

Hier Essen oder zum Mitnehmen: The German Fast Food Industry and How American Firms Can Compete

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EXECUTIVE SUMMARY

US culture, which is representative of the largest global economy, has naturally made its way into the global cultural landscape. One of the most prominent ways in which this occurs is through food and the “burger joint”. Germany, Europe’s largest economy has historically embraced US food culture, taking the industry old question “for here or to go?” and asking “heir zu Essen oder zum Mitnehmen”, with McDonald’s entering the market as the first American fast-food restaurant in 1971.¹ This paper analyzes the German fast food market by drawing upon its historical development, current position, and future trends, to lay the framework for how an American fast-food restaurant can successfully compete in the market.

INTRODUCTION

Although the mechanized fast-food restaurant is clearly an American innovation, the German market is presently one of the largest in the world, and with rapid globalization, it is important for any firm seeking to enter the market to study the industry in great detail in order to establish a successful plan of entry. It is the goal of this paper to provide the information to build the basis of success for an American firm.

The paper will proceed as follows. The first section, country analysis, will examine the historical development of the German fast-food industry, both before and after the entrance of global players. It will then detail the political, economic, and cultural factors any American firm should be cognizant of in an international venture. After laying the basis of German society, there will be a discussion on the fast-food industry, detailing its size and scope, the major players within the industry, and the five forces as developed by Michael Porter. The report will then draw upon these sections with an explanation of driving forces and key success factors within the industry, detailing how US firms can be successful upon entry into the market.

¹ "McDonald's History." *McDonald's Canada*. McDonald's. Web. 25 Apr. 2011. <http://www.mcdonalds.ca/pdfs/history_final.pdf>.

PART 1: COUNTRY ANALYSIS

A. Historical Overview

The history of Germany is one of significant changes in rapid succession. The country was first established in what was known as the “German Empire” in 1871 covering a much larger portion of Europe than it does presently. The *Reich*, as it was called in German, was one of the most powerful political bodies in Europe, and in the world. After World War I, with the German defeat, the Treaty of Versailles imposed harsh restrictions on the country, restricting its political power and leading to the creation of the democratic state remembered as the Weimar Republic. Although this government experienced a brief “golden” period, later economic recession and crippling international debt contributed to the rise of socialism through Adolf Hitler and the Nazi Party. Hitler ruled for twelve years, from 1933 to 1945, until the defeat of Germany in the Second World War.

The War had left German in ruins, and under the administration of the four Allied Powers (The United States, The United Kingdom, Russia, and France). With the beginnings of the Cold War in the 1950s, the Russian administered section of Germany was eventually reorganized in what became East Germany, leaving the US, UK, and French sections in what was West Germany. The two Germanys existed with harshly controlled travel and communications until 1989 when the Berlin Wall and the inland border were opened up, laying the framework for eventual reunification. The two portions of the country have since reunited, forming the Germany that is known today, the fourth largest economy in the world and the home to 82 million people.

B. Political Analysis

The German political system has, since the relatively recent reunification of the country, been largely stable and somewhat similar to that of the United States. Detailed here are the relevant factors

of the system of government, the legal framework, the role of the European Union, and a review of challenges for American firms.

i. System of Government

Germany's government follows a parliamentary system with the Chancellor (currently Angela Merkel) acting as head.² International relations are primarily under the jurisdiction of the head of state (currently President Christian Wulff), although Ms. Merkel also plays a significant role in international affairs.³ Similar to the United States Congress, Germany has a bicameral legislative body with the Bundesrat (or Federal Council) and the Bundestag (or Federal Assembly) composed of representatives from each of the country's Bundesländer. With a system of checks and balances and sharing of roles, the German government system is largely similar to the US, and an American firm will recognize a certain familiarity in this regard.⁴

ii. Legal System

Germany, like most of Europe, operates under the civil law system as opposed to the common law system used in the US. In the United States, the legal system is dictated by case precedence and the interpretation of each case. Laws are often open to debate by judges and jurors, often leading to complicated and drawn-out legal proceedings. On the contrary, with the civil law system in Germany, laws have been explicitly codified in detail with the establishment of the government, causing an arguably more orderly system of law.⁵

For American firms entering Germany, the legal system creates a strong contrast to domestic legal systems organizations may be more familiar with. Though this creates challenges, civil law systems

² "REGIERUNGonline - Angela Merkel." *REGIERUNGonline - Das Presse- Und Informationsamt Der Bundesregierung Informiert*. Bundesregierung Deutschlands. Web. 25 Apr. 2011. <<http://www.bundesregierung.de/Webs/Breg/EN/Federal-Government/Cabinet/AngelaMerkel/angela-merkel.html>>.

³ "Lebenslauf Von Bundespräsident Christian Wulff." *Der Bundespräsident*. Bundespräsidialamt. Web. 25 Apr. 2011. <<http://www.bundespraesident.de/-/12225/Bundespraesident-Christian-Wul.htm>>.

⁴ "Germany." *CIA World Factbook*. Web. 23 Apr. 2011. <<https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>>.

⁵ Apple, James G., and Robert Deyling. *A Primer on the Civil-Law System*. Rep. Federal Judicial Center. Web. 21 Apr. 2011. <[http://www.fjc.gov/public/pdf.nsf/lookup/CivilLaw.pdf/\\$file/CivilLaw.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/CivilLaw.pdf/$file/CivilLaw.pdf)>.

can be advantageous for firms as contacts are often shorter and simpler to understand because of the codified nature of German laws.

iii. The European Union

As one of its founding members, Germany has played a significant role in the European Union since the establishment of its predecessor, the European Economic Community, in 1950. Composed of twenty-seven independent and sovereign nations, the EU is an influential body in global politics, but also greatly affects the inner workings of the German political system.

The EU is important for any American firm entering the German market to be aware of, and many aspects of the body directly affect the operation of a fast food restaurant. For example, the Union is noted for its food safety standards. Under the Common Agricultural Policy (CAP), farmers and ranchers must follow strict criteria on food sourcing and sustainability initiatives.⁶ Furthermore, as an economic union, there is a free flow of goods, people, and capital among member states, meaning inputs can be easily sourced from other member states.

iv. Political Takeaways

Germany is one of the most politically stable countries in the world, with an instability ranking of 14 out of 167 countries, meaning it is the fourteenth most stable government in the world. By comparison, the ranking of the US is 34.⁷ There are significant differences between the US and Germany, but many of these differences, namely the civil law system in Germany and its membership in the EU, can be leveraged towards the favor of an American company.

⁶ "Food Safety." *Europa: The Official Website of the European Union*. Web. 21 Apr. 2010. <http://europa.eu/legislation_summaries/food_safety/index_en.htm>.

⁷ "Political Instability Index: Vulnerability to social and political unrest." *ViewsWire*. The Economist, 19 March 2009. Web. 22 Apr. 2010. <http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=874361472>

C. Economic Analysis

The German government has, since the post World War Two “Economic Miracle”, experienced rapid growth, leading to a \$3.649 trillion economy today, the fourth largest in the world, and the largest in the European Union⁸. Included in this section are brief analyses of GDP, foreign direct investment, balance of trade, and exchange rate, again concluding with a take-away section.

i. GDP Analysis

As mentioned previously, Germany’s GDP is (according to a 2009 World Bank study), \$3.649 trillion dollars, making it the fourth largest economy in the world after the United States, China, and Japan. With a current population of

Figure 1	
GDP Fact Sheet	
GDP	\$3.649 trillion (in 2008)
Population	82,110,097 (in 2008)
GDP Per Capita	\$36,449 (in 2008, ppp method) ⁹
Gini Index	28.3 (in 2009) ¹⁰

roughly 82 million people, the GDP per capita is one of the largest in the world. Using a purchasing power parity (or ppp) method, the per capita GDP was \$36,499 in 2008. Additionally, the country’s Gini coefficient, a commonly used metric on the disparity of wealth within an economy, is 28.3. This is one of the lowest ratings in the world, meaning that the wealth in Germany is relatively equally spread among its citizens.

ii. Balance of Trade

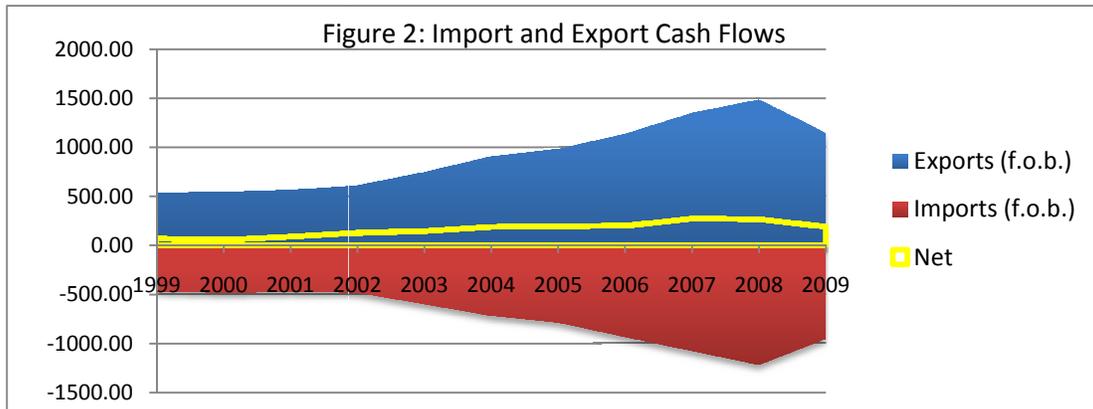
Both because of its membership in the European Union and because of its longstanding relationship with nations like the US, Germany has long held a position as nation with a large emphasis on trade. Germany is a net exporter, and has been a strong exporter in recent history. With total export revenue of \$1.144 trillion, it is the second largest exporter in the world. By comparison the country’s

⁸ "Germany." *CIA World Factbook*. Web. 24 Apr. 2011. <<https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>>.

⁹ "Germany."

¹⁰ "Human Development Report 2009 - Gini Index." *International Human Development Indicators - UNDP*. Web. 25 Apr. 2011. <<http://hdrstats.undp.org/en/indicators/161.html>>.

imports are valued at \$0.956 trillion, thus causing a surplus of \$188 billion. Worthy of note is the sharp decline in exports and imports after 2008. This can be largely attributed to the global financial crisis, but trade is expected to increase looking forward.



Although the German economy as a whole is known for the strength of its exports, the food industry contrasts to the national trend. The industry makes up a large portion of trade, accounting for 6.77% of all imports and 4.78% of all exports. Presently, imports in the industry are more than double the value of exports, indicating reliance within Germany on food from other nations.¹¹

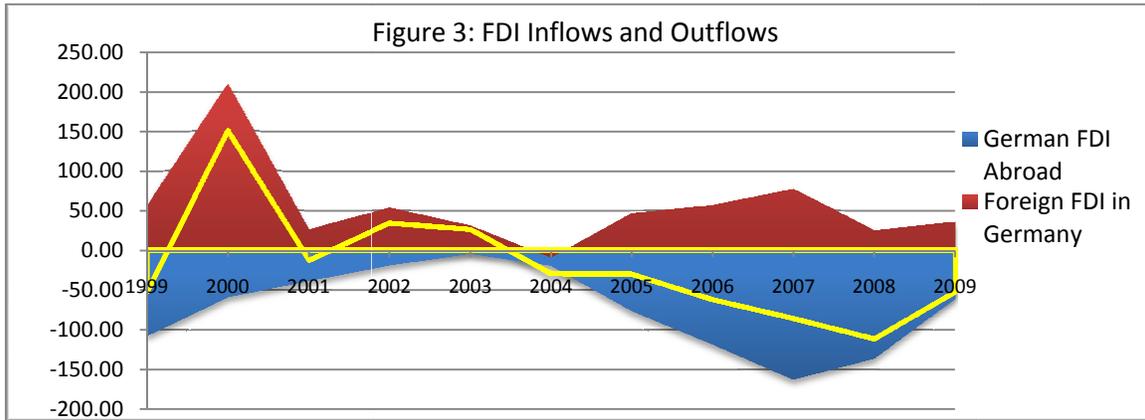
iii. Foreign Direct Investment (FDI)

Like most developed economies, Germany's role in Foreign Direct Investment is noted for a strong outflow. This trend is relatively recent however, with net outflows becoming negative in 2004 and growing strongly after (see Figure 3, following page). While the strong FDI outflow can be linked to Germany's role as a global exporter, the sheer magnitude of FDI going in and out of the country is testament to the country's reliance on and support of foreign investment.

According to data from the Bundesbank (Federal Bank), in 2005, 2.25 million people were employed in FDI ventures in Germany, indicating an overall receptivity to working for foreign firms within Germany.¹²

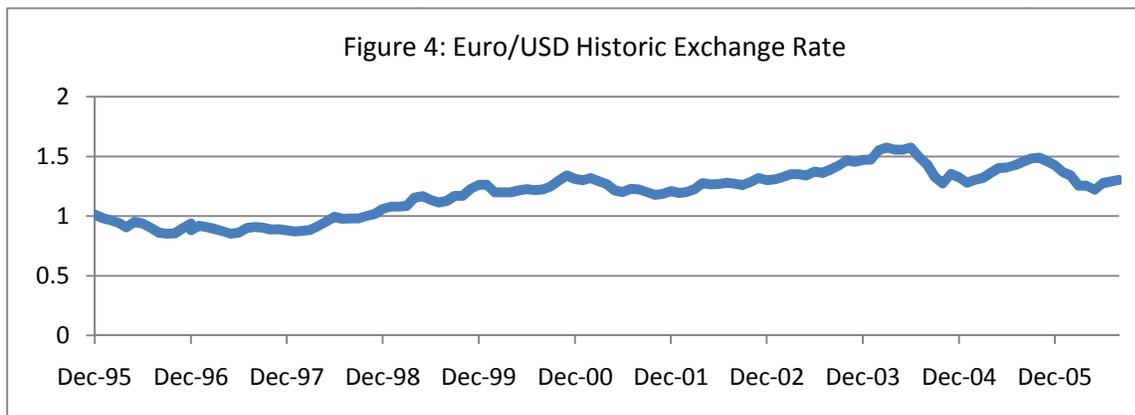
¹¹ Accessed through the IMF via Resource Guide for IBUS 200& IBUS301

¹² Germany. *German Foreign Direct Investment (FDI) Relationships: recent trends and macroeconomic effects*. Berlin: , 2006. Web. 22 Apr. 2010.



iv. Exchange Rate

Germany was one of the pioneers of the Euro, which was introduced in 1999. Since the currency’s introduction, there has been a slow but overall strengthening of the Euro against the Dollar. Although short-term exchange rate fluctuations have occurred, the general slope is a more significant and relevant measure of international currencies. The exchange rate is important for any multinational firm to monitor, although those doing business in two stable economies are less likely to encounter rapid changes in the exchange rate.¹³



¹³ European Union. *US dollar (USD)*. Frankfurt: ECB, 2010. Web. 21 Apr. 2010. <<http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html>>.

v. Economic Takeaways

The global nature of the German economy is the most important takeaway for an American firm entering the market. With such a large portion of the economy concerned with trade and foreign direct investment, Germany is an economically ideal nation for an American firm to enter. Although there is some concern of exchange rate fluctuations as the future Euro/USD exchange rates may become unfavorable for an American firm. These changes would likely be slow to become a reality.

D. Cultural Analysis

Germany is large, diverse, and culturally quite similar to the US. Detailed here are the cultural statistics and tendencies of the country, explaining how they may differ from the US.

i. Demographic Overview

Germany's population of about 82 million people makes it the 15th most populated nation in the world, and the most populated nation in the European Union. While a fertility rate of 1.41 children per women, natural population growth is among the lowest in the world. The net immigration rate is .54/1000 which to some extent counteracts the low birth rate, leading to an overall net population loss of .208%.¹⁴

ii. Urban Orientation

Urban environments are often the best served by fast food, and similar to the trend in the US, Germany's population is noted for its urban orientation. According to CIA data, 74% of the German population lives in urban environments. The rate of urbanization (the yearly change in urban population) is 0.1% annually (according to a 2005-2010 estimate). This indicates a stable urban population that is experiencing a gradual growth, making a significant market for a fast food chain.

Additionally, unlike many other European countries in which a "primary city" dominates the nation politically, economically, and culturally, Germany is home to many large cities. Three cities (Berlin,

¹⁴ "Germany"

Hamburg, and Munich) have more than one million residents and another ten have a population over five hundred thousand. This type of orientation creates various locations from which a multinational firm can launch, and various locations to expand to upon entry.¹⁵

iii. Diversity

Germany has slowly developed into an “immigrant nation”, one in which immigrants are freely accepted and integrated into society. The immigrant population developed after the Second World War, when the German government implemented a “guest worker” program. This program brought in millions of new residents to help physically rebuild the destroyed nation, but many workers stayed, leading to a country in which 12.31% of residents are immigrants.¹⁶ Most of these people are of Turkish origin, but Italians, Polish, and Southeastern Europeans are also common.

Of relevance to a fast food restaurant is the integration of immigrant cuisine into mainstream German consumption patterns. Turkish fast food restaurants, featuring German iterations of traditional Turkish snacks are a staple in most major cities, and Italian restaurants are also quite common. Additionally, Vietnamese food is common in many former East German cities, as Vietnamese immigrants were commonly brought to the communist state in the 1960s and 1970s.

iv. Hofstede’s Cultural Dimension Analysis

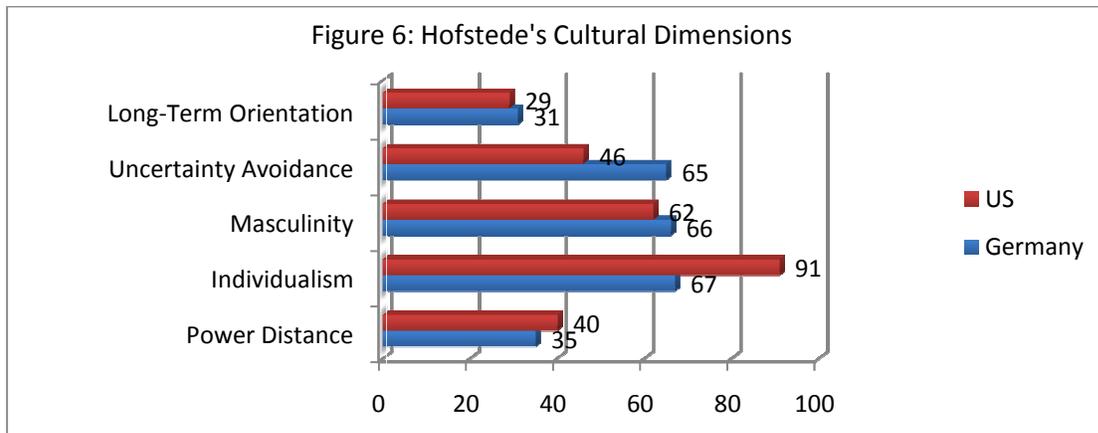
Geert Hofstede is a noted Dutch organizational sociologist who has become famous for his study of cultural dimensions. These cultural dimensions create a link between culture and how it relates to workplace behavior. It provides a useful comparison between the United States and Germany along

Berlin	3,395,189
Hamburg	1,743,627
Munich	1,259,677
Cologne	983,347
Frankfurt am Main	651,899
Stuttgart	592,569
Dortmund	588,168
Essen	585,430
Düsseldorf	574,514
Bremen	546,852
Hanover	515,729
Leipzig	502,651
Duisburg	501,564

¹⁵ “Germany”

¹⁶ World Population Politics 2005. Volume 8. New York: United Nations, 2006. 114-118. Print.

behavioral lines. The results of Hofstede's research, conducted by itim (a global leader in organizational theory and culture), are summarized below.



Overall, the US and Germany prove to be quite similar with the Long-Term Orientation, Masculinity, and Power Distance dimensions all nearly equal.

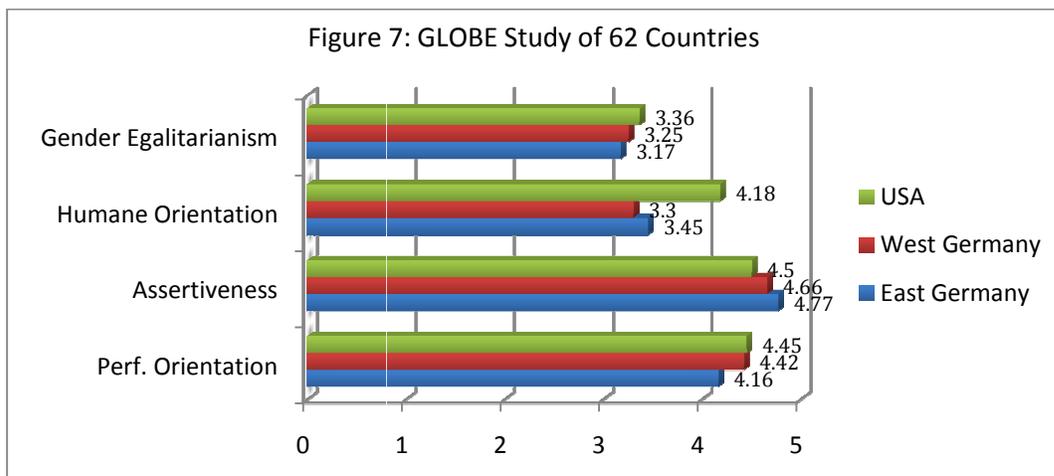
A significantly different dimension is individualism, in which the US scored 24 points higher than Germany. In fact, according to data from the study, the US is the most individualistic country in the world. Germany's score, by comparison, falls closer to many of the other major Western economies. In doing business in Germany, American firms must be cognizant of this as the American values of individualism and personal accomplishment are not as strong in Germany, and are likely to be perceived differently.

Uncertainty avoidance is also a significant dimension, with Germany's rating falling 19 points higher than the US's. This implies that Germans tend to be more risk averse in business ventures. In comparison to the nature of many American firms, which tend to espouse riskier ventures in the hopes to obtain greater payoffs. It is important for any US manager to be aware of these differences as Americans doing business in Germany may have a greater propensity towards taking risk than their German counterparts.¹⁷

¹⁷ "Geert Hofstede Cultural Dimensions." *itim International*. itim International, 2009. Web. 21 Apr. 2010. <http://www.geert-hofstede.com/hofstede_dimensions.php?culture1=95&culture2=34#compare>.

v. The GLOBE Study

In addition to Hofstede’s study of cultural dimensions, The Global Leadership and Organizational Behavior Effectiveness (GLOBE) study was consulted as a secondary resource in building a greater understanding of the differences in US and German business cultures. This study spanned a ten-year period over which most nations in the world were documented and measured based on four characteristics: Gender Egalitarianism, Humane Orientation, Assertiveness, and Performance Orientation. Because the study began in 1995, East Germany and West Germany are treated as two different countries.



The only significantly disparate characteristic in the GLOBE study is Humane Orientation.

According to the parameters in the study, “people who live in such cultures tend to use extended, warm greetings. Hospitality is very important. People show empathy and are very high in satisfaction”.¹⁸ This implies that Americans tend to be more openly friendly and focus more on developing congenial relationships, while Germans tend to place an important focus on directness. An American manager doing business in Germany would likely notice this difference, and would have to adjust behavior accordingly.

¹⁸ House, Robert J., Paul J. Hanges, Mansour Javidan, Peter W. Dorfman, and Vipin Gupta. *Culture, Leadership, and Organizations; The GLOBE Study of 62 Societies* page xxvi. Thousand Oaks, California: Sage Publications, 2004. Print.

Additionally, although many Germans would argue that there exists as lasting cultural disparity between the former East and West, the study suggests the converse. According to the results of the study, the now eastern and western parts of the country are quite similar in all of the GLOBE study characteristics. This is important for American businesspeople to know as the formerly divided nation is more similar than they might anticipate, making the cultural aspect of business quite similar in all parts of Germany.¹⁹

vi. Cultural Takeaways

Like the US, Germany is a large, diverse, predominately urban nation with largely similar cultural practices. Although there are some key differences, namely those associated with the value placed on individualism, uncertainty avoidance, and humane orientation, these differences are minimal in comparison to the vast similarities between the two nations.

¹⁹ House, Robert J., Paul J. Hanges, Mansour Javidan, Peter W. Dorfman, and Vipin Gupta.

PART 2: INDUSTRY ANALYSIS

A. Industry Overview

The German fast food industry constitutes one of the largest in the world with annual revenue reaching a total of \$10.2 billion in 2008. Although fast food is already well established within the German gastronomy, the industry is still on the growth stage of the product life cycle. According to the most recently produced data, the industry grew from around \$8.5 billion in 2004 to \$10.2 billion just four years later. This is demonstrative of a 20% growth over the period and equates to a Compounded Average Growth Rate (CAGR) of 4.6%, which is high for any industry.

Year	\$ billion	€ billion	% growth
2004	8.5	5.8	
2005	9.0	6.1	5.40%
2006	9.4	6.7	4.50%
2007	9.8	6.7	4.40%
2008	10.2	7.0	4.20%
CAGR, 2004-2008			4.60%

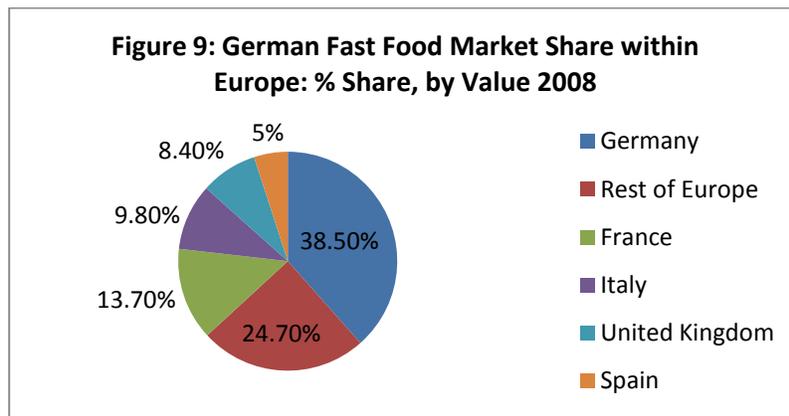
While the growth rate is high, it is important to note that it is expected to decelerate in coming years. Industry researchers predicted the CAGR to decrease to a level of 3.8% during the five year period ending in 2013. This growth rate is expected to drive the market value to \$12.3 billion by the end of 2013. Although the trend indicates that the growth may be slowing, the industry is still solidly within the growth phase of the product life cycle, gradually approaching the maturation phase. This trend makes it even more important for American firms hoping to compete to enter the market soon, as they can carve out a niche in the market before it becomes saturated.²⁰

²⁰ "Fast Food Industry Profile: Germany." *Datamonitor Industry Reports*. Ebrary, 2009. Web. 22 Apr. 2010. <<http://proxyau.wrlc.org/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=43889484&site=ehost-live>>.

B. German Market Within Europe

The \$10.2 billion value of the industry certainly seems very high, but it is important to put the value in perspective by comparing it to other nations. According to an industry study, the German fast food market within all of Europe accounts for 38.5% of all of fast food sales by value.

The size of the market demonstrates Germany's position as a powerhouse in Europe for fast food.²¹



C. Industry Segments

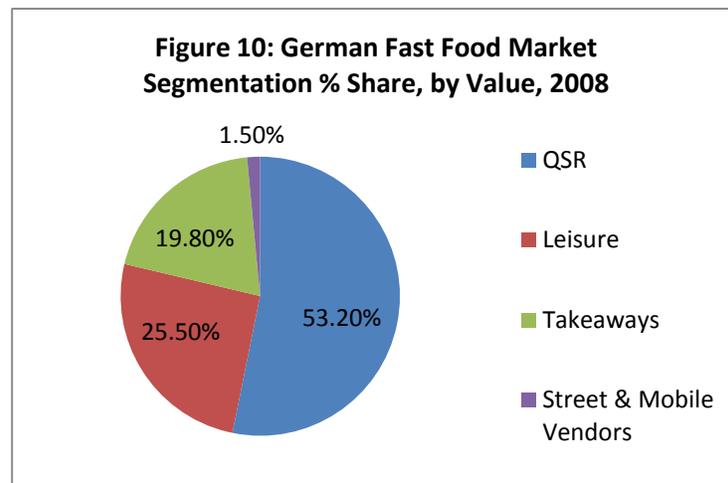
Fast food is in many ways a catch-all term for any food that is served “fast”, but in order to better understand the dynamics of the Germany fast food industry, it can be clearly organized into four different segments. These segments include:

- i. **Quick Service Restaurants (QSR)**- locations where the primary function is to provide meals but where table service is not offered.
- ii. **Leisure** - locations serving food and drinks for immediate consumption on premises within leisure outlets (such as Cinemas, Theatres, Racecourses etc.)
- iii. **Takeaway** - establishments that provide freshly prepared food for immediate consumption and where typically 80% or more of revenues come from consumers who take the food off the premises to consume.
- iv. **Street and Mobile Vendors** - Either individual mobile stalls or vans that offer a limited range of freshly prepared food as well as beverages.²²

²¹ “Fast Food Industry Profile: Germany.”

²² Fast Food Industry Profile: Germany.

Figure 10 below, illustrates the relative size of these four industry segments, with percentages of each of them noted.



The most significant segment is Quick Service Restaurants or QSR, which constitutes over half of the entire market. Most American fast food establishments fall into this category and would include restaurants like McDonald's, KFC, Chipotle, and Taco Bell. Revenues from the QSR segment reached \$5.4 billion in 2008, indicating an important market in which more American firms can compete. Additionally, Takeaways is another important industry segment. Though they are less common in the US, many German firms operate in the takeaway segment. These two important segments are explained further in the following section.

D. QSR and Takeaways Sub-segments

Quick Service and Takeaway restaurants collectively account for 73% of the market and include the firms an American fast food establishment would compete against in entering the market. As they account for most of the industry, the QSR and Takeaway categories are quite complex. These segments can be largely segmented into two sub-segments: **local unbranded restaurantd** and **large multinational firms**.

Many small German firms are more reflective of the take-away sector, with unbranded, local restaurants providing cheap food to hungry customers. This sub-segment includes Turkish Imbisse (of which there are 15,000 in Germany and 1,500 in Berlin alone) as well as small sausage or Currywurst stands and traditional German delis²³.

The second sub-segment refers to a more branded fast food experience, including international firms like McDonald's and Nordsee, which, through economies of scale, can provide inexpensive meals. Typically these restaurants have higher price points than unbranded restaurants and have higher margins, which in turn contribute to branding efforts and expansion.

In entering the market, an American firm would be familiar with many of its competitors in the second sub-segment, but competition from players in the first segment would likely prove to be more difficult, as these firms and their offerings would be unfamiliar to an American enterprise.

E. Current Players

As was noted in the previous section, an American firm would compete against players in both the local unbranded and larger multinational sub-segments. The following is a brief explanation of each of the firms an American fast food restaurant would compete against.

Local Unbranded Firms

i. Turkish Imbisse – Many Turkish immigrants have opened up small snack shops or imbisse, where they sell Germanized versions of classic Turkish dishes. Things like Döner Kebab (a sandwich with lamb cooked on a rotating spit) are common in these restaurants.

ii. Sausage/Currywurst Stands – Germany's stereotypical dish of sausage is actually quite popular and most cities, even smaller ones, have sausage or currywurst (a bratwurst with curry ketchup) stands where customers can purchase classic German fare.

²³ "First Doner Kebab Robot." *The Straights Times*. Singapore Press Holdings, 29 Mar. 2010. Web. 21 Apr. 2011. <http://www.straitstimes.com/BreakingNews/TechandScience/Story/STIStory_507973.html>.

iii. Traditional German Delis – Meats have always been an important aspect of the German diet, and many cities feature delis where locals can purchase traditional meals and regional specialties at inexpensive prices.

Branded Multinational Firms (in alphabetical order)

iv. Burger King – Often seen as the world’s second most significant fast food restaurant (after McDonald’s), Burger King was founded in 1953 in Jacksonville, Florida providing inexpensive American fare. The company operates over 12,000 outlets in 73 countries and reported revenue of \$2.54 billion in the 2009 fiscal year.²⁴

v. McDonald’s – First opened in 1940 in San Bernardino, California, McDonald’s was the world’s first fast food restaurant. Serving American style hamburgers and french fries and now also salads and chicken entrees, the chain operates over 31 thousand restaurants in the US, and has net revenue of \$22.6 billion (in 2008).²⁵

vi. Nat. – Nat. first opened in 2008 in Hamburg as Germany’s first organic fast food restaurant. The chain offers moderately priced American, Italian, and Asian influenced dishes and hopes to open 34 outlets in 16 cities before the end of 2011.

vii. Nordsee – Nordsee Fischspezialitaeten GmbH was founded in 1896, but opened its first fast food restaurant in 1964.²⁶ The restaurant specializes in fish dishes primarily of Northern European origin. The company reported annual revenue of €360 million or (~\$490 million) in 2007.²⁷

viii. Wienerwald – A fast-casual restaurant specializing in rotisserie chicken and other German specialties, Wienerwald first opened in Munich in 1955. The restaurant was at one time Europe’s largest

²⁴ McLellan, Michael. "Burger King Corporation: History." *Hoovers*. D&B. Web. 20 Apr. 2011. <<http://subscriber.hoovers.com/H/company360/history.html?companyId=54531000000000>>.

²⁵ Bramhall, Joe. "McDonald's Corporation: History." *Hoovers*. D&B. Web. 20 Apr. 2011. <<http://subscriber.hoovers.com/H/company360/fulldescription.html?companyId=10974000000000>>.

²⁶ "Tradition Seit 1896." *Nordsee – Fisch Verliebt*

²⁷ "Press Release: Nordsee Soon to Be Available in the Middle East!" *Nordsee GmbH*. 24 Aug. 2007. Web. 20 Apr. 2011. <<http://www.ifrcapital.eu/ir/files/24.08.07.pdf>>.

fast food chain with 1600 restaurants in 1978. The restaurant declared bankruptcy in 1982 and currently operates only 63 restaurants in Germany and Austria and has reported revenues of \$25.2 million²⁸.

ix. Yum! Brands – Included in the Yum! portfolio of brands are Taco Bell, KFC, Pizza Hut, Wingstreet, and Long John Silver's. The cooperation collectively operates over 36,000 restaurants in more than 110 countries worldwide and reported revenue of \$10.8 in the 2009 fiscal year.²⁹

F. Porter's Five Forces

Michael Porter is now famous for his development of the "Five Forces" which provide an analysis of an industry by examining each of the forces which affect industry activity. These five forces, explained with relevance to the fast food industry in the following pages are: Buyers, Rivals, Suppliers, Substitutes, Suppliers, Threat of New Entrants, and (as a sixth force) Compliments.

i. Buyers

As has been discussed, the players in the German fast food market are the different companies servicing the market. Therefore, the buyers in this market are the consumers. As there is a relatively high level of interchangeability in the fast food industry (costs are similar across all firms, as is relative time spent in restaurants and service level), the buyers have a significant amount of power over the market through the choices they make in consumption³⁰. For this reason, industry players invest heavily in marketing efforts to establish recognizable brands which foster buyer loyalty and limit the effects of price sensitivity³¹. In entering the market, an American fast food restaurant must understand the German customer in order to be successful.

²⁸ ""Wienerwald" Restaurants-Gesellschaft M.b.H." *Hoovers*. D & B. Web. 20 Apr. 2011.

<<http://subscriber.hoovers.com/H/company360/overview.html?companyId=300267473>>.

²⁹ Bramhall, Joe. "YUM! Brands: History." *Hoovers*. D&B. Web. 20 Apr. 2011.

<<http://subscriber.hoovers.com/H/company360/history.html?companyId=53993000000000>>.

³⁰ "Fast Food Industry Profile: Germany." *Datamonitor Industry Reports*. Ebrary, 2009. Web. 24 Apr. 2011.

<<http://proxyau.wrlc.org/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=43889484&site=ehost-live>>.

³¹ "Fast Food Industry Profile: Germany"

ii. Rivals

Key rivals to any new entrant to the German fast food market are the already present competitors who target similar segments and therefore satisfy the same need in the same way. As was discussed in the QSR and Takeaway Sub-Segments section, the industry is largely composed of branded, multinational restaurants and local, unbranded restaurants. Most American firms would experience rivalries with the same companies they do in the domestic market: McDonald's, Burger King, etc., but, depending on the area of entry, and the local fast food tendencies, rivalries might arise with the local, unbranded restaurants detailed earlier.

iii. Substitutes

Substitutes for goods sold in the German fast food industry are numerous and diverse. Rather than frequenting a fast food restaurant, buyers may choose to purchase ingredients at a market or grocery store and prepare their meal at home. This option is attractive to the consumer in that it inevitably provides a much more diverse food source option than the fast food restaurant³². Additionally, buyers may wish to frequent a more high-end dining establishment over a fast food restaurant.

A new player differentiating itself by emphasizing quality would not escape the effects of these substitutes, as the German food market (and the European market in general) has many other sources of these types of goods given their strict agriculture and livestock standards. Players hoping to compete with these substitutes must focus on emphasizing the relatively low cost and convenience of fast food consumption. This will be discussed further in the Key Success Factors (KSF) section.

iv. Suppliers

The German fast food industry, just like its counterparts around the world, is made up of firms which receive unfinished food goods from suppliers and transform them into the finished product that is sold to the consumer. Therefore, suppliers are of vital importance to the industry.

³² "Fast Food Industry Profile: Germany"

Germany, as part of the European Union has higher standards on food quality than in the US and because of this, many American firms may have to adjust their inputs upon entry of the market.

v. Threat of new entrants

As was discussed in the previously section of this report, there have been many new entrants to the German fast food market in the past decades, and many of them have been foreign firms expanding abroad. Though the market has begun experiencing less significant growth rates (decreased from 5.4% in 2005 to 4.2% in 2008³³), there is still a significant threat of new entrants, particularly as the industry becomes increasingly globalized. New entrants do face some potential retaliation from players already present in the market (price wars, etc.) but this does not seem to be a deterrent as new firms have continued to expand into the German market³⁴.

vi. Complements

Most firms in the German fast food industry satisfy their customers' needs completely by offering many possible complimentary goods in the restaurant; therefore this force does not have a particular effect on the industry. Offering beverages that compliment the food served should be considered by any firm entering the market. New players should also be sure to take German taste preferences and cultural connotations assigned to certain beverages into account before making decisions about offering complementary goods.

³³ "Fast Food Industry Profile: Germany"

³⁴ "Fast Food Industry Profile: Germany"

PART 3: COMPETITIVE FACTORS

Having detailed the German market as a whole, and the fast food industry within the market, it is important for firms to understand how this information can be best used in developing successful international ventures. The following details the Driving Forces and Key Success Factors of the industry that any American firm must consider in order to be successful.

A. Driving Forces

Although the German fast food industry is approaching the maturation stage, it is still influenced by significant forces which drive the industry. The major driving forces detailed below include technological change, entry of major firms, increasing globalization of the industry, and changing standards of food quality, and health concerns. Any American firm hoping to enter the German market must consider these forces and should be ahead of competitors in order to succeed.

i. Technological Change

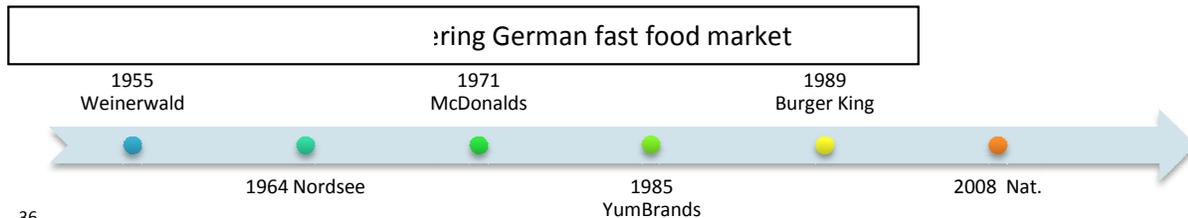
Technological change and innovation directly affect the food service industry through developing food preparation technologies, but also indirectly through new farming technologies which affect the industry through suppliers. The industry's food preparation technology already allows for rapid, efficient production of the food product and is not anticipated to experience significant levels of advancement and change. There have been some technologies tested which involve remote call centers taking orders for Drive- Thru windows of restaurants in other parts of the country or world and processing them back to the restaurant through the internet³⁵. The technologies relating to food preparation itself in this industry, however, are already highly mechanized and automated to minimize human error.

³⁵ Richtel, Matt. "The Long-Distance Journey of a Fast-Food Order." *The New York Times*. 11 Apr. 2006. Web. 24 Oct. 2010. <<http://www.nytimes.com/2006/04/11/technology/11fast.html>>.

Affecting the industry in a more indirect way is farming technology, particularly organic farming technology, which is likely to develop in the coming years as public concern shifts further towards sustainable food sources and organic food becomes more prominent. Methods of farming without the use of pesticides and genetically modified plants or hormone injected meats will affect many farming practices and fast food restaurants.

ii. Entry of major firms

As indicated on Figure 11, there have been many new entrants to the German fast food industry in the past decades, making this a major driving force of change and something for all firms in the industry to consider. As a new firm planning on entering the market, it is important for an American firm to consider which other players have already entered and which may enter, in order to best estimate the current and future competitive landscapes of the market.



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iii. Increasing Globalization of Industry

Many industries in Germany have experienced significant development and expansion through the integration of foreign firms since the end of the Cold War with the fall of the Berlin wall in 1989. The

³⁶ A) "Wienerwald - Die Geschichte Im Zeitraffer." *Wienerwald - so Hab Ichs Gern*. Web. 24 Apr. 2011. <http://www.wienerwald.com/text.php?menue_id=1&categ_id=6&sess_id=a95ac0f544ecd5a79be6bab80148eb3e>. B) "Tradition since 1896." *NORDSEE - Fisch Verliebt!* Web. 24 Apr. 2011. <<http://www.nordsee.com/en/themen/36/tradition-seit-1896>>. C) "McDonald's - Unternehmensgeschichte." *McDonald's*. Web. 24 Apr. 2011. <http://www.mcdonalds.de/unternehmen/ueber_mcdonalds/unternehmensgeschichte.html>. D) "Yum! Restaurants International Limited & Co. KG." Hoover's Company Records. ProQuest. Web. 24 Apr. 2011. <<http://subscriber.hoovers.com/H/company360/overview.html?companyId=317751915>>. E) "Company Info: Timeline." Burger King. Web. 24 Apr. 2011. <<http://www.bk.com/en/us/company-info/index.html>>. F) Young, Marc. "Bringing the Burrito to Berlin." *Deutsche Welle*. 25 Feb. 2005. Web. 24 Apr. 2011. <<http://www.dw-world.de/dw/article/0,,1500156,00.html>>. G) Lepisto, Christine. "First Organic Fast Food Chain Opens in Germany." *TreeHugger*. 28 Oct. 2008. Web. 24 Apr. 2011. <<http://www.treehugger.com/files/2008/08/first-organic-fast-food-restaurant-chain-germany.php>>.

fast food industry is no exception. As indicated in the section and Figure 11, there have been several new entrants to the German fast food market in recent years. While a few of these have been domestic companies who are now major players in the industry (Nat. for example), an overwhelming majority of these companies have been foreign entrants. This indicates a trend of increased globalization of the industry, which ties directly to the expansion of the American fast food restaurants to Germany.

iv. Changing Standards of Food Quality

As more international media attention is devoted to issues of climate change and reduction of negative human effects on the environment, public priorities are changing and a sense of responsibility is developing. This applies to the fast food industry in that there is an increased concern for consuming foods that are grown and harvested through environmentally sustainable methods. According to the World of Organic Agriculture survey, Germany has the largest market for organic goods of all European countries, with annual sales of \$3.9 billion in 2007. This trend in demand and market expansion, which has already proven significant in Germany, will only continue to affect the fast food industry as organic foods gain prominence, as the survey indicates that the annual growth rate for the organic products market is between 10 and 15 percent³⁷.

v. Health Concerns

With global rates of obesity constantly on the rise, Germany is no exception. According to 2005 OECD data, 16% of the country is considered to be obese. While this is much lower than the US rate of 27.5%, it does reflect a significant portion of the population whose weight is a serious concern.³⁸

Fast food is typically unhealthy in nature, with the traditional “burger and fries” concept recently being called into question and being blamed for the rising obesity rates. Restaurants in the

³⁷ "Consumer Demand." *Organic Farming: Good for Nature, Good for You*. EUROPA - European Commission. Web. 24 Apr. 2011. <http://ec.europa.eu/agriculture/organic/consumer-confidence/consumer-demand_en>.

³⁸ "Eco-Santé OCDE 2010." *Eco-Santé* databases; On line. France, OECD, Regions & Départements, Québec (IRDES Institut de Recherche et de Documentation en Economie de la Santé); Web. 25 Apr. 2011. <<http://www.ecosante.org/index2.php?base=OCDE>>.

industry which offer health options have seen success recently (SaladWorks, Subway, etc.), and many other firms have been adopting their menus in favor of healthier options.

While the German gastronomic culture and in particular the German fast food culture has traditionally not focused on health and healthy foods, societal concerns over things like obesity have been slowly changing the industry. Any American firm entering the market must be aware of this if they want to succeed, and should consider adopting menu options, or introducing new healthier options in the market.

B. KEY SUCCESS FACTORS (KSF)

The Key Success Factors detailed here are the elements of a fast food chain that must be present in order to be successful in the German market. Many of these factors are similar to those present in the US, while some are unique to Germany. These factors include: Taste, Cleanliness, Speed, Establishment of Brand Loyalty, Successful Differentiation, Effective Location Selection, Successful Legal/Bureaucratic Policies.

i. Taste, Cleanliness, Speed

While all players in the fast food industry are different, one of the threads that run through the industry is the importance of taste, cleanliness, and speed. The industry was built on these tenants, which continue to drive performance today.

Speed defines the industry, as “fast” food would not be what it is if it was not served fast. In order for a firm to succeed in the German market, and in any market, they must successfully serve their food in a quick format if they want to retain customers.

Good taste is also key for any firm in the industry, as most areas offer several fast food options, and consumers can easily enjoy a meal at a different fast food location if the food served does not taste good. Additionally, consumers respond well to clean, tidy establishments. McDonald’s suffered from

poorer performance for years in restaurants that were not well maintained, and any fast food company will suffer the same problem if they do not maintain clean restaurants.

ii. Establishment of brand loyalty

Because of the high level of price sensitivity and interchangeability of product in the German fast food industry, the establishment of brand loyalty is very important for any new firm entering the market. This is done through effective marketing techniques that resonate with typical customers whose needs match up with the priorities (taste etc) of the new player. Since a firm entering the market would likely be unfamiliar to most Germans, it is important that marketing efforts utilize an informative tone in initial advertisements, relying on brand awareness after the market becomes more familiar with the restaurant.

iii. Successful differentiation

An important goal for any firm entering a highly competitive marketplace is differentiation. In order for a new entrant to succeed in the German market it must effectively differentiate itself from the competition. Achieving this goal requires action on a variety of levels. First and foremost, the new firm will need to make sure that the German customer understands its mission, and does not confuse it with the other quintessential corporate-styled fast-food chains. This is a struggle for fast food restaurants in the US, and companies will face the same type of struggles in the German market. Successfully differentiated US fast food chains are often differentiated along offerings, like Taco Bell's "Beyond the Bun" concept, but many differentiate on the basis of quality, like Wendy's "fresh, never frozen beef" campaign. Regardless of what differentiation strategy is used, any successful company must develop a unique value proposition in order to be successful.

Firms will have a natural differentiation advantage over the small, unbranded restaurants mentioned earlier in this report, based solely on their nature as a multinational chain, but it will still be important to emphasize this differentiation in order to see success.

iv. Effective location selection

Due to regional differences in economic distribution, location of entrance is important for companies planning on entering the German market. This is especially true for fast-food restaurants which need a relatively dense and wealthy population and access to consumers with disposable income. The location becomes even more important for foreign entrants into the fast-food market as generally speaking they will require a more metropolitan population to succeed.

v. Successful Legal/Bureaucratic Policy

American firms entering the German market will be entering an unfamiliar market whose legal and bureaucratic polities differ from those of the US. Although Germany and the US have traditionally had strong economic ties, the legal and bureaucratic proceedings of any two countries will always differ, and in order to be successful, American fast food restaurants will have to successfully handle the German framework of operating a business.

CONCLUSION

The question “Heir Essen oder zum Mitnehmen?” is representative of the German fast food industry as a whole. The word for word translation of “for here or to go?” is asked in nearly every fast food establishment in Germany, demonstrating the similarities between the US and Germany within the industry.

As demonstrated in this report, the two countries are politically similar, although the civil law system in Germany differs from the common law system present in the US. Additionally, their economic ties, stemming from the strong trade developed after the Second World War and their cultural similarities as demonstrated by Hofstede’s Cultural Dimensions and the GLOBE study all contribute to a logical and successful transition for an American firm into the German market.

Although the industry is quite developed, there is still significant growth leaving room for new firms to carve out a niche in the market. Fast food is still on the growth stage of the product lifecycle and although it is gradually approaching the maturation phase, firms acting now will still be successful. Although there are local unbranded firms, and large multinational firms a new player would have to compete against, successful entry can occur if the driving forces and key success factors are integrated into the entry strategy of a firm.

With the changes in the industry caused by technological change, entry of major firms, globalization, changing standards of food quality, and health concerns, a firm that is cognizant and acts upon these forces will be more successful in an international venture. Additionally, the key success factors of taste, cleanliness and speed, establishment of brand loyalty, successful differentiation, effective location selection, and successful political/bureaucratic policy are crucial for any firm to become a staple restaurant in the German competitive landscape. While many of these driving forces and key success factors mirror those in the US, some differ, and any American firm must leverage their

current strengths and experiences in their domestic market with the challenges of entering the German market in order to become a successful fast food restaurant.

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