Rico. McDonald's are now located in selected service stations in the United States, Finland, Denmark, and Italy.

KFC, a division of PepsiCo, Inc., has the second-largest number of units outside the United States—4,258 in 73 countries. KFC's \$3.6 billion in sales outside the United States accounted for 51 percent of their sales in 1994. Forty-five percent of all KFC units are located overseas. One fourth of KFC's foreign units are in Japan, 11 percent in Australia, and 8 percent in Great Britain. Of the six largest restaurant chains, only KFC and Pizza Hut own units in Africa.

Pizza Hut, also a division of PepsiCo, Inc., has 11,546 units operating in 82 countries. Twenty-five percent, or 2,928 units, are located outside the United States, with sales of \$1.9 billion. Pizza Hut chains are located primarily in Australia, France,

Spain, the United Kingdom, and Trinidad.

Subway, a subsidiary of Doctor's Associates, Inc., had 9,893 units in 21 countries in 1994. About 944 of those restaurants were located outside the United States, with sales of \$265 million. In 1994, Subway opened new units in 11 countries, including Mexico, China, Japan, Indonesia, the Philippines, Iceland, Slovenia, Cyprus, Kuwait, Saudi Arabia, and South Korea.

Domino's Pizza, the second-largest pizza restaurant chain in the United States, operates 840 franchised units in 37 countries, with sales of \$415 million. Japan and Canada are popular foreign locations. Domino's future growth will depend more on international expansion. They already have about 90 stores in the United Kingdom and expect to grow in South America.

Dairy Queen, a subsidiary of International Dairy Queen, Inc., had 628 of its 5,542 units operating outside the United States in 1994, with sales of \$300 million. Dairy Queen opened new stores in Mexico, China, Slovenia, Cyprus, Kuwait, Saudi Arabia, and South Korea during that time. Dairy Queen operates in 16 countries.

In 1994, Wendy's operated 4,411 units in 32 countries and territories;

413 of these were outside the United States, with sales of \$390 million. As the largest market outside the United States for Wendy's restaurants, Canada accounts for nearly half of their foreign units. Wendy's planned for 100 new foreign units in 1995 to be concentrated in Latin America, the Pacific realm, Western Europe, and Canada. Wendy's anticipates an addition of 550 new units abroad by 1999.

Though fast food companies have paved the way into the international market, family-type restaurant chains such as Denny's, Big Boy, and International House of Pancakes are following (table 1). Casual dinner house restaurants such as TGI Friday's and grill buffets like Sizzler, Golden Corral, and Ponderosa are also expanding into the international arena.

Foreign Food Companies Buy Up U.S. Foodservice Firms

Foreign-owned foodservice firms had 77 U.S. affiliates in 1993. These U.S. affiliates rang up \$5.2 billion in sales and employed 116,800 people.

Table 3

Seven Foreign Firms Had \$15.7 Billion in U.S. Foodservice Sales in 1994¹

Foreign investor and location	U.S. chain	Type of chain	U.S. sales	U.S. units
			<i>Billion dollars</i>	<i>Number</i>
Grand Metropolitan., PLC London, England	Burger King	Sandwich	7.25	6,090
Imasco Ltd. Montreal, Canada	Hardee's	Sandwich	3.51	3,404
	Roy Rogers	Sandwich	.46	530
Allied-Domecq, PLC London, England	Dunkin Donuts	Snack	1.33	2,979
	Baskin-Robbins	Snack	.56	2,355
Compass Group, PLC London, England	Canteen Corporation	Contract	1.08	1,600
Onex Corporation Toronto, Canada	Sky Chefs, LSG	Contract	.46	34
	Luffhansa Services			
Sodexho Paris, France London, England	Sodexho USA	Contract	.43	490
	Gardner Merchant Food Services	Contract	.36	1,100
The Albert Abela Group Paris, France	The Wood Company	Contract	.30	296
Total			15.74	18,878

Notes: 1994 data. ¹Includes company-owned and franchise-owned operations. Source: *Nation's Restaurant News*, Aug. 1995.

Trade sources report that foodservice sales in the United States by major foreign investors amounted to \$15.7 billion in 1994 (including franchise sales), up 11 percent from 1993 sales of \$14.1 billion. The number of U.S. units operated by these investors increased from 15,656 in 1993 to 18,878 in 1994.

Major foreign investors in the U.S. foodservice industry are Grand Metropolitan, PLC, London, England; Imasco, Ltd., Montreal, Canada; and Allied-Domecq, PLC, London, England (table 3). Grand Metropolitan, PLC, owner of the Burger King chain, is the largest foreign investor

in U.S. foodservice. Grand Metropolitan, PLC, acquired Burger King in 1988 with the purchase of Pillsbury. Among the top 50 franchise chains operating in the United States, Burger King was ranked second in 1994, with total worldwide sales of \$8.7 billion. Sales outside the United States accounted for only 16 percent of that total. Burger King operated over 7,500 units worldwide, with over 6,000 units in the United States in 1994.

Imasco, Ltd., Canadian-based owner of the Hardee's and Roy Rogers chains, is the second-largest foreign investor in U.S. foodservice outlets. In 1989, the Marriott Corporation sold most of its Roy Rogers restaurants to Imasco. Imasco oper-

ates about 4,000 Hardee's/Roy Rogers units in the United States, with 1994 sales amounting to nearly \$4 billion.

Dunkin Donuts was acquired in 1990 by London-based Allied-Domecq, PLC, the third-largest foreign investor in U.S. foodservice operations. Allied-Domecq also owns Baskin-Robbins ice cream stores. The firm operates 2,979 Dunkin Donuts outlets and 2,355 Baskin-Robbins outlets in the United States, with combined sales of \$1.8 billion in 1994.

London-based Compass Group, PLC, made its initial debut into the

United States in April 1994 by buying the majority of Flagstar Cos., Inc.'s, Canteen Corp. for \$450 million. U.S. sales for Canteen totaled \$1.1 billion in 1994. Canteen operates 1,600 accounts in the United States.

Sodexo, a French contract catering company, acquired Gardner Merchant Services Group in 1995, creating the world's leader in contract catering with 11,745 units worldwide. Sodexo and Gardner Merchant planned to operate over 1,500 accounts in the United States, with total revenues of approximately \$800 million in 1995.

Gardner Merchant Services Group of London, England, has been operating in the United States for 15 years, and in 1994 bought the business and education accounts of Morrison Restaurant, Inc.'s, Hospitality Group for about \$100 million. This acquisition increased Gardner Merchant's U.S. portfolio to more than 1,000 accounts and will nearly double its projected annual revenues in the future.

U.S. fast food companies have created a huge demand for American food and service in the overseas market. Casual restaurant chains with more extensive menus and on-site eating are quickly following. Many U.S. foodservice companies plan to expand aggressively in a variety of countries over the next several years.

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