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Foodservice Franchising in International Markets

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McDonald's in Munich, Pizza Hut in Fiji, and Taco Bell in Sydney are just three examples of the trend toward expanding foreign markets for U.S. restaurant franchises. Faced with a fiercely competitive U.S. market, many franchisors have found that overseas outlets provide excellent opportunities. The number of international units increased 36 percent, from 3,943 in 1980 to 6,122 in 1985.

According to a Department of Commerce study, Canada and Japan accounted for the largest share of U.S. restaurant franchises abroad in 1985. Sixty-one U.S. firms operated almost 3,000 units in these two countries—nearly 50 percent of the overseas outlets (table 1). Australia and New Zealand ranked third. Together, they had about half the outlets of Japan.

Hamburger Restaurants Are Most Popular Worldwide

More than 3,200 outlets overseas (53 percent) sold hamburgers, roast beef, and franks. Chicken restaurants were also popular, making up 31 percent of overseas U.S. franchise units.

While pizza franchises are second in popularity here, they hold the third largest market internationally. A total of 14 firms operated 578 pizza units overseas in 1985—less than 10 percent of the U.S. international market.

As you might expect, the popularity of the different restaurants varied around the world. For example, Canada was the largest market for hamburger units and Japan accounted for the greatest share of the chicken market. Australians and New Zealanders enjoyed pizza. These

A Closer Look at U.S. Franchises

Over 700,000 eating places sold more than \$170 billion worth of meals, snacks, and beverages (excluding alcohol) in 1986. Restaurants are one of the fastest growing segments in the franchising industry. In 1970, U.S. restaurant franchise sales totaled only \$4.7 billion, compared to \$51.5 billion in 1986. Franchises accounted for 43 percent of all eating place sales, up from 21 percent in 1970.

In 1986, 470 franchise restaurant firms operated more than 78,000 units in the United States. Of these, almost 54,000 were owned by franchisees, more than twice the number of company-owned units. The most popular type of restaurant franchises were hamburger, roast beef, and franks with a total of about 32,000 outlets. Pizza restaurants took second place with

nearly 16,000 units. Chicken outlets followed with more than 9,000 units. The largest concentration of franchises in the United States is in California, Texas, Florida, Ohio, Illinois, and Michigan. These six states accounted for 35 percent of the franchised restaurant units in 1985, the most recent year for which these data are available.

With fierce competition among franchises, larger firms are building new units and buying existing restaurants in prime locations to convert them to their own concepts. Many are expanding into such nontraditional markets as shopping malls, hospitals, and military bases. Others are increasing takeout foods, drive-through windows, and home-delivery operations.

U.S. Franchise Market Continues to Grow

Type of franchise	Firms	Number of units		Sales	
		1985	1986	1985	1986
<i>Billion dollars</i>					
Chicken	30	8,720	9,219	4.1	4.5
Hamburger, roast beef, franks	105	30,563	32,039	23.4	25.6
Pizza	102	14,174	15,874	6.2	6.9
Mexican	36	4,125	4,431	2.4	2.6
Seafood	14	2,423	2,569	1.2	1.4
Pancakes, waffles	13	1,761	1,817	1.1	1.2
Steak, full menu	117	9,466	9,204	8.6	8.5
Sandwich, other	53	2,660	3,135	0.7	0.8
Total	470	73,892	78,288	47.7	51.5

Source: Kostecka. "Restaurant Franchising in the Economy," pp. 184-185.

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Table 1. Canada and Japan Accounted for Largest Share of U.S. Franchises Abroad in 1985

Type of franchise	U.S. firms ¹	Units abroad	Canada	United Kingdom	Other Europe	Japan	Australia, New Zealand	Africa	Caribbean	Central, South America
Chicken Hamburger, roast beef, franks	8	1,878	11	371	62	540	292	183	144	88
Pizza	13	3,251	1,146	236	462	754	244	2	98	97
Mexican	14	578	127	6	15	74	173	10	43	52
Seafood	6	109	83	0	0	0	2	0	22	1
Pancakes, waffles	3	13	6	0	0	0	0	0	0	0
Steak, full menu	2	15	3	0	0	12	0	0	0	0
Sandwich, other	13	271	161	2	0	56	16	0	4	19
Total	2	7	5	0	0	0	0	0	1	0
Total	61	6,122	1,542	615	539	1,436	727	195	312	257

¹Firms that operate international franchises.

Source: Kostecka, "Restaurant Franchising in the Economy," p. 186.

two countries accounted for 30 percent of the U.S. foreign pizza outlets.

The "Big Four"

In 1986, McDonald's, Kentucky Fried Chicken, Burger King, and Wendy's—the four largest U.S. restaurant franchisors—accounted for 31 percent of all units worldwide. They also dominated the foreign market, operating 4,626 restaurants internationally, up from 272 units in 1974 (table 2).

McDonald's, the largest foodservice organization in the world, had over 9,400 restaurants worldwide. The firm's sales totaled more than \$12 billion in 1986. McDonald's dominated the international restaurant scene with about 2,000 outlets. Five years ago their international market consisted of just 370 restaurants.

To further illustrate the firm's success in foreign markets, in 1986 McDonald's

rang up \$2.9 billion in overseas sales. That represents a 34-percent gain since 1985. In 1987, McDonald's expected to open one-third of its 500 new units outside the United States.

Kentucky Fried Chicken, a division of PepsiCo, Inc., operated more than 6,500 units worldwide. The chain operates the only major quick-service chicken restaurants outside the United States. In 1986, 28 percent of all Kentucky Fried Chicken's outlets were located overseas in 54 countries. Over 33 percent of Kentucky Fried Chicken's foreign outlets were in Japan, Great Britain followed with a 17-percent share.

In 1986 PepsiCo had not acquired the Kentucky Fried Chicken outlets in Canada. The acquisition, however, is now complete. PepsiCo presently operates 700 units in Canada.

Chicken is a widely accepted food in Pacific countries, like Japan, Australia,

and New Zealand. Over half of Kentucky Fried Chicken's international restaurants are located in that region and future growth is expected there.

Of the four largest franchisors, only Kentucky Fried Chicken operated outlets in Africa. In fact, those countries constituted the "Colonel's" fourth largest overseas market. Similarly, Kentucky Fried Chicken—with 60 units—held sole position in the Middle Eastern countries.

Burger King, a division of Pillsbury Foodservice, operated 4,744 outlets around the world in 1986. Over 8 percent of those, 403 units, were located in 25 countries outside the United States. That's an increase of 312 outlets since 1982. Burger King's international restaurants are located primarily in Canada, Puerto Rico, Australia, New Zealand, and West Germany.

Wendy's, another hamburger chain, opened just 17 years ago. In that time, it

Table 2. Four Companies Dominate Foreign Franchises in 1986

Region	Total units	McDonald's	Kentucky Fried Chicken	Burger King	Wendy's
Canada	768	515	0	155	98
Mexico	64	3	61	0	0
Puerto Rico	128	15	38	58	17
Caribbean	75	13	53	7	2
Central America	34	18	12	4	0
South America	73	37	17	19	0
United Kingdom	556	231	313	10	2
West Germany	322	245	13	38	26
Other Europe	294	188	36	45	25
Japan	1,224	573	616	4	31
Korea	31	0	13	9	9
Malaysia, Singapore, and Indonesia	147	30	104	9	4
Philippines	32	12	15	0	5
Other Asia	77	47	16	3	11
Australia, New Zealand, and Oceania	559	211	305	42	1
Middle East	60	0	60	0	0
Africa	182	0	182	0	0
Total foreign	4,626	2,138	1,854	403	231
United States	19,829	7,272	4,720	4,341	3,496

Sources: McDonald's, Kentucky Fried Chicken, Burger King, and Wendy's.

has grown to the fourth largest restaurant chain in the world. In 1986, the firm operated almost 4,000 restaurants in 50 States and 17 foreign countries. Sales grew from \$300,000 in 1970 to \$2.7 billion in 1986. During that year, Wendy's operated 231 international units, compared with only 50 in 1982.

Franchising in the Future

Franchise growth overseas will continue in existing markets. At the same time, some chains are entering previously untapped areas. Kentucky Fried Chicken and Pizza Hut, for instance, recently negotiated with the Chinese and Russian

governments to bring fast food restaurants to those countries. Kentucky Fried Chicken opened its first restaurant in Beijing, China, last November.

Military bases here and abroad also offer a new marketing opportunity for fast food franchises. Burger King was the first to open a base restaurant in 1982 at the Pearl Harbor Naval Base in Hawaii. Since then, the Marines, Army, and Air Force have opened test sites worldwide. The units come in a great variety, from mobile vans and movie theater concessions to snack bars and cafeterias. Burger King will open 185

restaurants on U.S. Army and Air Force bases over the next 5 years.

Most franchise restaurant companies are expected to continue expanding their products and services abroad and at home. The growing interest in diet and fitness will likely prompt healthier menu items, such as salads and "lite" foods. Strong growth in Mexican and oriental foods may also mean introduction of new menu items. Following the U.S. trend, breakfast offerings are also likely to increase in overseas restaurants. Many of the new products and services are designed to attract the world's affluent 25- to 35-year-old age group, as well as young women and singles. □

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