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Transferring Competitive Advantage into International Markets

Chick-fil-A Case Study

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Abstract: Chick-fil-A is the largest fast food restaurant chain in the U.S. specializing in chicken. The company has had 46 years of sales growth with 2014 revenue of $6 billion. The company only operates in the U.S. and this case study examines whether Chick-fil-A's business model can be successful if used in an international expansion. The issues of country advantage, competitive advantage and transferability are discussed with a detailed examination of the Chick-fil-A business model. Chick-fil-A's business model may not transfer internationally without significant changes and the reasons are discussed.

Key words: competitive advantage; transferability; Chick-fil-A
JEL codes: L100, L660

1. Introduction

The first step in an international expansion is determining whether the available resources are sufficient and whether the company has products and services that can compete in foreign markets. The firm has to recognize the distinction between country-specific and firm-specific advantages. In general, global expansion tends to be more attractive for firms with firm-specific advantages rather than just country-specific advantages, but in either case, the transferability of the advantages can be a major issue.

Chick-fil-A has produced an outstanding record of success in the U.S. fast food market but the company's competitive advantages, while unique to the firm, are heavily dependent on the characteristics of the U.S. fast food marketplace. International expansion for this firm will be difficult without in some cases, major adjustments to the company's business model.

2. Case Study

2.1 Background of the Company

Chick-fil-A is a privately held American fast food restaurant chain headquartered near Atlanta Georgia that specializes in chicken fast food items such as sandwiches, chicken salads, chicken soup, fries etc. It only serves chicken. (Company's current slogan: "We did not invent the chicken…just the chicken sandwich"). The company's name Chick-fil-A was registered in 1961 and is a "cute" spelling of how Americans pronounce "chick-fillet".

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It has grown rapidly since its start in 1946 with revenue of nearly $6 billion in 2014. Its annual growth rate has exceeded 12% in 8 of the past 10 years, continuing a string of 46 years of continuous sales growth.[1]

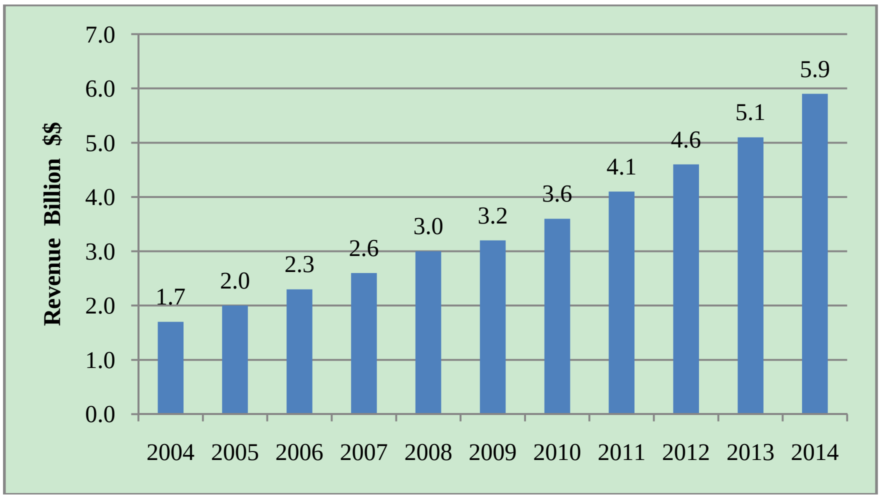

Figure 1 Chick-fil-a Revenue

Chick-fil-A is now the largest fast food chicken company in the U.S. in terms of market share, growing larger than KFC for the top spot in 2013.[2] This is particularly striking since KFC has over 4000 U.S. restaurants, more than double Chick-fil-A's restaurant count of 1850 (Kalinowski, 2013).

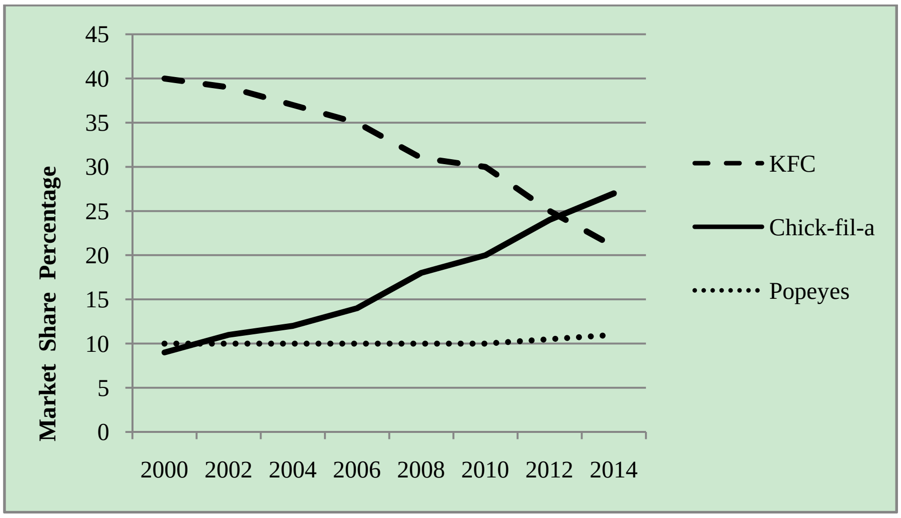

Figure 2 Chick-fil-a now the U.S. Market Share Leader

In addition, in 2010 Chick-fil-A took the fast food industry lead in average sales per restaurant, with $2.85 million and continues to hold that lead. Krispy Crème is second with $2.57 million per restaurant and McDonald's is third with $2.50 million (Tice, 2014).

[1] Source data from Technomic and Janney Capital Markets.
[2] Source data from Technomic and Janney Capital Markets.

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Figure 3 A Chik-fil-A Restaurant in Atlanta and Its Main Offering

Most Chick-fil-A restaurants are stand alone surburban locations. The highest volume chicken sandwich comes plain except for "two crucial pickles". Smaller versions are even served for breakfast as seen here.

2.2 Competitive Advantages in the U.S. Market

2.2.1 Overall

Chick-fil-A's success has been driven primarily by the higher quality (actual and customer perceived) of it chicken food items. The company emphasizes fresh ingredients rather than frozen ingredients in all its items. While the chicken is shipped frozen, it is thawed out by each store up to 48 hours before needed and then coated with breading by hand in small batches. While this focus on "fresh" is not a business constraint for some items like lettuce for salads, potatoes for fries and drinks, the handling of raw chicken requires the company to strictly maintain its logistics, and a high level of store cleanliness and employee training to ensure safety of its products.

The company's focus on fresh seems to have hit the mark with consumers. Readers of Consumer Reports Magazine rated Chick-fil-A the highest for taste in its 2014 survey about the nation's best and worst fast foods. In the same survey on taste, which compared eight major chicken brands, KFC came last on taste.[3] In addition, Chick-fil-A seems to have a menu that has a wider appeal among diverse customers, especially families. The menu includes the signature chicken sandwich but also chicken nuggets, strips, waffle fries, a selection of wraps and salads, plus desserts such as specialty milkshakes and ice cream treats (Bixler, 2014).

The company has also focused on providing meals specifically for children and their "toy" in the kids meal is always of an educational nature (globe, book, etc.) In 2014, McDonald's lost its perennial first-place position as the chain with the most "kid appeal", according to Sandman & Associates Inc., a restaurant market research firm. For the first time in 25 years the top spot went to Chick-fil-A Inc. for kid meals and "kid appeal" (Bertagnoli, 2014).

To continue to foster a "healthy" food image, the company plans to use only chickens raised without antibiotics. Other changes being considered include removing yellow coloring dye from its chicken soup and taking out food additives such as high fructose corn syrup in dressings and sauces.

[3] See "Consumer Reports fast food ratings: Chicken", 2015.

"Healthy" of course is relative: Chick-fil-a's chicken sandwich meal includes a fried chicken sandwich, medium fries, and a Diet Coke, with no condiments and contains 830 calories and 36 grams of fat. McDonald's comparable chicken sandwich meal contains 870 calories and 38 grams of fat.

2.2.2 Customer Service

Unusual for a fast food restaurant, the company attempts to provide a higher level of customer service in its restaurants, such as employees bringing free drink refills out to customer tables plus other employees roaming the dining floor to help customers. The company refers to this as its "second level service", beyond the usual first level service of clean restaurants and properly prepared food offered by all its competitors. It spends a lot of time training new employees on this "second level service" concept. Chick-fil-A holds the lead in customer satisfaction for overall dining experience among limited service restaurants for 2015. The company's score of 86 (out of 100) is the highest ever recorded for a fast food restaurant (KFC scored 73 and McDonald's scored 67).[4]

Maintaining this high level of customer service is one of the reasons that Chick-fil-A uses a franchising model significantly different from other restaurant franchises, notably in retaining ownership of each restaurant. Chick-fil-A pays for the land, the construction and the equipment. It then rents everything back to the franchisee for 15% of the restaurant's sales plus 50% of the pretax profit remaining. This arrangement requires low upfront investment on the part of the franchisee and Chick-Fil-A franchisees need only as small as a $5,000 initial investment to become an operator (Schmall, 2007).

Competing fast food chains on the other hand require significant upfront investments. McDonalds as an example: "Generally, we require a minimum of $750,000 of non-borrowed personal resources to consider you for a franchise".[5] Chick-fil-A gets as many as 25,000 applications from potential franchise operators for the few hundred new restaurant slots that open each year. The formula works well for operators with the company's roughly 1,100 operators taking home operating profits of about $210 million in 2011, or an average of $190,000 each (Grantham, 2011). Chick-fil-A franchisees are a very hard working group, using "sweat equity" and high customer satisfaction to build successful businesses starting with very little investment.

2.2.3 Unique Promotional Efforts

"Eat mor Chickin", intentionally misspelled, is the chain's most prominent advertising slogan, created in 1995. The slogan is seen in advertisements featuring cows that are wearing signs that read: "Eat mor Chickin". The most prominent version of this is on highway billboards where a black-and-white cow sits atop the back of another cow painting the words "Eat mor Chickin" on the billboard. This advertising strategy has the cows uniting in an effort to reform American food by reducing the amount of beef that is eaten. Essentially the cows want Americans to eat fewer hamburgers at their competitors and instead focus on eating chicken. To everyone's surprise, the Cows' clever self-preservation message would be the beginning of a campaign still running strong 20 years later.

The campaign has now grown to include cow calendars with discount coupons, stuffed animals, cow clothing, cow board games etc.

[4] See "Industry results for Limited Service Restaurants", 2015.
[5] See "Acquiring a franchise", 2015.

Figure 4 The "Cows" Doing a Local Promotion Event
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The "Cow" campaigns have won a number of awards including most popular campaign by Advertising Week, inducted into New York's Advertising Hall of Fame, inducted into Outdoor Advertising Hall of Fame, a Silver Lion award the Cannes Advertising Festival, the OBIE award for outdoor advertising, and two "Effie" awards. The "Cow" campaign is considered by the advertising industry to be one of the most effective advertising campaigns in recent history and has been a major driver of the company's success.[6]

2.2.4 Christian Culture (Schmall, 2007)

The company's culture is strongly influenced by the Southern Baptist religious beliefs, a branch of Christianity that preaches overt expressions of faith, including public singing and praying. The company's official statement of corporate purpose says that the business exists "To glorify God by being a faithful steward of all that is entrusted to us. To have a positive influence on all who come in contact with Chick-fil-A" (Schmall, 2007). McDonald's mission on the other hand is "to be our customers' favorite place and way to eat and drink".[7] Chick-fil-A's efforts to stop gay marriage legislation has led to boycotts in Boston and Chicago and The Jim Henson Co. pulling its Muppet toys from the company's kids' meals. The controversy has since died down (McGhee, 2014).

The chain has gained prominence (and a measure of customer preference) for the fact that none of its restaurants are open on Sunday. Its executives often say the chain makes as much money in six days as its competitors make in seven (Cathy, 2007).

3. Discussion of Transferability of Competitive Advantages

In answering the question "Can Chick-fil-A expand internationally?" it is natural to think about overseas opportunities in terms of customer needs and wants. This suggests that the main issue for international expansion is whether there is a demand for the product. But this is not the best question to start with. The best first questions are what exactly the firm's strengths and weaknesses are, what it has to offer abroad and whether the offering can

6 See "Eat mor Chickin Cows take…", 2009.
7 See "Missions and Values", 2015.

be transferred successfully to a foreign market. What is the company good at-and not good at? What exactly are we offering our customers that might explain our success at home? Is the success due to internal strengths or simply due to some fortunate conditions in the environment?

There are three major categories of factors that must be considered in deciding to undertake an international expansion: country factors, competitive factors and transferability. It is important to understand the interplay between country factors and competitive factors and determine whether any competitive advantage derives from favorable *country factors* or are specific to a firm. Is our company successful because of where we are located or because it does something no other company can do? This third factor of transferability is of major importance — once a company has identified its firm specific advantages can it transfer these strengths across borders without compromising them?

To examine Chick-fil-A one needs to look individually at its competitive advantages in the U.S. and determine the applicability of these internationally.

3.1 Logistics

The company uses only fresh ingredients rather than frozen ingredients in all its items. While this is not a business constraint for some items like lettuce for salads, potatoes for fries and drinks, the handling of raw chicken after it has been thawed requires the company to strictly maintain its logistics, employee training and store cleanliness. It is not clear that this attention to the proper handling of fresh chicken can be maintained in an international expansion, particularly into countries with hot climates and inadequate refrigeration or unreliable electricity supply.

3.2 Perceived Higher Food Quality

U.S. Readers of Consumer Reports Magazine rated Chick-fil-A the highest for taste in its 2014 survey about the nation's best and worst fast foods. In the same survey on taste, which compared eight major chicken brands, KFC came last on taste. It is not clear that comparing Chick-fil-A to other fast food vendors in the U.S. is a mark of "high quality" as defined by the international markets. Chick-fil-A may be only the best of a bad lot and while adequate enough for the American tastes and pallet, the taste may be inadequate by international standards. On the other hand, KFC is currently a respected brand in many countries and regions particularly in Asia (KFC is the largest fast food restaurant chain in China). Possibly countries that are not yet saturated by the fast-food lifestyle (like the U.S.) may prefer the KFC taste as a change from their usual diet just as Americans did twenty years ago.

3.3 Menu Selection

The current menu has only chicken related products. This product line may be too narrow for international expansion. McDonalds routinely varies its product offerings country by country to fit the local tastes and culture while still maintaining its core fast food business model of low cost food delivered fast.

3.4 Chick-fil-A Name

The company's name Chick-fil-A is a "cute" spelling of how Americans pronounce "chick-fillet". This name probably does not work internationally. Kentucky Fried Chicken changed its name to KFC in the early 1990's to better position itself internationally for similar reasons.

3.5 Closed on Sunday

This is unique for fast food restaurants in the U.S. since the weekends are major sales days for most. In addition, being closed on Sundays is a key part of the strategy that fosters a brand image of being concerned about the family. However, holy days vary around the world as religion varies. The Jewish holy day is Saturday while the Muslim holyday is Friday. Other religions such as Buddhism and Hinduism have no official holyday. It is not clear which day Chick-fil-A would be closed internationally. Secondly, in some regions, stores and restaurants are routinely closed on Sunday simply as a usual business practice. In those regions, being closed on Sundays will not cause Chick-fil-A to "stand out" as it does in the U.S. business environment with the U.S. focus on 24/7 operations.

3.6 Service Quality

The company refers to its "second level service", beyond the usual first level service of clean restaurants and properly prepared food offered by all its competitors. Service is a very difficult export because of the issues of subjectivity (what is "quick" to a Frenchman may be different from what is "quick" for an American) and heterogeneity (the service is not exactly the same each time.) among others. The company may struggle to maintain service as a key component of their international business model.

3.7 Promotion

"Eat mor chickin" is the chain's most prominent advertising slogan and is seen in advertisements featuring cows that are wearing signs that read: "Eat mor chickin". The most prominent version of this is on highway billboards where a black-and-white cow sits atop the back of another cow painting the words "Eat mor Chickin" on the billboard. This campaign has been running for twenty years, has won many awards and the company considers this advertising to be a key part of their business success. Unfortunately, replicating this campaign internationally is questionable. First, the cow image does not work in the world's largest country of India due to religious reasons. Secondly, the campaign focuses heavily on highway billboards which are heavily regulated in many countries. In addition billboards may not be effective in countries with large urban centers using mass transit. Lastly, the campaign relies on humor to deliver its message and humor is difficult to export.

3.8 Management and Corporate Structure

Chick-fil-A is a large, growing $6b company that is structured as a private, family run company. The founder's son is currently the Chairman and CEO. With Chick-fil-A's U.S. only focus and its current management structure, it is unlikely that this company has the people or systems in place to manage an international expansion.

4. Summary

The first step in an international expansion is determining whether the available resources are sufficient and whether the company has products and services that can compete in foreign markets. The firm has to recognize the distinction between country-specific and firm-specific advantages. In general, global expansion tends to be more attractive for firms with firm-specific advantages rather than just country-specific advantages, but in either case, the transferability of the advantages can be a major issue.

Chick-fil-A has produced an outstanding record of success in the U.S. fast food market but the company's competitive advantages, while unique to the firm, are heavily dependent on the characteristics of the U.S. fast food marketplace. International expansion for this firm will be difficult without in some cases, major adjustments to the company's business model.

One could assume that countries similar to the U.S. may be acceptable countries for Chick-fil-A expansion. While a reasonable assumption on the surface, the transferability of competitive advantages is the underlying force that must be considered. The pullout of the U.S. retailer Walmart (2006) from the German market is usually attributed to Walmart's failure to develop a competitive presence in this market (i.e. their U.S. advantages did not transfer).The U.S. retailer Target Department Stores recently (2015) closed their operations in Canada (after losing

$2 billion) for similar reasons, in spite of the fact that Canadian retailing and U.S. retailing appears to be similar at least "on the surface" (again U.S. advantages did not transfer).

The fundamental premise of any enterprise is that it can transform valuable inputs into even more valuable outputs. The rule for survival of a company is that it provide some desired benefit to the customer better than other enterprises do — it has a sustainable competitive advantage. Similarly, the company entering markets abroad must have advantages that outweigh the increased costs of doing business in another country in competition with domestic firms. Ideally these company-specific competitive advantages are unique to a particular enterprise and are basically the same as those in the home market. International expansion always involves risk but the probabilities of success are higher when taking a successful business model from the home country and "planting" it into a new country culture. An international expansion that requires simultaneously learning both a new business model and a new country culture has dramatically increased this risk. Chick-fil-A would likely be in this latter category if they attempted international expansion. With "only" 1850 locations currently in 41 states there is much more room for U.S. expansion, but there is a limit to their growth somewhere up ahead. What should Chick-fil-A do next?

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