L.E.K.

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Casual Dining: Strategies for International Expansion

Times are tough for casual dining restaurants in the U.S. and Europe. Their home markets are crowded. Competition is furious and new casual concepts (e.g. themed restaurants, brew houses, American bar & grill, family) are constantly popping up. Meanwhile, the macro-economic picture remains gloomy. Food and labor prices are rising and consumer discretionary spending has stayed sluggish. There are still, however, several ways for casual dining operators to grow. One is to export a strong concept overseas. (See Figure 1).

Fast food chains have done this all over the globe and the largest brands are heavily concentrated in some countries. The proposition is much trickier, however, for casual and family dining restaurants. These chains are much more reliant than quick service restaurants (QSRs) on atmosphere, décor, and overall experience, all of which can be difficult enough to maintain at home, let alone bring to a new market.

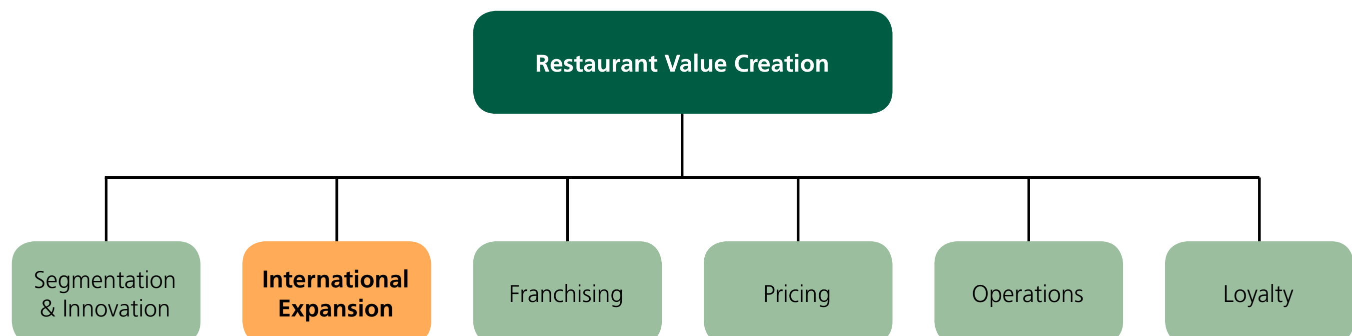
Most casual dining chains that have tried so far have under-delivered. A handful of players with very strong and durable concepts – like Le Pain Quotidien, TGIF, Hard Rock Café – have been the exceptions.

Unfortunately, when looking for the winning formula, there are no straightforward or standard answers. Clear decision-making is key to maximizing the potential for a successful outcome, which in turn relies on a detailed understanding of the challenges of individual markets, consumer preferences and optimal entry strategies.

A powerful concept is essential, but there are other prerequisites for success abroad that are just as important. It is crucial to undertake exhaustive planning and research to test a thesis for international expansion, identify and prioritize target markets and then build a country-specific business case for the most promising one. (See Figure 2).

Figure 1

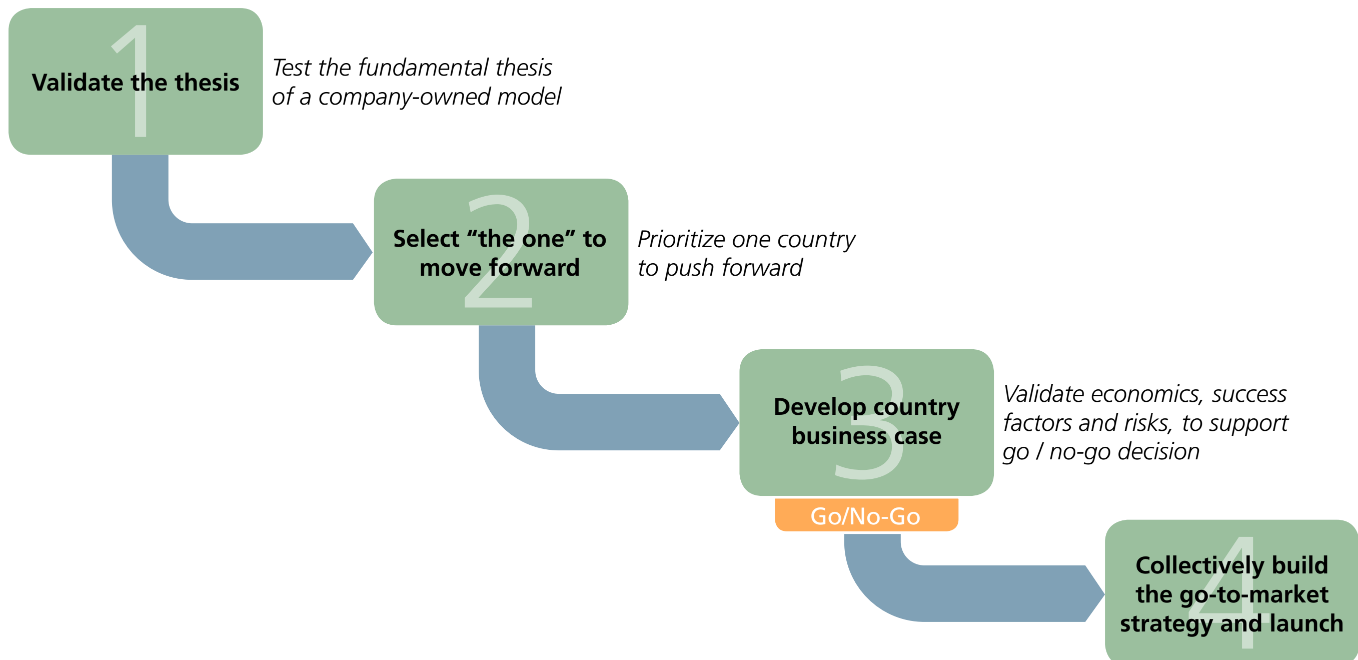
Areas Where Restaurant Chains Can Find Value-Creating Opportunities



Casual Dining: Strategies for International Expansion was written by **Remy Ossmann**, a Partner in L.E.K. Consulting's Paris office, and **Jon Weber**, a Managing Director in L.E.K. Consulting's Boston office. Please contact L.E.K. at retail@lek.com for additional information.

Figure 2

L.E.K.'s Four Stage Process for Evaluating Restaurant Chains' International Expansion Strategies



Validating the Thesis for International Expansion

The macro thesis for international expansion is solid. Globally there is a large and growing market for casual dining. The number of people around the world who can be described as middle-class or above – people who have daily expenditures of between $10 and $100 – is growing fast.

Between 2009 and 2030 the middle-class and above population is expected to have grown 2.6% per annum in Central and South America; in the Asia Pacific region it will have grown 9% per annum. Overall, there is a strong correlation between household expenditure and eating out. Dining habits and customs, of course, vary significantly and there can be big differences between countries in the same general region. Europeans, for instance, spend an average of 6-7% of their annual expenses eating out. Greeks and Spaniards, however, spend more than twice as much – 14-18% annually.

To take advantage of this opportunity, a casual dining operator needs to have a deep understanding of the strength of its restaurant concept and a clear rationale for international development. It must also be aware of the numerous moving parts in a possible expansion – all the specific variables that go with entering any new market, including recipes, typical locations, price positioning and more.

Selecting the Right Market

There is no simple, obvious choice when considering international expansion, and it can be very expensive to try to break into the wrong market. To avoid this, operators should prioritize target markets systematically. L.E.K. recommends doing this using a three-step, quantitative method.

The first step is ranking possible targets by their overall macroeconomic environments and consumption habits (e.g. population, GDP growth, eating out expenditure etc.). The second step is ranking potential targets by the strength of their individual casual dining markets. (e.g. chain penetration and performance, competition from QSRs). The third is ranking countries according to the same type of data used in the previous step, but this time drawn only from U.S. or European-style chains already present in the market. A side-by-side comparison of these three rankings will produce a comprehensive table of comparative scores of potential targets.

Building a Country Business Case

Choosing from a shortlist of target countries that score well on these factors and building a business case for the most promising involves making a lot of trade-offs drawn from very detailed on-the-ground operating intelligence. This should include: local labor and real estate costs, availability of locations, product sourcing, positioning and performance of competitors, local tastes, dietary restrictions, cultural dining habits (e.g. take-away vs. sit-down), local connections to foreign brands and cuisine, and customer service expectations, among others.

Only then can a comprehensive country-specific business case be built and used to make a go/no go decision. The business case should include:

- Pro forma P&L and start-up costs
- Adjustments based on client-specific concept/model (e.g., traffic and consumer profile, raw material costs and supply chain, target pricing/margin structure, marketing)
- Potential number of restaurants
- Key success factors, risks and mitigating actions to be addressed in a detailed market-entry planning and roll-out

Choosing an Entry Strategy

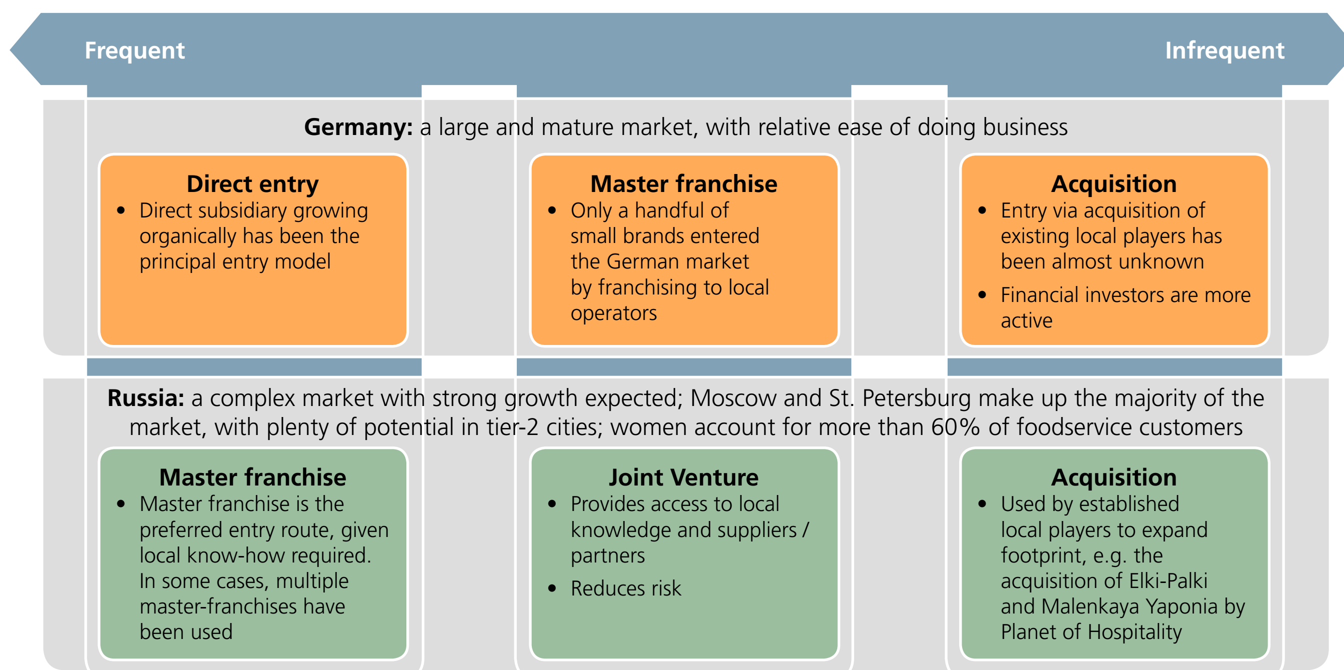
Once a candidate has been chosen, the operator needs to pick the most effective business model for new entry. The best method (e.g. direct, franchising, joint venture) will depend on the operator's bias and preferences, and also on the market's importance and its business culture. (See Figure 3).

The key trade-off in choosing an entry strategy and business model is between cost and control. Franchising, for example, means lower costs but also a low level of control: service, pricing and cleanliness are mainly up to the franchisee. Unlike with QSRs, success in casual dining depends on giving the customer not only quality food but also delivering an experience involving atmosphere, décor and service. These are high touch factors that can be fragile and hard to maintain across a chain, particularly in a new market where tastes and culture may require menu and service adaptations or modifications.

Generally the best model – at least initially for new entry – is direct ownership: more control but higher cost. Providing quality costs money and chains unwilling to invest the necessary capital are likely to meet the same fate as their predecessors who have tried – and failed – to go overseas on the cheap.

Figure 3

Examples of How Market Features Dictate Preferred Entry Strategy



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For further information contact:

London
40 Grosvenor Place
London SW1X 7JL
United Kingdom
Tel: +44 (0) 20.7389.7200
Fax: + 44 (0) 20.7389.7440

Milan
Piazzale Biancamano 8
20121 Milano
Italy
Tel: +39 (02) 8646.2761
Fax : +39 (02) 8646.2791

Munich
Neuturmstrasse 5
80331 Munich
Germany
Tel: +49 (89) 922.0050
Fax : +49 (89) 922.0520

Paris
3 rue Paul Cézanne
75008 Paris
France
Tel: +33 (0) 1.4703.1950
Fax : +33 (0) 1.4296.1138

Wroclaw
ul. Pilsudskiego 13
50-048 Wroclaw
Poland
Tel: +48 (71) 790.16.30
Fax : +48 (71) 790.16.35

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