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Outback Steakhouse in Korea

A Commentary

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Economics is only the beginning of the puzzle for successful international expansion by food-service firms. As depicted in the accompanying case study, Outback Korea seems to have considered such other factors as local culture and proper entry strategy.

Keywords: globalization; Outback Korea; restaurant management

The accompanying case study on Outback Steakhouse Korea highlights the need for careful planning and execution when a firm's operations are internationalized. Based on interviews and the analysis of secondary data, the case presents a detailed assessment of globalization and franchising of the U.S.-based casual dining restaurant chains in an exemplar of the Far Eastern region. While the case study is comprehensive, a follow-up discussion of some of the related topics might be worthwhile. Therefore, in this commentary, I summarize and highlight some of the other relevant research.

According to Loveman (1997), the identification of locations for international expansion requires considering two important issues: (1) which market or markets offer the most appealing strategic circumstances for the company's services in the short and long term and (2) in which markets the company's operating systems are most likely to be able to deliver the service concept at the necessary customer satisfaction levels.

While there is no recipe for selecting international locations for expansion considerations, A. T. Kearney's (2007) Globalization Index provides some guidelines. It ranks sixty-two countries, representing 85 percent of the world's population and 96 percent of world's GDP, based on twelve variables grouped in four categories: economic integration, personal contact, technological connectivity, and political engagement. The current ranking of twenty globalized nations is presented in

Exhibit 1:
World's Most Globalized Nations

Rank	*Country*
1	Singapore
2	Switzerland
3	United States of America
4	Ireland
5	Denmark
6	Canada
7	The Netherlands
8	Australia
9	Austria
10	Sweden
11	New Zealand
12	United Kingdom
13	Finland
14	Norway
15	Israel
16	Czech Republic
17	Slovenia
18	Germany
19	Malaysia
20	Hungary

Source: Adapted from Kearney (2007).

Exhibit 1. One can argue that a foreign-based restaurant chain is more likely to be successful in a highly globalized nation. One can also argue, however, that a higher Globalization Index score also means higher level of competition for the foreign restaurant operator. Therefore, when considering international expansion, it is essential that at a minimum, the restaurant companies consider the level of globalization within the target country and the region within the nation.

In a related study, Ghemawat (2001) suggested that, in addition to the usual economic factors, firms seeking to expand need to carefully assess distances in terms of culture (e.g., language, ethnicities, religions, social norms), administration (e.g., colonial ties, shared monetary or political association, government policies, institutional strengths), geography (e.g., remoteness, common borders, size, transportation links, climates), and economy (e.g., relative income and cost levels). His research showed that estimations of relative sizes of the potential markets can be flawed if the four distances described above are not appropriately considered in the analysis. As an example, Ghemawat demonstrated both the flawed and corrected approach for the U.S. fast-food industry.

In his demonstration, Ghemawat (2001) calculated potential market sizes using coordinates based on per capita consumption of fast food and per capita income. The results place such nations as Japan, the United Kingdom, Germany, and Canada at the top of the list for prospective expansion by U.S.-based firms. However, when the cultural and geographic distance calculations are factored into the analysis, the picture changes radically. Mexico, which is eighteenth on the basis of the per capita statistics, moves up to second on the potential expansion list for U.S. firms, following only Canada. The United Kingdom surpasses Japan, as does the U.S. Commonwealth of Puerto Rico.

Loveman's (1997) second point, regarding the entry strategy, also needs careful consideration. The firms considering entering international markets must decide whether to form a partnership with a local company. As mentioned in the Outback case study, franchising with local partnership is becoming a dominant approach for international expansion in the food-service industry. The result is not guaranteed, according to a study by Kalnins (2005). He studied U.S.-based food franchisors that have ventured into foreign markets with local partners as master franchisors. His research shows that development commitments in most master franchising contracts are excessively large relative to the actual number of units built by the master franchisee. He also found that such ventures with large development commitments have a lower probability of success compared to the smaller size commitments. Kalnins's research further shows that other factors, such as the experience level of franchisors and franchisees, did not significantly affect the survival rate of a venture. Therefore, given the extensive role of master franchising in the expansion of U.S.-based food service abroad, I think it is essential that both franchisors and franchisees carefully assess the appropriate level of development commitments.

Finally, successful execution for an international operation requires a close fit among the needs of the target market, the service concept, the operations strategy, and the service system. I believe that the "Strategic Service Vision" framework developed by Heskett, Sasser, and Hart (1990) is an excellent tool for assessing both strategic and operational fit of an international foodservice venture. For example, an assessment of a target market requires careful considerations of the local culture, industry structure, and customer demographics. The service concept requires further assessment of the customer perceptions of value, visitation patterns, and their potential interactions with the service personnel. To determine operating strategy and service system requires a careful assessment of a wide range of issues including the labor market, managerial practices, language, ethnicity, religion, technology, and business norms.

In summary, internationalization of a restaurant venture is far from a simple matter. A successful execution requires careful analysis on several different dimensions as described in the above commentary and nicely illustrated by the accompanying case study on Outback Steakhouse.

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