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An Analysis of the International Expansion of Burger King

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An Analysis of the International Expansion of Burger King

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The presentation will be based on the following research.

I. Introduction

The impact of globalization on our world is largely economical. For the past several decades, barriers to international trade have been falling, granting businesses access to new foreign markets. Industries have taken advantage of these new opportunities, expanding their businesses into other countries and opening factories, subsidiaries, store fronts, and forming partnerships with foreign businesses. The fast food industry in particular has grown and benefitted from this global economic integration. The U.S. based fast food company Burger King and its international expansion will be the focus of this paper. The company has taken advantage of the increasingly global market it has found itself a part of, and has found success with the help of new management, and by establishing meaningful partnerships abroad.

Like most fast food companies, Burger King practices franchising. Franchising can be defined as “a form of marketing or distribution in which a parent company customarily grants an individual or relatively small company the right or privilege, to do business ... in a prescribed manner over a certain period of time in a specified place” (Hackett 65). When expanding internationally, Burger King will seek a local partner within the foreign market it wishes to penetrate. The partner will be largely responsible for the management of any units that open for business in the region. Burger King supplies the business strategy and aids the partner in finding suppliers. According to Burger King’s 2014 SEC report, the company collects fees from franchisees to fund regional marketing campaigns, and assists foreign partners in their regional advertising efforts (7).
II. Under New Management

In recent years, Burger King underwent a number of transformations, largely due to the work of new management, including the new CEO, Daniel Schwartz. He was previously employed by the investment firm that bought Burger King in 2010, 3G Capital. 3G wished to reduce costs and bring Burger King back from the brink of failure. Previous owners had struggled to maintain a steady and growing consumer base for the past couple decades. They attempted to attract new customers using value deals and a plethora of new products, but the franchisees were unable to make a profit (Leonard).

Following 3G Capital’s acquisition of Burger King in 2010, a number of programs and reforms went into place. The value deals were removed, and corporate expenses were reduced. Executives at home and abroad were denied the luxury of parties, and the corporate jet was sold (Leonard). According to Burger King’s 2014 SEC report, the company underwent a process of refranchising a number of their restaurants, renewing existing franchise contracts, and selling approximately 1,370 company-owned restaurants around the world to franchisees (see Figure 1). Franchising is one way of reducing corporate costs, since it is the franchisee’s responsibility to manage the units, employees, and make the profit (Ni and Alon 342-343). The remaining 52 company-owned units are now solely in the area of Miami, Florida – Burger King’s United States headquarters – and will be used for product testing and executive training (United States 5). As the number of company-owned units declined, so did the costs. Handing over so many restaurants also meant that 3G would not have to finance the majority of the restaurant renovations. Burger King’s corporate head count also dropped dramatically from 38,884 to 2,425 in 2013 after dropping the excess company restaurants (Leonard). The cuts seemed to pay off, and Daniel Schwartz was named CEO in 2013.

Daniel Schwartz is among the youngest corporate CEOs in the United States, and his management methods, while unorthodox, have proved successful for the burger chain. For example, during his initial
training at a Miami Burger King restaurant, Schwartz struggled with the sheer amount of complicated menu items that had accumulated over the years. One of his first acts as CEO was to strip down and simplify the menu (Leonard). Teams of coaches were hired and deployed around the world to help franchisors increase efficiency and maximize their profits. Schwartz spent some time overseas conducting negotiations with major franchisors, making accelerated expansion deals in slow-growing markets such as China, Russia, and Brazil (Leonard).

Figure 1: BK Restaurants Worldwide

III. **Burger King’s Expansion Efforts**

Burger King has established itself in a number of countries around the world. Like many other fast food companies, the first foreign markets to be penetrated were Canada and Mexico, due to their proximity to the United States. Studies have shown that most businesses wishing to begin international expansion start with close and similar countries (Rhee and Cheng 420). Expanding into a country with a similar culture eases the process of adapting the business to the new setting. The first new country also serves as a point of reference for future expansions, allowing for some trial and error experiments when it comes to managing an international business. In their study, Rhee and Cheng note that initial expansions tend to be quite small in order to minimize financial risk in case of failure (420-421). Most companies would not want to risk investing too much all at once in a single venture, especially in unfamiliar territory. Rhee and Cheng also note that one of the biggest problems international companies face is the sheer lack of knowledge of the countries into which they try to expand (421-422). Not understanding a country’s culture can lead to misunderstandings when conducting business with a foreign partner, and language barriers are always an issue. One cannot approach a business partner from China the same way one would approach a partner in Germany; the cultural institutions vary and one risks accidentally disrespecting the partner if uniformed of these nuances.

As shown in Figure 3 below, Burger King has experienced steady growth in the number of franchise units worldwide for the past several years. Most of the growth has occurred in foreign markets. International expansion has been the focus of Burger King for the past several years. Studies have shown that a combined effect of a heavily saturated domestic market, and high market potential for foreign markets, prompts many businesses to expand internationally (Hackett 69). The number of restaurants in the U.S. and Canada has actually been declining due to the market saturation. In 2014 Burger King bought Tim Hortons, a Canadian doughnut and coffee chain. The merger has resulted in Burger King’s...
global headquarters relocating in Toronto. CEO Daniel Schwartz hopes both chains will benefit from the arrangement, giving Tim Hortons more opportunities to expand outside of Canada, and for Burger King to increase their presence in Canada (Patton and Giammona).

As part of the refranchising initiative, Burger King also began to enter into master franchise and joint venture agreements with a number of major franchisors across the globe. In particular, noted in their 2014 SEC report, Burger King negotiated with franchisors in Russia, France, South Africa, Mexico, Brazil, Australia, China, India, and South Korea, to name a few (5-7). According to the SEC report, Burger King normally takes a minority equity stake in their joint ventures. Taking the minority role reduces the financial risk for Burger King, while retaining some control, and motivates the franchisor to succeed (Hackett 71).
Figure 2: BK Restaurants by Region

IV. Growing Markets

Thanks to the efforts of CEO Daniel Schwartz, a few specific countries saw incredible growth compared to most other countries. In the Europe, Middle East, and African region, Russia experienced an increase of 88 Burger King restaurants between 2012 and 2013, followed by Turkey with 67 units (Figure 3). Most other countries for the EMEA region only had a few new restaurants open during the year. France, in particular, has proved a difficult environment to penetrate. According to an article by Rick Fantasia, France has not resisted the efforts of American fast food companies, but the environment and the culture have not been conducive to the practice. Even major competitor McDonald’s has struggled in the region (Fantasia 206-207). Fantasia notes that the problem is not necessarily with fast food itself, however. Many French businesses copied the McDonald’s model very early on and made competition in the region fierce. McDonalds only recently managed to increase their presence in France by sheer financial superiority (207). Burger King established a master franchise agreement with Groupe Bertrand, a leading French restaurant group that is sure to bolster Burger King’s presence in the region (United States 5).

Meanwhile, in the Latin American and Caribbean region, Brazil experienced the most growth, with 93 new Burger King restaurants opening for business (Figure 4). Brazil has been experiencing incredible economic growth over the past decade. A 2009 New York Times article predicted Brazil would be “[p]oised to become the world’s fifth-largest economy by 2016” (Gomelsky). The Summer 2016 Olympics are to be held in Rio de Janeiro, Brazil, and much of the economic development has been in preparation for the event. Many believe that hosting the games increases foreign investment, and helps boost a nation’s economy (Applebaum). While the theory has its critics, it is still an excellent opportunity for businesses wishing to get their foot across the border. A reformed, business-friendly government never hurts, either (Gomelsky). As shown in Figure 4, Burger King already had a sizable presence in the
nation, but Brazil’s eagerness to continue developing economically gives Burger King a chance to rapidly increase that presence and remain a competitor in the region.

In the Asia Pacific region, China became the home to 104 new restaurants (Figure 5). According to an article in the Miami Herald, Burger King wishes to open at least a thousand new restaurants in China over the next several years in order to properly compete with McDonald’s approximately 1,500 establishments (Walker). Along with China, Burger King expressed an interest to increase their presence in India, entering into a master franchise agreement with Everstone Capital Partners, a private equity firm in India (United States 7). The number of restaurants in India remains small, with no exact number reported. Culture differences are likely factors as to the slow growth in the region. The Hindu religion reveres cattle, which lead a majority of the Indian population to forgo beef products, a staple of most fast food chains (Gauba). In order to even have a chance at competing in particular regions with differing consumer preferences, restaurant chains often have to adjust their menus to meet those preferences (Hackett 71). When McDonalds entered India in 1996, it struggled to compete with KFC’s chicken menu, a product suitable to the culture, which contributed to its large success in India and around South East Asia. As a result, McDonalds decided to adapt roughly 70% of its menu, offering new products unique to the region (Gauba). Burger King met similar issues when it entered the Indian market, leading them to grant their new master franchisor Everstone Capital Partners control over specific menu offerings in the region, including vegetarian and Indian cuisine inspired options (“Burger King Keen”). With these changes in place, Burger King is now poised to compete in India’s sizable market.
Figure 3: BK Restaurants EMEA

Figure 4: BK Restaurants LAC

Figure 5: BK Restaurants Asia Pacific

Works Cited


