Hot Topics Briefing: Insights for Growing a Global Supply Chain

Go Where the Growth Is!

Foodservice research firm Technomic estimates that global foodservice sales are outpacing U.S. sales growth by more than 50% (Romeo, 2017). It's therefore not surprising that restaurant brands of all sizes are pursuing aggressive global expansion initiatives. Notables include Shake Shack, Dine Brands (IHOP), Yum! Brands (Taco Bell, KFC), Dominos, RBI (Burger King, Tim Hortons) and Chick-fil-A, among others. In fact, 72% or 36 of the top 50 foodservice brands have expressed intent or interest in a global presence – with Asia as a primary target (Rodgers, 2019). Brands entering new markets, sometimes for the first time outside the U.S., are seeking solutions to help their global growth. They need guidance regarding sources of supply, distribution, technology, quality assurance and compliance services, as well as market research.

The IFMA President's Conference back in November featured a panel of leaders on the topic, "Building Trusted Global Supply Chains". Steven Rodgers of HAVI facilitated a discussion among top leaders representing three firms that have developed a wealth of experience in global expansion: Lisa Kartzman, Senior Director, Supply Chain with Shake Shack; Mike Walpole, Director, International Supply Chain with Chick-fil-A; and Cullen Andrews, Vice President, Sales and Marketing with DOT Foods.

The panel began by exploring why these brands are working toward global expansion. Each company has unique drivers and is following a different path to grow markets outside of the U.S.

- Shake Shack took its first step into Dubai almost 10 years ago when regional developers approached the company. In ensuing years Shake Shack has leveraged that relationship and developed others to expand into London, Turkey and Russia. Most recent moves include targeting Asia (see sidebar for more of the Shake Shack story).

- As a family owned business, Chick-fil-A sees its entry into global markets as a way to create positive experiences and spread the company's mission globally, while at the same time ensuring the organization sets the stage for future generations. Some may ask why Chick-fil-A would need to expand outside of the U.S. right now since it has one of the highest sales and double-digit profits per restaurant with more geography to grow into domestically. Chick-fil-A's philosophy is that "if you wait until you need it, it's too late."

- Dot Foods is also finding opportunities for global expansion even though it has not yet saturated the domestic market. The company's focus is on solving problems and the belief that global supply chains create a level of complexity that creates opportunities to add value.

Each of these organizations continues to learn about the challenges, opportunities, and variability of global markets. Regions differ in many ways from the domestic landscape, including (but not limited to) infrastructure, sources of supply, tastes, culture, menu development, ingredient compliance, political and legal climate. Several panel speakers noted that asking the right questions and discovering what you don't even know to ask, is important. It's imperative to take nothing for granted when planning a global expansion. Some important considerations to keep in mind include[1]:

[1] Source: Expanded from comments by Gary Schwartz (Shake Shack) and Marie Zhang (Focus Brands) Jourden (2016)

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Entry Strategy
- Weigh the options: assets in country vs. joint venture (JV) vs. pure export? The right mix makes good trade-offs among risk, complexity, and learning
- Consider that domestic franchising might require a JV with a local partner to be successful
- Ensure understanding of the host country's foreign investment regulations

Translating the Brand
- Keep in mind that cultural norms can differ greatly. For example, Pizza Hut is considered an "upscale restaurant" in Asia
- Adjust menus and recipes to address local tastes and regulations. A "globally consistent" strategy doesn't work.
- Allow for longer shipping times for items sourced from the U.S.

Registration and Licensing
- Understand that each market has unique codes, some extremely detailed (e.g., soy sauce may be banned in the middle east if it contains alcohol)
- Work with suppliers to insure all imported ingredients meet local codes and requirements
- Anticipate 4-6 month process in each region

Local Sourcing
- Utilize local sourcing to reduce import duties, fees, freight costs, lead time
- Balance lower costs against raised quality and consistency risks
- Manage risk by establishing backup vendors outside of the market

Forecasting
- Improve early forecasts by making analogies to previous expansions
- Work with local partners to understand demand
- Expect emergencies and unplanned write-offs

Shipping
- Ensure that ingredients shipped overseas have at least a 1 year shelf life
- Find shippers familiar with required documentation
- Prepare to renegotiate rates based on early sales data

Shake Shack Goes Global

Since beginning as a hot dog cart in Madison Square Park in 2001, Shake Shack has been one of the fastest growing fast casual restaurant chains in the U.S. Today the brand operates more than 200 stores and is targeting 450 domestic corporate restaurants and 70 locations outside the U.S. Its first international experience came in Dubai, when local retail developers approached the company after becoming familiar with the brand. Subsequent growth came in London, Turkey, Russia and most recently Japan, Hong Kong, South Korea, Shanghai, and soon Mexico, Singapore, Shanghai, and the Philippines.

Early on, the domestic supply chain team managed global expansion, but quickly realized that dedicated resources and knowledge were required. In 2015, Shake Shack hired industry veteran Gary Schwartz, who had more than 15 years previous experience leading global brands at PF Chang's. Schwartz is Director of International Supply Chain and has an R&D chef reporting to him to help with product sourcing overseas. He also works closely with Jeffrey Amoscato the VP of Supply of Supply Chain and Culinary Innovation to ensure consistent flow of proprietary product overseas.

The group has learned many lessons along the way. Early in the journey they recognized that reliance on key suppliers to support expansion was crucial. Long shipping lead times present important challenges and can require substantial changes to ingredients. Consequently, group members argue that sourcing locally as much as possible is highly desirable. It is also critical to work with partners, development managers, and culinary personnel to understand regional flavors. For example, partners recommended two new shake flavorings in Japan – sesame paste and cherry blossom syrup – that have been very successful.

In Asia, Shake Shack supply chain managers discovered the need to engage global equipment manufacturers who were willing to ship sample machines to Asian customs who first wanted to disassemble the equipment for registration purposes. In this case, a global supplier was the right solution. In other situations where protecting proprietary advantage was important, Shake Shack has chosen to work closely with domestic specialty suppliers to help them support the brand's global strategy. This has meant helping partners with packaging and labeling changes, as well as arranging shipping and other processing steps.

Though Shake Shack is well down the learning curve on global expansion, their managers point out that every new region presents unique requirements. Shake Shack continues to make the investments needed to support its aggressive and long-term global growth strategy.

Moving Forward

Global expansion offers huge potential for growing revenues and profits. Supply chain managers need to play central roles in making expansion strategies successful. In addition to the key factors identified above, also keep in mind these broader recommendations:

- Ensure the growth plan is specific to the unique requirements associated with global variabilities. As referenced above, global markets vary greatly and researching your target markets will enhance your understanding of how your brand translates to those markets.
- Figure out which questions you need to ask along the way; which differ from the questions used to grow domestically. Each of these brands realized "they didn't know what they didn't know" and it is an ongoing process to gather the right questions that need to be asked at each phase of the growth process.
- Research… research… research…. Case studies of other companies that have grown globally can be of great help. Also talk with peer supply chain leaders who are also focused on global growth, whether at conferences or in proactive one-on-one outreach with existing relationships.
- Tap into existing relationships where you can build strong trusted global partnerships. This is extremely important for global expansion. Transparency with supplier partners is key and core to long term success.
- Get the right people in the right place and make decisions at appropriate levels, ensuring the right people at the C-level are engaged. Have a dedicated team that can manage the ongoing learning and can help drive the most efficient process for scaling up in the target countries to find local and reliable sources.
- Sit down and understand growing pains within your organization and with your key global partners. Get inside and understand what they do, and what drives their business and the value they create.
- Acclimate to the culture. As was stated in the panel, "Canada is not the 51st state. If you go in like that you will fail." Shake Shack, for example, listened to partners in Japan who said that a great flavor is sesame paste; something they never thought could work in a shake, but they tried it, as well as cherry blossom syrup, and found the demand exceeded their expectations.
- Be careful about distractions from your plan. Opportunities will pop up frequently, but you need to have the right balance between sticking to your plan and exploring unexpected prospects for growth. By having the right questions at hand, you can quickly assess whether you should change your plan.

Authors

Steven Rodgers, Vice President, Business Development
Steven.Rodgers@havi.com

HAVI

Morgan Swink, PhD, Professor, James L. and Eunice West Chair of Supply Chain Management
Center for Supply Chain Innovation, Neeley School of Business, TCU, m.swink@tcu.edu

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