



A Recipe for Success: Localized Food Franchises in Japan

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Introduction

In Tokyo's Shibuya district, one can find McDonalds, Taco Bell, and Burger King within a 5 minute radius. There is a Starbucks on every corner as the country boasts 1096 stores in a country with a population that is a third of the United States.

Japan has one of world's largest fast food markets. Within this market, U.S. brands have a solid presence. According to McDonald's and Yum! Brands webpages, Japan is McDonald's second largest market after the United States, and it is also Yum! Brands' (the franchise owner of KFC, Pizza Hut, and Taco Bell) third largest market after the United States and China. Although Japan is small, its fast food market is mighty, fueled by strong consumption.

Moreover, the Japanese fast food market continues to grow. Euromonitor's "Fast Food in Japan" reports that in 2014, the Japanese fast food industry was worth 4,662.8 billion yen, a 5% increase from the year before, and experts forecast that it this value will continue to increase in the coming years. The past year has welcomed Shake Shack, Blue Bottle Coffee, Taco Bell, Carl's Jr. to name a few, and Japan seems positioned to receive more brands from the United States.

While Japan has welcomed U.S. fast food brands, not every brand has succeeded in the Japanese market. There have been many theories regarding the elements for success.

This report looks at five beloved U.S. brands to illustrate how their unique localization efforts have enabled them to succeed. Mainly, this report will focus on how McDonalds, Starbucks, Kentucky Fried Chicken, Domino's Pizza, and Burger King have effectively localized their menu options to attract, and maintain Japanese consumers.



Euromonitor, "Fast Food in Japan"

U.S. Presence in Numbers

The Japan Food Services Association's (JFSA) Matsuzaki reports that McDonald's Japan "is the largest hamburger chain in Japan and has a big effect on the overall numbers." Also, according to "Why Japan Chose Starbucks" from Freshtrax (2014), Starbucks Japan is the dominating coffee chain in Japan, occupying 48% of the market and it grows at a rate of 7.8% per year. The official websites for each franchise boast 2,975 McDonald's, 1,165 Kentucky Fried Chicken (KFC), 1,165 Starbucks, 435 Domino's Pizza, and 97 Burger King outlets in Japan in 2015 and 2016. These numbers continue to increase.



Starbucks Japan, "About Us"

The Demanding Japanese Consumer

One may assume that what has been successful in the United States would translate into automatic success in Japan. This is not the case as Japan boasts one of the world's most demanding consumers. When it comes to customer service and food, Japanese customers are tough cookies. Scrolling through "Tabelog," the Japanese equivalent of Yelp, a restaurant review site, it is very rare to find a restaurant rated higher than 3.5 out of 5 stars, unlike America where it is more common to find restaurants rated 3.9 or 4 stars. In order to please these strict consumers, a one size fits all approach simply will not work.

Quality and impeccable customer service are key. Department stores open promptly at 10 with staff bowing multiple times to welcome customers. Staff are rigorously trained to smile, bow at a 90 degree angle, and treat the customers with the highest regard, even using the honorific form of speech. These high standards of customer service apply just as equally to even fast food chains. For example, McDonald's Japan's slogan for a long time was "Smile zero yen," which means that smiles are free and guaranteed when customers dine at McDonald's. This is indeed still true and in the rare case that they forget to include the toy in a happy meal, McDonald's Japan employees will sincerely apologize, bow a countless number of times, and deliver the toy to your house.

In Japan, the quality of not only service, but also the product is essential to success. For example, McDonald's Japan once did a "60 second service" campaign where they guaranteed every meal (with a few exceptions) would be ready in 60 seconds or that the next hamburger would be free. However, McDonald's Japan received more complaints than expected because

speedy service compromised food quality. Japanese customers were unhappy with the wrinkled bags and burger that looked as if they were thrown together. They preferred to wait a little longer for proper presentation and quality. In Japan, there is an expectation for anything sold to be aesthetically pleasing and beautifully packaged.

Japanese place a lot of importance on the presentation of food, as it is to be eaten with the eyes, and not just the mouth. One culture of Japanese kindergartens and elementary schools is for the mothers to make “kyara ben,” which is short for “character bento,” for their children. Kyara bento are beautifully prepared bento boxes featuring food which is decorated and shaped to look like characters, animals, and plants from popular anime and TV shows. Similarly, it is not uncommon to purchase a \$40 cookie set with the cookies coming individually wrapped, protected in a tin blue box, and wrapped in fancy paper. Japanese customers demand and expect employees to treat them with respect and kindness and they expect quality products and aesthetically pleasing products.

Key to Success in Japan: Novelty and Diversity

In this type of culture, simply transporting success from abroad will not apply. The five brands introduced above took measures to ensure their success. Their task was to please the demanding Japanese consumer, and they did so through menu localization.

When asked what Japanese prefer beyond customer service and quality, the answers tend to be novelty and diversity. Menu items catering to such preferences have contributed to success.

McDonald’s Japan continues to release many new menu items to lure in a different group of customers and keep loyal customers excited. For example, in 2016, McDonald’s Japan released the “McChoco Potato” which is french fries drizzled with white and milk chocolate. Finally, to lure in the growing population of health-conscious consumers, they introduced a grilled chicken burger and a side of yogurt and granola. Bloomberg Business’ article “McDonald’s Offers Japan Chocolate Fries While it Mulls Unit Sale” says that the debut of the “McChoco Potato” produced the first increase in sales since April 2013. These new menu items have increased sales because for a franchise, like McDonald’s, who serves to billions of customers a day, even an additional one yen from each customer can add up to make a huge difference. Novelty and diversity do produce favorable results.

Catering to Japanese Palates

While the appearance and brand image of U.S. franchises in Japan seem to be consistent with those in America, their menus are very different. Of course, the standard classics remain the same. For example, McDonald’s Japan has the same hamburger, cheeseburger, BigMac, and French fry options while Starbucks Japan has the same coffee, lattes, and cappuccinos beverages. However, beyond these basic menu items, the franchises in Japan have a large and diverse Japan specific menu, often catering to Japanese tastes such as azuki (red bean) or matcha (green tea) flavors. Starbucks Japan also offers Matcha Tea Lattes and Frappuccino’s along with Hojicha, a roasted green tea, which is loved by the Japanese. Even McDonald’s Japan offers a Matcha Latte. McDonald’s Japan also released a shrimp burger, because shrimp has been a popular item in pizzas, sandwiches, and pastas in Japan.

Domino's Pizza Japan has done a particularly good job of adapting to Japanese tastes and food preferences. Domino's Pizza Japan's menu is very different from those of its counterparts in America. First of all, Domino's Japan has taken half and half pizzas to the next level with the Quatro Pizza, four pizzas in one, with each type occupying one fourth of the pizza. This attends to the Japanese food culture of eating small portions of many different dishes and flavors in one meal, rather than a large dish of one food.

Japanese also love shrimp, corn, avocado, mayonnaise, and teriyaki. Therefore, Domino's Pizza Japan has adapted to this by selling an Avocado Shrimp pizza with mayonnaise and a Grilled Chicken Teriyaki Pizza also with mayonnaise and corn. Because it's common to eat mayonnaise with potato in Japan, Domino's Pizza Japan also created a Mayo Potato pizza, which has mayonnaise, potatoes, sausage, and corn. Pizza Hut Japan even created a mochi (rice cake) and mentaiko (marinated cod roe) pizza, which combines two frequently eaten and loved Japanese foods. This is a pizza that is popular by the Japanese, but probably would not be as successful with the American crowd.

However, adapting to Japanese tastes does not only involve adding more flavors and ingredients, but it also means adjusting preexisting menu recipes to make them more appealing for Japanese customers. For example, an article in the *Christian Science Monitor* titled "How Subway Wooed the Japanese Lunch Crowd" notes that Subway Japan adopted to Japan by producing its bread domestically and changing the recipe to make it softer and lighter, because the bread imported from America was too tough to chew for its Japanese customers.

Another important area of interest is dessert. Japanese desserts tend to be more modest in flavor with less sugar and smaller portion sizes. A Japanese cake usually does not have frosting, rather it uses Whipped cream, to make it lighter and less sweet. The focus of a Japanese cake is often the natural sweetness of the fruits used, such as strawberries in a strawberry shortcake, or the fruits in a fruit tart, rather than the added sugar or frosting. When Krispy Kreme donuts first came to Japan, their donuts were too sweet for Japanese customers. Therefore, they customized their donut recipes to Japanese tastes, and reduced the amount of sugar in their donuts. They also introduced Japan only flavors such as Kuromitsu and green tea cake (Kuromitsu is a Japanese version of molasses). They even have Sakura and Yuzu (a Japanese citrus) flavored donuts to appeal to the Japanese crowd. Starbucks customers might also notice that the Starbucks Matcha Frappuccino in Japan has a much stronger Matcha taste, and is less sweet than its American counterpart.

A Source of Novelty: Seasonal Menu Items

Those who have not been to Japan have never tried Starbucks' Apple Crumb Latte or McDonald's Sakura Burger and Sakura Fries. They would be surprised to see the range of Japan only seasonal menu items that grace the menus of U.S. franchises. Despite the popularity of cherry blossoms, there are still no cherry blossom milkshakes sold at McDonald's in the United States or the option of enjoying an autumn seasonal vegetable pizza at Dominos. One would be stunned to encounter the McDonald's Moon burger only served during the Fall Moon season.

The following 4 brands, to varying levels, have taken this approach to keep the Japanese consumer engaged.

Starbucks Japan has a Japan specific limited time special drink for every season: fall, winter, spring, and summer. The spring 2016 special for example, is a Sakura Chocolate Latte with Strawberry Topping or the Sakura Chocolate Frappuccino with Strawberry Topping. In the past they have also had an Apple Crumble Latte for the Fall or a White Chocolate Green Tea Latte for the Winter.

McDonald's Japan also offers many menu items only offered for a limited time. For Spring 2016 they have a "Teri-tama" burger short for teriyaki and "tamago," which means "egg" in Japanese. It consists of their popular teriyaki burger with a steamed egg, cheese, and lettuce. They also have a limited time burger roughly translated to "All the good things of the north burger" which consists of Hokkaido's butter mashed potatoes, Hokkaido's cheddar cheese, a beef patty, bacon, and sautéed onions.

Domino's Japan has a heart-shaped pizza for Valentine's Day, a very popular and well-celebrated holiday in Japan. In Japan, there is a large market for Valentine's Day it is a holiday to appreciate both lovers and friends, and therefore it is not uncommon for single girls to celebrate together and give each other heart shaped chocolates or baked goods. For Spring, they even have a Sakura Shrimp Sauce Pizza and Crab Pizza during the winter.

Burger King Japan even had a Pumpkin Burger for autumn 2012, which was a burger with a pumpkin shaped bun and slices of roasted pumpkin inside. For winter 2014, they had a Premium Berry Burger, which is a burger topped with berries and a sweet sauce. This was modelled after the idea of Christmas and Thanksgiving traditions of eating sweet with savory, such as turkey with cranberry sauce.

While some of these seasonal menu items seem fantastic and others seem strange, the novelty and festivity attract new and old customers into the franchises to try and experience these rare items for the short time they are available. These new items keep the franchises on Japanese customers' radar and also increase short-term purchases.

Novelty Menu Items

U.S. franchises have also gained recognition through the use of bizzare menu items to generate customer interest and media coverage. For example, in September 2014, Burger King Japan released the "Black Burger" which consisted of a black bun and black cheese colored with bamboo charcoal, squid ink ketchup, and beef patties made with black pepper. Burger King also released the Windows 7 Whopper burger which has seven 113 gram beef patties, and the "Kuro Ninja Burger," which is a burger with a black bun and a long strip of bacon coming out of one side to mimic a ninja's tongue. Other chains in Japan such as Lotteria have sold a Chocolate Honey Mustard Grilled Chicken Burger and a Ramen Burger.

McDonald's Japan sold a Gracoro Burger in 2012, which is a combination of gratin and croquette. The patty was made of macaroni and shrimp in a white sauce and fried. Pizza Hut sold a Mini Corn Dog Pizza, which is a pizza surrounded by mini corn dogs, and KFC sold a deep fried corn chowder shaped like a nugget. These bizarre menu items capture Japanese consumers' attention, preventing boredom, and making them more likely to go back to the franchise.

Market Obstacles

Food Safety

While being fast and cheap, fast food must also be able to maintain quality and safety. After a few small mistakes in food safety, McDonald's Japan lost business. According to an article from CNBC News, there was a drastic drop in customers and profits and the brand closed 131 stores.

Recently, Japanese customers have become more aware of food safety and consequently even more demanding for higher quality. Therefore, it is important for franchises to find a balance between low prices and safe, quality food.

Cost of Ingredients and Rent

In Japan, fresh fruits, nuts, select spices, and beef are very expensive and not as easily obtainable in mass quantities as they may be in America or a different country. It has been proven difficult for fruit juice or fruit smoothie stores to survive in Japan because of the high cost of fruits. Fruit juice brands that do remain sell their products for double the price of American counterparts and the portion sizes are much smaller. They are also often made with fruit juice concentrates or sherbets instead of being made out of 100% fresh fruit.

In Japan, because open land is scarce and incredibly valuable, rent is also very expensive, especially in popular metropolitan areas of Tokyo. According to "Launching Starbucks in Japan" from *The Seattle Times*, rent in downtown Tokyo is two or three times more expensive than rent in Seattle, for example. Moreover, it may be challenging to find an open store space in popular shopping districts or train stations, where there is a lot of foot traffic.

Marketing and Advertising

In Japan, as well as in most countries, brand recognition and brand reputation is extremely important when customers decide where to go and what to eat out of the hundreds of competing options in the same neighborhood. The way a brand markets itself will give customers an idea of the quality and style or type of products they should expect. Therefore, strategic marketing catered to Japanese tastes is essential to success in the Japanese market. However, marketing in a city like Tokyo where there are advertisements on just about every surface, in the trains, on buildings, and on restaurant napkin holders, can be challenging.

Advertising is not only extremely expensive, but it is also a challenge to capture the audience's attention amongst all the other advertisements. In order to capture the attention of the Japanese audience, one must understand the Japanese mind, the Japanese lifestyle and culture, to create ads that will resonate with the Japanese, be memorable, and create a lasting, positive impact on them. One must also understand what is already available, and be able to market the same product with a twist or an improvement that would be attractive to Japanese consumers.

To meet such marketing challenges, a strong local partner and significant investment are necessities.

Best Prospects for Market Entry in Japan

Learning from the successes and failures of already existing American franchises in Japan and non-American franchises in Japan is essential to having successful market entry into Japan. The

Japanese market is as demanding as it is competitive so new franchises must be ready to adjust to Japanese tastes and standards.

The franchises that have succeeded most in Japan have adjusted their menus and recipes to accommodate Japanese tastes and have introduced many Japan specific menu items, including Japanese flavors such as Matcha and Azuki. Therefore, franchises looking to enter the Japanese market should study the menus of similar pre-existing franchises in Japan to learn about popular menu items in Japan and adjust their own menus for their new clientele. For example, a pizza franchise looking to enter Japan should study Pizza Hut and Domino's Pizza Japanese menus and inquire about the most popular menu items. It may want to consider adding pizzas with mayonnaise, shrimp, or avocado to their menus to cater to Japanese tastes.

After recent food scandals, food safety and quality has been a concern of many Japanese. Fast food franchises must also ensure food safety and quality food to win the trust and loyalty of Japanese customers. Subway Japan, for example, has gained popularity by marketing the freshness of its ingredients. One of their stores grows its lettuce right in front on their customers' eyes in a hydroponic system to convince their customers of their foods' freshness and safety. KFC Japan brags using domestic chickens for all deep-fried chicken products because many Japanese people may think that chickens from Japan are safer and of higher quality.

With proper localization, the large and continually expanding Japanese market could be the perfect opportunity for a franchise to grow beyond its home land and become the new pick of a Japanese consumer looking for his or her next delicious meal.

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