Case Study: Burger King in Japan

"International is where it’s at," said Ron Paul, a Technomic consultant. "The fast-food burger category is going to find its better growth opportunity overseas. We’re close to saturation in the United States. That is why McDonald’s has been so aggressive in overseas markets." That is also why Burger King has to be so aggressive in Japan.

In Japan, Burger King will face stiff competition. Not only is McDonald’s well entrenched there, KFC also has 1,040 stores in Japan, making it number two in the Japanese fast-food market. These big players have taken most of the good locations, leaving only marginal sites for would-be competitors.

Burger King tried to enter the Japanese market once before. It began selling franchises there twenty years ago; franchisees paid an initial franchise fee plus royalties to the parent corporation. However, the royalties were too high and the operation failed. As if all that weren’t enough, the number two burger place in Japan is a local competitor, Mos Burger, which has 25 percent of the market.

In addition to Burger King’s previous failure, near saturation of the Japanese market, and stiff foreign and local competition, the company faces another problem in Japan. Burger wars have plagued the entire fast-food industry almost eliminated profits - even for McDonald’s. Burger King figures that pockets are less full than usual. However, as a result of the burger wars, Japanese consumers are accustomed to getting “cheap burgers,” and Burger King’s Whoppers tend to cost more.

Burger King realizes that this time it must find an innovative way to enter the market. It must attract attention and obtain good locations in a market that is tending toward saturation. This will not be an easy task. Land is very limited in Japan and costs much more than land in the United States, so finding good sites will be difficult. In addition, Burger King will have to convince Japanese consumers to pay more for a burger. Japanese customers tend to be careful purchasers and to look for good value for their yen.

The solution? Joint ventures. Burger King joined with Japan Tobacco, Inc., to form Burger King Japan. Because Japan Tobacco is two-thirds owned by the Japanese Ministry of Finance, it brings deep pockets with it. Its first move was to buy out Morinaga Love Hamburger chain and immediately convert the thirty-six Morinaga Love restaurants to Burger Kings. Now, other struggling burger chains have expressed an interest in being acquired by Burger King Japan. Even big retailers like Ito-Yokado are inquiring about the possibility of opening Burger King restaurants in their shopping centers as an alternative to McDonald’s.

In addition, the Japanese government has relaxed restrictions on how gasoline is sold, and Burger King hopes to place stores in gas-and-burger outlets. Such an arrangement has advantages for both parties. Gas companies get a new competitive weapon with which to attract customers, and Burger King avoids the high cost of developing stand-alone sites. Furthermore, Burger King already operates gas and burger stations in New Zealand and Australia, so it has experience with this kind of operation.

Although some observers think that Burger King’s lack of name recognition in Japan is a disadvantage, Burger King thinks it can capitalize on this void to create an upscale image. It believes that a high-class image will help to set it apart from McDonald’s.

To appeal to affluent Japanese teenagers, nearly all Burger King restaurants will have a “retro look” of 1950s and 1960s pop culture. In some stores, Hollywood will set the tone with Marilyn Monroe, Marion Brando, and James Dean staring at diners from the walls. Other store decors will center around rock-'n'-roll, with original albums by stars such as Elvis Presley lining the walls. All stores will have jukeboxes, checkered tile floors, and 1950s-style red dining seats. “I just love these chairs,” says Shinobu Fukushima of the red dining seats at a Tokyo outlet. Sales for Burger King have jumped 40 percent to 50 percent with the pop theme.
For parents, the appeal may be somewhat different. Whereas McDonald’s sells teriyaki burgers and fried rice in Japan, Burger King wants to focus on its traditional burgers. “There are not enough vegetables at most other places,” says approving mother Midori Morisaka, who brought her five-year-old son to a Tokyo Burger King. So, the Whopper with its healthy serving of tomatoes and lettuce has strong appeal for her.

For Japanese consumers in general, Yuji Kagohashi, president of Burger King Japan, wants to bring Burger King’s big competitive advantage-flame broiling-out into the open. “Japanese restaurants often put the kitchen’s flames up front to lure in customers,” he reasons, “and we can do the same. Why does Burger King hide its biggest weapon against McDonald’s in the back of the restaurant?”

Putting the flames up front may be a good idea for Burger King for another reason-lack of promotional funds. With so many outlets to open, Burger King lacks funds to engage in the heavy promotional campaigns that McDonald’s and KFC usually launch. Instead, it relies on promotional events such as grand openings, which generate publicity, and through circulars handed out in the local market.

Is the competition concerned? Not really-not at this time. “McDonald’s is the king of burgers,” says Shinji Minakata, managing director of Dairy Queen, a firm that has cut its product line back to coffee and ice cream because of inability to sell burgers in Japan. “McDonald’s has ushered us into the age of eighty-yen hamburgers,” says Sumio Yokokawa, a manager at Kentucky Fried Chicken, Japan. “A burger is a burger for most people now; flame-broiling and extra vegetables are at best an incremental difference most customers don’t really care about.”

McDonald’s is not cowed. The industry leader is moving ahead with plans to have 10,000 outlets in Japan by the year 2006. Even if Burger King opens 200 units a year for the next decade, it will still remain far behind McDonald’s in number of locations, and that can really make a difference. Remember Midori Morisaka? There’s no Burger King in suburban Chiba where her family lives. To get a Whopper, she and her son had to make a long trip downtown. The question is, how many customers will build a preference for a burger that is so hard to get to?

Please answer the following questions, you can use Chinese.

1. Why have Burger King and other companies in the case decided to enter foreign markets? In your opinions, why have they chosen Japan? Do you agree with their decisions? (30分)

2. Contrast Burger King’s entry strategy twenty years ago with its present entry strategy. What are the differences? Is the new entry strategy likely to be more successful? If so, why? (30分)

3. The similar situation may happen in your tourism and hospitality companies, too. More and more companies have developed their franchisees in mainland China. If you are a manager in your company, what aspects of mainland Chinese economic, political/legal, and cultural environments are important for you to understand? (40分)

Reference:
Technomic 顾问公司名称
saturation 饱和
franchise 经销权
affluent 富裕的
stiff 强烈的
franchisee 加盟连锁店；获得特许经营联营店者

This test is two pages printed.