

**MOS OF CANADA: A FOODSERVICE INDUSTRY ANALYSIS OF  
GREATER VANCOUVER**

by

**Craig Ryomoto  
Bachelor of Science, University of British Columbia, 2004**

**PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION**

**In the  
Faculty of Business Administration**

**© Craig Ryomoto, 2009  
SIMON FRASER UNIVERSITY  
Summer 2009**

All rights reserved. However, in accordance with the *Copyright Act of Canada*, this work may be reproduced, without authorization, under the conditions for *Fair Dealing*. Therefore, limited reproduction of this work for the purposes of private study, research, criticism, review and news reporting is likely to be in accordance with the law, particularly if cited appropriately.

# Approval

**Name:** **Craig Ryomoto**

**Degree:** **Master of Business Administration**

**Title of Project:** **MOS of Canada: a Foodservice Industry Analysis of  
Greater Vancouver**

**Supervisory Committee:**

---

**Dr. Andrew von Nordenflycht**  
Senior Supervisor  
Assistant Professor  
Faculty of Business Administration

---

**Dr. Neil Abramson**  
Second Reader  
Associate Professor  
Faculty of Business Administration

**Date Approved:** \_\_\_\_\_

## **Abstract**

This paper analyzes the Greater Vancouver commercial food industry and whether the market is ideal for MOS Food Services to fulfil its “MOS of the World” strategy by opening a MOS Burger restaurant in Greater Vancouver. To assess the future viability of MOS Burger opening in Greater Vancouver, this paper identifies and analyzes market size, drivers of demand, various customer segments, key competitors, the strength of key industry forces, and the key sources of advantage for the foodservice industry. Based on this analysis, the paper concludes by suggesting that MOS should open a MOS Burger in Greater Vancouver based on their internal strengths and external opportunities that outweigh their weaknesses and threats.

**Keywords:** Foodservice; food; restaurant; MOS Burger; Vancouver; fast food; burger

## **Dedication**

I would like to dedicate this effort to my parents (Mitsuko and Hisashi), my brothers (Arnold and Brian), and my girlfriend (Lien) for their unwavering support, patience, and constant encouragement.

## **Acknowledgements**

I would like to thank Dr. Andrew von Nordenflycht and Dr. Neil Abramson for their guidance in assisting to help complete this paper and a special thanks to Michi Iwasaki for providing me with additional insight on MOS Burger. I would also like to thank the staff and faculty at the Segal Graduate School of Business for their mentorship throughout the program. Finally, I would like to thank all my classmates for their support and encouragement throughout the past year.

# Table of Contents

Approval.....	ii
Abstract .....	iii
Dedication .....	iv
Acknowledgements .....	v
Table of Contents .....	vi
List of Figures .....	ix
List of Tables.....	x
<b>1: Introduction.....</b>	<b>1</b>
<b>1: Industry Overview .....</b>	<b>2</b>
<b>2: MOS Burger Overview .....</b>	<b>4</b>
2.1 Origins.....	4
2.2 Company Overview.....	5
2.3 Products and Services.....	6
2.3.1 Product Offering.....	6
2.3.2 Service.....	9
2.4 Profitability.....	10
2.5 Hawaii Venture .....	10
2.6 Corporate Social Responsibility.....	12
2.7 Overseas Strategy and Future Plans .....	12
<b>3: Demand .....</b>	<b>14</b>
3.1 Market Size & Growth .....	14
3.1.1 Canadian Market Overview .....	14
3.1.2 British Columbia Revenue Trends .....	15
3.1.3 Economic Impact.....	16
3.2 Drivers of Demand .....	18
3.2.1 Healthy Lifestyles .....	18
3.2.2 Changing Tastes.....	20
3.2.3 Convenience.....	22
3.2.4 Educated Consumers .....	22
3.2.5 Spending on Food.....	24
3.3 Customer Segments.....	25
3.3.1 Chinese.....	26
3.3.2 Japanese.....	26
3.3.3 Other Visible Minorities.....	26
3.3.4 Other Ethnicities.....	27

<b>4: Competitors .....</b>	<b>28</b>
4.1 Types of Competitors .....	28
4.2 Main Players by Type .....	29
4.2.1 Full-Service Restaurants .....	29
4.2.2 Limited-Service Restaurants .....	31
4.2.3 Special Food Services .....	32
4.2.4 Drinking Places .....	34
4.3 Size Distribution.....	35
<b>5: Porter’s Five Forces Analysis.....</b>	<b>38</b>
5.1 Threat of Entry (Strong).....	38
5.1.1 Economies of Scale.....	39
5.1.2 Product Differentiation.....	40
5.1.3 Capital Requirements .....	40
5.1.4 Switching Costs.....	41
5.1.5 Access to Distribution Channels .....	41
5.1.6 Government Policy.....	41
5.1.7 Cost Disadvantage Independent of Scale .....	42
5.2 Rivalry Among Existing Competitors (Strong).....	42
5.2.1 Numerous or Equally Balanced Competitors.....	43
5.2.2 Industry Growth .....	43
5.2.3 Lack of Switching Costs .....	43
5.2.4 Extensive Differentiation .....	43
5.2.5 Diverse Competitors.....	44
5.2.6 Exit Barriers .....	44
5.2.7 Fixed Costs.....	45
5.3 Threat of Substitutes (Moderate to Strong).....	45
5.4 Power of Buyers (Weak to Moderate).....	46
5.5 Power of Suppliers (Moderate to Strong).....	47
5.6 Summary of Competitive Forces.....	48
<b>6: Sources of Advantage.....</b>	<b>52</b>
6.1 Overall Cost Leadership.....	53
6.1.1 Low Operating and Overhead Costs .....	54
6.1.2 Company Size .....	54
6.2 Differentiation .....	54
6.2.1 Good Location(s).....	55
6.2.2 High Quality Food.....	55
6.2.3 Enjoyable Ambience .....	55
6.2.4 Good Service.....	55
6.3 Focus .....	56
6.3.1 Low Price .....	56
6.3.2 Unique Menu Offering.....	56
6.3.3 Strong Marketing.....	57
6.3.4 Asian Flavour .....	57
6.4 Competitive Analysis Based on Sources of Advantage .....	57
6.5 Summary of Sources of Advantage.....	58

<b>7: MOS Burger – SWOT Analysis .....</b>	<b>60</b>
7.1 Strengths.....	60
7.1.1 Established International Brand .....	60
7.1.2 Unique and Premium Quality Product .....	61
7.1.3 Appeals to Healthy Consumers .....	61
7.1.4 Strong Financial Support.....	61
7.1.5 Strong Corporate Social Responsibility .....	62
7.2 Weaknesses .....	62
7.2.1 Lack of Brand Awareness in the Canadian Market.....	62
7.2.2 High Prices Compared to Competitors.....	63
7.3 Opportunities.....	64
7.3.1 Large Asian Population in Greater Vancouver Regional District.....	64
7.3.2 Increased Focus on Healthy Diets .....	64
7.3.3 Predicted Market Stability.....	65
7.3.4 Increased Demand for Quick Service Restaurants .....	65
7.3.5 Fast Food Growth.....	66
7.3.6 Increased Popularity in Asian Fast Food.....	66
7.4 Threats.....	67
7.4.1 Competitive Foodservice Industry .....	67
7.4.2 Local Consumer Tastes May Vary from Asia.....	67
7.4.3 More People are Eating at Home .....	67
7.5 Summary of SWOT Analysis.....	68
<b>8: Conclusion.....</b>	<b>70</b>
<b>Appendix .....</b>	<b>72</b>
<b>References .....</b>	<b>73</b>



## List of Figures

Figure 1 - Distribution of Commercial Foodservice Industry by Establishment.....	3
Figure 2 - MOS “Karubi Yakiniku” Rice Burger.....	5
Figure 3 - Original MOS Burger .....	7
Figure 4 - Natsumi Beef Burger .....	8
Figure 5 - MOS Burger Store Front .....	9
Figure 6 - 2007 Average Household Spending at Restaurants and Drinking Places.....	15
Figure 7 - Distribution of Revenues by Segment in BC.....	16
Figure 8 - Change in Commercial Foodservice Sales by Segment .....	17
Figure 9 - Foodservice Sales 2009 Forecast.....	36
Figure 10 - Annual Growth Rate of Foodservice Sales.....	37
Figure 11 - Summary of Porter's 5 Forces.....	50
Figure 12 - SWOT Matrix .....	69

## List of Tables

Table 1 - Sample MOS Burger Prices .....	8
Table 2 - MOS Food Services Inc: Five-Year Summary .....	10
Table 3 - Ethnic Population of Greater Vancouver .....	25
Table 4 - 100% Home Delivery/Takeaway by Subsector: % Foodservice Value Growth 2002-2007 .....	32
Table 5 - Summary of Main Players by Type .....	35
Table 6 - Strength of Five Forces and Industry Impact Rating .....	51
Table 7 - Sources of Advantage by Strategy .....	52
Table 8 - Rating of Competitors on Sources of Advantage.....	58
Table 9 - Sample Competitor Prices.....	63
Table 10 - Sample Nutritional Facts of Competitors.....	65

# **1: Introduction**

The purpose of this paper is to analyze the Commercial Foodservice Industry in the Greater Vancouver Regional District (GVRD) and to determine how attractive this market is for a new foreign entrant, MOS Burger. MOS Burger is a Japanese fast food restaurant famous for their fresh and high quality foods such as the MOS Rice Burger. In Japan, MOS Burger is the second largest fast food chain after McDonald's. Due to its immense popularity and strong competition within Japan, MOS Burger has expanded its operation throughout Asia. MOS Burger is currently looking towards a global growth strategy dubbed "MOS of the World", and has indicated Canada as a possible expansion location. Assuming that they follow their previous expansion strategies, MOS Burger will own its first store and then franchise subsequent stores after entering a new market.

An overview of the industry and the company will be provided. The external environment will be analyzed in depth to determine the nature of the Foodservice Industry in the GVRD. After discussing the demand of the industry, the various types of competitors and the major players involved in each segment of the industry will be examined thoroughly. Porter's Five Forces analysis will then be discussed along with the sources of advantage (SofA) within the industry. A SWOT analysis will complete the industry analysis. The report will then provide recommendations for MOS Burger if they decide to enter the Vancouver market.

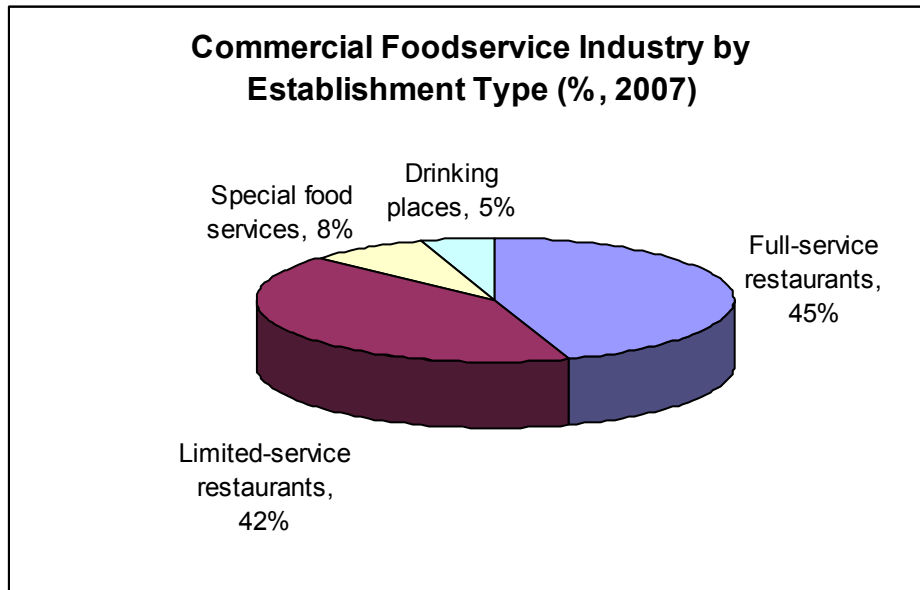
## **1: Industry Overview**

The foodservice industry is a large, dynamic, and growing sector of the Canadian economy. Everyday, millions of consumers, business travellers, and tourists enjoy the 84,000 restaurants, cafeterias, snack bars, caterers, and taverns in Canada. In 2008, total foodservice sales grew to more than \$59.6 billion, representing 3.7% of Canada's gross domestic product (CRFA, 2009).

Commercial foodservice is defined as the sale of food and drinks for immediate consumption. This can either be on the premises from which they were purchased, in designated eating areas shared with other foodservice operators, or as takeaway purchases which are freshly prepared foods meant for immediate consumption (Datamonitor, 2008).

The commercial foodservice industry includes full-service restaurants (customers order while seated and pay after eating), limited-service restaurants (customers order at a counter, and/or by phone and pay before eating), special food services (including food service contractors, social caterers and mobile food services) and drinking places such as cafés, bars, nightclubs and pubs. Figure 1 illustrates that most establishments are either full-service restaurants (45%) or limited-service restaurants (42%) and that special food services comprise 8% while only 5% are drinking places (BC Stats, 2008). A MOS Burger restaurant is categorized as a limited-service restaurant but will compete with operators across all segments.

Figure 1 - Distribution of Commercial Foodservice Industry by Establishment



SOURCE: Adapted from BC Stats (2008).

## **2: MOS Burger Overview**

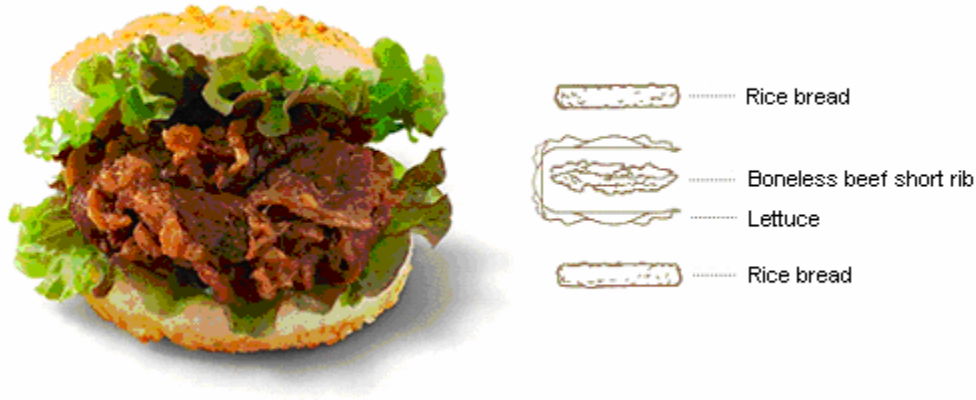
### **2.1 Origins**

In the 1960's while working at an investment company in Los Angeles, California, Mr. Satoshi Sakurada had a dream. He often visited a local hamburger restaurant named Tommy's and became inspired by their delicious hamburgers and the "cook to order" concept. It was then that he envisioned that this concept would be successful in his native country of Japan.

In 1972, Mr. Sakurada returned to Japan and began his hamburger shop venture by setting up his first MOS Burger shop in Tokyo. He was committed to producing food that was adapted to Japanese tastes; therefore he motivated his team to create innovative products that would maintain local popularity over time. One of MOS Burgers' most successful products is the Rice Burger, which was launched in 1987. Figure 2 illustrates one example of a MOS Rice Burger; the "Karubi Yakiniku" Rice Burger, made with rice bread, sliced boneless beef short ribs meat and lettuce. Now over 35 years later, MOS Burger offers a wide variety of unique and original hamburgers, as well as local specialties. Although the menu has changed, the MOS policy and passionate commitment to creating delicious, quality burgers have never changed.

Mr. Sakurada named his restaurant MOS Burger to stand for the following. 'M' stands for Mountain – dignified and noble; 'O' stands for Ocean – wide and vast; and 'S' stands for sun – vibrant and life-giving (MOS Burger, 2009).

Figure 2 - MOS “Karubi Yakiniku” Rice Burger



SOURCE: MOS Burger (2009).

## 2.2 Company Overview

MOS Food Services Inc (MOS) was established July, 1972 in Japan. It opened its first MOS Burger Outlet the same year. Since then, it has since expanded to Hong Kong, Indonesia, Singapore, Taiwan, and Thailand. In Japan, MOS Burger is the second largest fast-food franchise after McDonald’s (Euromonitor International, 2008). MOS Burger has been positioned as a higher-end fast food restaurant and its concept is to provide a fresh, nutritious, and high quality menu. Their corporate objective is to “make people happy through food” under their management philosophy of “human contribution” and “social contribution” (MOS Burger, 2009).

MOS Burgers are made with fresh vegetables and use high quality beef, soybean sauces, and vegetable oils to provide a healthier option for fast food lovers (BK Magazine, 2009). MOS Burger, unlike most fast-food restaurants such as McDonald’s and Burger King, makes each burger after the order has been placed at the counter.

While waiting, customers can watch the chefs make each order in an open kitchen. The size of the burgers appear smaller than its competitors, however, they are thicker (BK Magazine, 2009).

In order to cater to the various needs of customers, MOS Burger has created different modes of operation. The operations are strategically positioned as Gourmet Hamburger restaurants, Food Court-Type outlets, and Home Delivery/Take-out Only outlets.

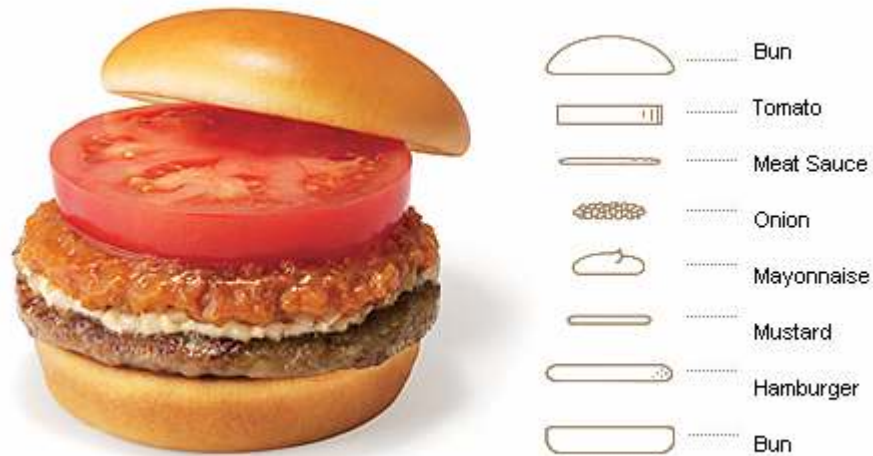
## **2.3 Products and Services**

### **2.3.1 Product Offering**

MOS Burger provides a variety of dishes that are nutritious, healthy, and distinctive. MOS Burger is renowned for emphasizing quality and presentation. Its products are made-to-order with the freshest quality ingredients and are packaged in a neat and environmentally friendly wrap. MOS outlets promote limited seasonal and regional products to support local produce and to create new products to entice customers to return and try their new line-up. Some examples of their standard offerings include the original MOS Burger, MOS Cheeseburger, Fish Burger, Teriyaki Burger, and Croquette Burger. The original MOS Burger contains a patty covered with meat sauce that is similar to a blend of chilli and Italian dressing (please refer to Figure 3 for an illustration). A sample menu of the product offerings for MOS Burger Singapore is also provided in the Appendix.



Figure 3 - Original MOS Burger



SOURCE: MOS Burger (2009).

MOS Burger’s selection of Rice Burgers is another unique aspect of their product offering. Rice Burgers are similar to standard burgers except that the bun is made entirely of rice mixed with barley and millet. The vast majority of MOS products are also under 400 calories and 20g of fat which is significantly less compared to McDonald’s Big Mac, McChicken, and Quarter Pounder with Cheese burgers which all have over 470 calories and over 27g of fat (McDonald's Canada, 2009).

MOS Burger also has a variety of unique products such as their Takumi Burger that features slices of avocado, Tasmanian beef, wasabi and seasonal ingredients. They also have a series of burgers called “Natsumi” which is a burger with no bread and instead uses fresh organic lettuce to hold the meat. Figure 4 illustrates an example of a Natsumi Burger. During the month of May 2009, a unique “doughnut burger” was launched in partnership with the doughnut franchise, Mister Donut.

Figure 4 - Natsumi Beef Burger



SOURCE: MOS Burger (2009).

Table 1 indicates the prices (¥) for several of the menu items in Japan. The price for a MOS Burger with a Combo Upgrade (fries and drink) cost ¥640 or approximately \$7.68 CAD.

Table 1 - Sample MOS Burger Prices

Item	Price ¥	Price \$CAD*
MOS Burger	¥320	\$3.84
MOS Cheeseburger	¥350	\$4.20
Teriyaki Burger	¥320	\$3.84
Fish Burger	¥300	\$3.60
Karubi Yakiniku Rice Burger	¥350	\$4.20
Natsumi Beef	¥320	\$3.84
Hamburger	¥160	\$1.92
Cheeseburger	¥190	\$2.28
Plain Hot Dog	¥290	\$3.48
Combination Upgrade		
Fries + Drink	¥320	\$3.84
Combination Upgrade		
Fries + Onion Rings + Drink	¥350	\$4.20
* conversion rate		
1 JPY = 0.012 CAD		

### 2.3.2 Service

MOS Burger currently provides their service in three ways, Gourmet Hamburger restaurants, Food Court-Type outlets, and Home Delivery/Take-out Only outlets. At their Gourmet Hamburger restaurants they offer gourmet hamburgers which are cooked to order using quality ingredients and served with full-service or limited-service depending on the type of restaurant (i.e. MOS Burger Classic is a full-service restaurant and MOS Burger Original is a limited-service restaurant). Refer to Figure 5 for an illustration of a MOS Burger Gourmet Hamburger restaurant. MOS is also aggressively opening outlets in Food Courts to expand “MOS Burger” at low investment locations. Finally, MOS has delivery and take-out only locations such as their MOS Burger Delivery Cabin outlets.

*Figure 5 - MOS Burger Store Front*



SOURCE: Wikimedia Commons (2009).

## 2.4 Profitability

MOS has seen a steady increase in net sales for the past five years except in 2006. However, MOS incurred fluctuating net profits over the same time period. Although 2009 is forecasted to have slightly less net sales than the previous year, they anticipate net income to be approximately ¥550 million. The negative net income in 2008 is attributed to increasing competition, increasing price of raw materials, and elevating costs to secure personnel (MOS Burger, 2009). 2009 is expected to recover by eliminating unprofitable stores, expanding their menu, and increasing promotion. Table 2 summarizes MOS' five-year financial indicators.

*Table 2 - MOS Food Services Inc: Five-Year Summary*

	<b>2009</b> (expected)	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net Sales	60,641	62,301	59,890	58,216	59,345
Operating Income	1,747	752	1,380	2,315	2,046
Net Income	552	-325	202	1,092	-7,348
Total Assets	44,674	45,479	46,568	46,139	48,336
Shareholders' Equity	34,346	35,013	34,538	35,071	35,538
Shareholders' Equity Ratio (%)	76.9	77.0	74.2	76.0	73.5

in millions of yen

SOURCE: Adapted from MOS Burger (2009).

## 2.5 Hawaii Venture

In 1989, MOS expanded into Hawaii by paying \$5.5 million plus an additional \$1 million for construction costs for a 1,440 square-foot property in Waikiki. This capital cost was much lower than the \$50 million that was spent to open a location along the

Ginza, a popular crowded shopping area in Tokyo (Yoneyama, 1990). MOS predicted that the restaurant would be profitable in year three, projecting sales of more than \$1 million annually by the end of 1992. MOS was fairly confident it would be able to enter the local market easily due to high tourist traffic, including more than one million Japanese who visit Hawaii annually, and similar tastes between local and Japanese consumers. However, MOS Burger Hawaii did not offer the famous original MOS burger; instead, they started with a limited menu to adjust items and serving sizes to accommodate American tastes, and to build time for managers to become more familiar with the local market (Yoneyama, 1990).

At the time Pat Kahler, the head of McDonald's Hawaii outlets suggested he would have done things quite differently. He indicated that the local tastes are not so different from the tastes of Japan and that he would have opened with the full menu to attract a wide variety of tastes and increase revenue. He also stated that the \$6.5 million MOS Burger paid for opening in Waikiki was hard to justify based on his knowledge of the volume of sales required and the size of facility needed to meet this volume (Yoneyama, 1990).

The plan for MOS was to open ten locations in its first five years. But the reality fell far short. By 1998, MOS had seven locations in Oahu, all of which continued to struggle. By 2005, MOS closed down its last stand and original location in Waikiki (Hawaii Business, 2005). Its failure in Hawaii could likely be a combination of poor market research and the sunk cost dilemma. For instance, their sales depended strongly on tourists, they didn't offer their best menu, and paid too much in initial capital while expanding aggressively in hopes of gaining market share. This learning experience

should help MOS mitigate expansion issues when deciding to enter non-Asian countries, such as Canada.

## **2.6 Corporate Social Responsibility**

In 2005, MOS enhanced their efforts to improve their corporate social responsibility (CSR) by starting to transform the MOS Burger business into “Green MOS” outlets. This “fast-casual” business format of MOS Burger was adopted to enhance brand value by improving product quality, customer service, and promoting CSR by placing more consideration into its effect on local surroundings. In 2008, to further improve its CSR, MOS opened its first store that was built from ready made building materials and low-cost energy saving standard kitchens. MOS also took initiative to improve social contributions to human sustainability through an educational program for children to teach them the importance of dietary and food habits called the “MOS Burger Food Education Promotion Committee” (MOS Food Services, Inc, 2005).

## **2.7 Overseas Strategy and Future Plans**

MOS has actively promoted and positioned the “MOS Burger” brand in overseas markets in Asia with the key phrase “MOS of Asia”. As of June 2009, there are 1,362 MOS Burger restaurants in Japan and almost 200 overseas. MOS has 153 stores in Taiwan where they entered the market in 1991. Following their success in Taiwan, they have consistently opened new stores throughout Asia. In Singapore, the first MOS

Burger opened in 1995 and now there are 24 stores. The first store in Hong Kong opened in 2006 and now there are 11 stores. MOS Burger entered Thailand in 2007 and has since opened 6 more stores. Recently, they entered the Indonesian market with 2 stores. Future plans for “MOS of Asia” include possible expansion to Malaysia, Korea, and China. MOS’ overseas strategy includes accelerating its pace of new openings from “MOS of Japan to MOS of Asia,” and then to “MOS of the World.” In 2008 MOS Burger announced that they would open new stores in two more countries (one of which was Indonesia), and make further efforts towards the realization of “MOS of the World” (MOS Food Services, Inc, 2008). In 2009, MOS’ Overseas Planning Department indicated that expanding to Canada is a definite possibility (personal communication, May 6, 2009).

## **3: Demand**

### **3.1 Market Size & Growth**

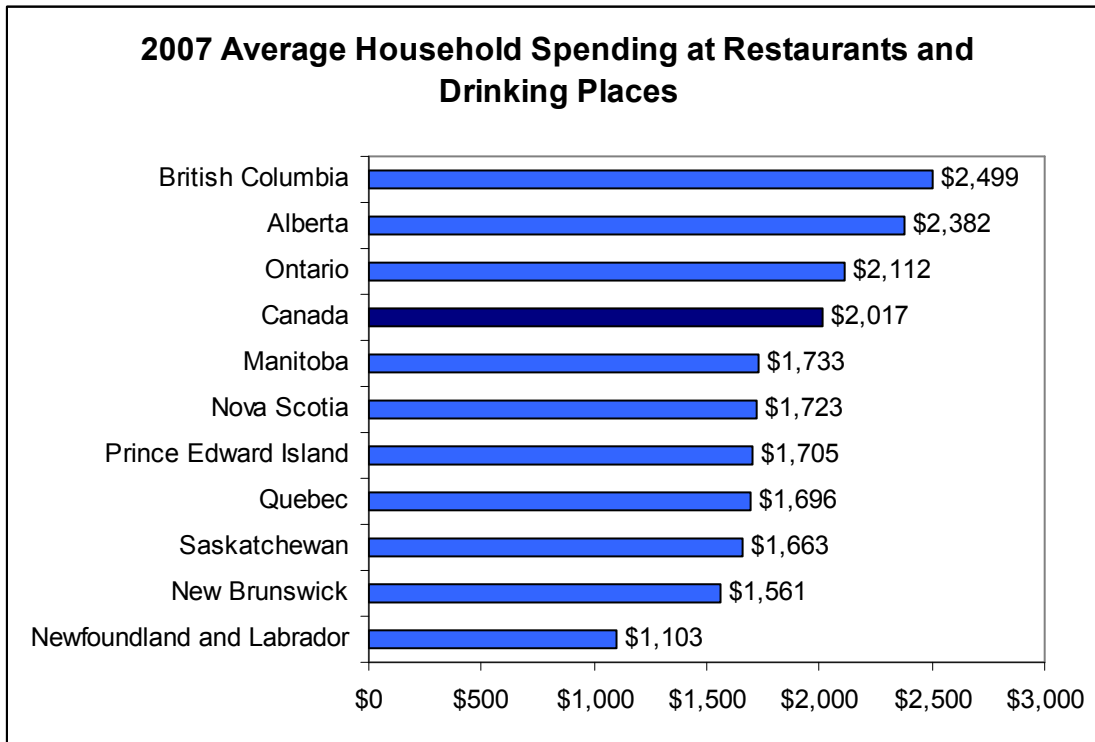
The amount households spend on food from commercial foodservice operators is increasing in Canada and especially in British Columbia. Furthermore, the British Columbia foodservice industry has seen significant revenue growth in the past 10 years. These factors, coupled with the poor economy have increased demand for limited-service restaurants which are great signs for a new entrant like MOS Burger.

#### **3.1.1 Canadian Market Overview**

In 2007, annual household expenditures on food purchased from restaurants increased \$81 to \$1,715 and spending on alcoholic beverages from drinking places increased by \$18 to \$302 (CRFA, 2009). Therefore in total, the average Canadian household spends \$2,017 on food and alcoholic beverages served from commercial foodservice outlets, a \$99 (5.2%) increase over 2006. Furthermore, over the past three years, the foodservice share of the household food dollar has remained relatively unchanged at 24.7% (CRFA, 2009). In 2007, British Columbia had the highest per household consumption of food and alcohol purchased from restaurants and drinking places in Canada at \$2,499 (BC Stats, 2008). Figure 6 illustrates the average household spending at restaurants and drinking places between provinces.



Figure 6 - 2007 Average Household Spending at Restaurants and Drinking Places



SOURCE: Adapted from CRFA (2009).

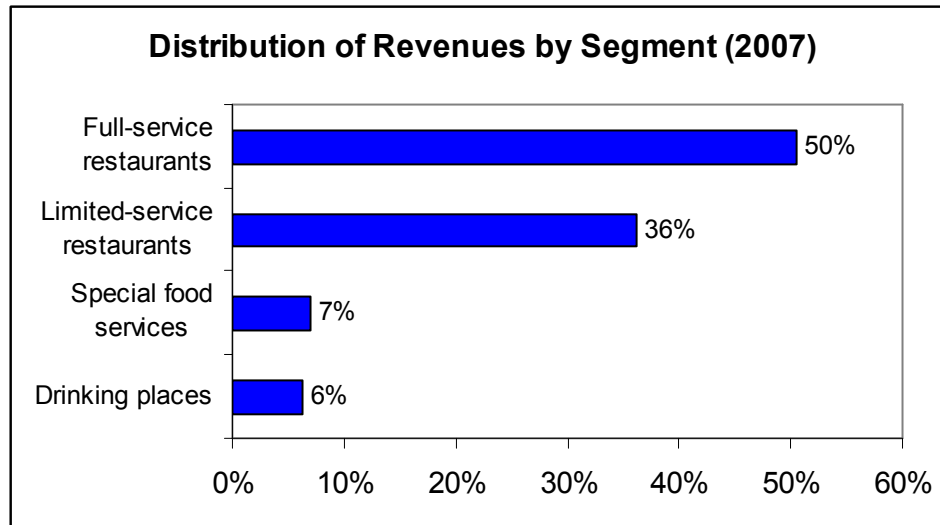
Statistics Canada's *Monthly Survey of Food Services and Drinking Places*

indicates that in 2007, the BC foodservice industry earned about \$7.7 billion in revenues. Over the 1998 to 2007 period, provincial sales averaged 16% of national sales, the third highest in the country after Quebec and Ontario.

### 3.1.2 British Columbia Revenue Trends

In 2007, full-service restaurants accounted for an estimated \$3.9 billion of total provincial sales. \$2.8 billion was generated by limited-service eating places, while special food services generated \$544 million and drinking places generated \$480 million (BC Stats, 2008). Figure 7 represents the distribution of foodservice revenues by each segment.

Figure 7 - Distribution of Revenues by Segment in BC



SOURCE: Adapted from BC Stats (2008).

From 1998 to 2007, BC's foodservice industry experienced a 45.1% increase in total annual sales; very similar to the 45.3% increase in the national average of annual sales. This growth has been driven by a combined 48.8% gain in annual sales over the 10 year period for the full-service restaurants, limited-service restaurants and special food services sector (BC Stats, 2008).

### 3.1.3 Economic Impact

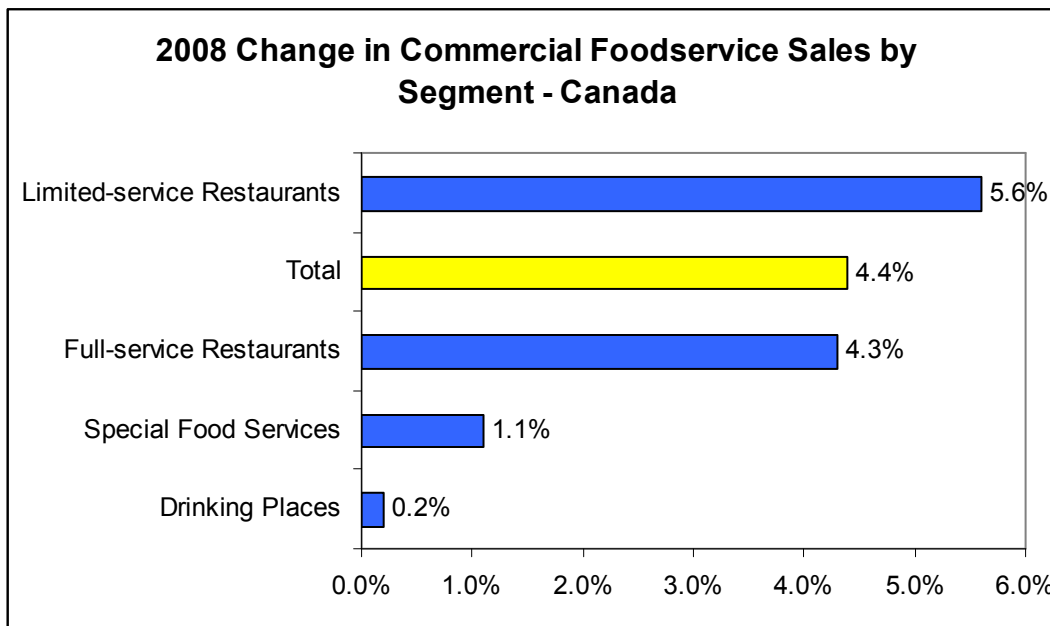
The overall economic conditions greatly impacts the performance of this industry; when the economy is growing, people are inclined to spend more money on discretionary expenditures such as eating out at restaurants. Contrary to this fact, despite a sharp slowdown in foodservice spending late in 2008, national commercial foodservice sales for the year still increased by a surprising 4.4% to a record of approximately \$47 billion (CRFA, 2009). And although the Canadian economy posted its weakest growth in 17

years in 2008, consumer spending on foodservice rose due to a 6.0% increase in disposable income.

In spite of this record growth in 2008, with the decline in economic activity and continued job losses, the Canadian Restaurant and Foodservices Association (CRFA) is forecasting a 2.5% decrease in national commercial foodservice sales in 2009. When combined with non-commercial foodservice, the total Canadian foodservice industry sales are forecast to fall by 1.4% this year (CRFA, 2009).

Perhaps as a result of the poor economy, limited-service restaurants fared best out of all commercial foodservice segments in 2008. Its national annual sales increased 5.6% to \$19.6 billion due to strong growth in most provinces (CRFA, 2009). Figure 8 illustrates the change in national commercial foodservice sales by segment for 2008.

Figure 8 - Change in Commercial Foodservice Sales by Segment



SOURCE: Adapted from CRFA (2009).

## **3.2 Drivers of Demand**

This section provides insight into Canada's evolving consumer environment and issues that are expected to drive consumer attitudes and perceptions. Agriculture and Agri-Food Canada suggests that healthy lifestyles, changing tastes, need for convenience, more educated consumers, and what we spend on food will all drive demand towards healthier, organic, convenient, and perhaps ethnic types of food such as MOS Burger's products.

### **3.2.1 Healthy Lifestyles**

Currently, not only are health care professionals and governments concerned with health issues related to diet and lifestyle, so are consumers. The health issues that the majority of consumers are most concerned with are linked to diet and lifestyle. In fact, the main health concerns of Canadians are about general well being, with 55% being extremely or very concerned (Agriculture and Agri-Food Canada, 2005). Also, over one-third of Canadians are extremely or very concerned about each of the following conditions: eye health, cancer, cardiovascular/heart disease, obesity, high cholesterol, and lack of energy.

Nutritional concerns are more important to women. Women are more likely than men to consider overall health, specific diseases or conditions, and body weight when making food choices. This may be because traditionally women have taken greater responsibility for meal preparation and family food shopping than men (Agriculture and Agri-Food Canada, 2005).

Shifts in consumer attitudes have led to an increase in consumption of healthy products; nutrition has become more important to consumers than the “stimulation of the senses” and more precisely, “taste”. However, this does not mean that products that do not taste good will be successful even though they contain healthy benefits. Consumers are also losing confidence in their knowledge of nutrition and are turning to food labels and other sources such as the Internet for information. This is due to the constant barrage of sometimes conflicting information about the harmful effects of some foods.

We all have the best intentions to eat healthier through lifestyle changes rather than a quick-fix diet. Consumer consciousness about healthy food options are translating to changing behaviour and consumption patterns. This change is slowly eliminating the concern about reducing certain foods or food ingredients from their diets. However, many barriers to healthier eating still exist, some of which include: lack of time; perceptions of higher costs for healthier food and beverages; and perceptions that a healthier option does not taste as good as “regular” foods. MOS Burger has the opportunity to capture these healthy conscious consumers with their relatively fast service and healthier alternatives when compared to their fast food competitors.

### **3.2.1.1 Healthy Alternatives**

There is an opportunity for the food industry to provide consumers with healthier products in tasty and convenient forms that contain less sugar, fat, sodium, carbohydrates; fewer calories; no hydrogenated (trans) fats; more fibre and more soy protein. Reducing portion sizes should also be considered.

The foodservice industry, particularly the fast food industry is already responding with calorie-reduced options or smaller portion sizes. For instance, fast food outlets have added salads to combat their junk food image. McDonald's introduced a walnut and fruit salad in 2005 and Wendy's is offering a cut fruit and yoghurt dip option.

### **3.2.2 Changing Tastes**

Consumer tastes, particularly in the GVRD, have changed over the years. In Greater Vancouver, the number of visible minorities account for 41.4% of the total population. This large number of immigrants creates a diverse set of ethnic tastes which will drive the growth of ethnic foods. The consumption of meatless or reduced meat meals are also on the rise. This is fuelled by perceptions of healthfulness.

#### **3.2.2.1 Ethnic Food Market**

Food preferences by immigrants from their home countries are influential to Canadian food patterns. Ethnic diversity exposes the general population to a wide variety of foods products and methods of preparation. Support for this exposure is evidenced by the proliferation of ethnic food restaurants and the growing awareness of the health benefits of following certain diets or consuming specific foods common among various ethnic cultures such as red wine (French influence), fish (Asian influence), and meatless dishes (Indian diets) (Agriculture and Agri-Food Canada, 2005).

Because Canada is a multinational country we are increasingly exposed to different cultures through avenues such as work, school, friendships, and travel. With increasing globalization, consumers' attitudes are shifting to become more open and

adventurous when trying new types of cuisines. Two food trends, fusion and diversification, have emerged recently. Fusion is a combination of two ethnic styles or types of cuisines. The MOS Burger is a perfect example of a fusion cuisine as it combines both Western and Japanese flavours. Diversification is represented by the proliferation of different restaurants, distinct foods, and specialty stores that focus on traditional ingredients, recipes or types of cuisine. Therefore, this influx of immigrants in Canada paired together with the increased popularity of fusion or diversified cuisines create a demand for restaurants such as MOS Burger.

### **3.2.2.2 Vegetarianism**

It is fairly difficult to understand the penetration and shifts towards vegetarianism in Canada. There are many forms of vegetarianism such as strict vegans and flexitarians. Only a subset of vegetarians eat just raw foods; they believe that the nutritional value is better because the cooking process can destroy some enzymes and vitamins. Agriculture and Agri-Food Canada suggests that about 8% the Canadian population are a “self-defined” vegetarianism (Agriculture and Agri-Food Canada, 2005).

Women are more likely to be a vegetarian or follow a vegetarian lifestyle. These are women who are more likely to be employed outside the home, have an active lifestyle, be in their late teens or twenties, and live on the west coast of Canada (Agriculture and Agri-Food Canada, 2005).

Vegetarianism is also more often practiced by Asian cultures and the Buddhist religion. The upward trend in vegetarianism is supported by the growth of these cultural groups in Canada due to immigration.

### **3.2.3 Convenience**

The sales of prepared foods are on the rise; in 2001, 10 cents of every food dollar spent in stores went to convenience items, up from 6 cents in 1981. This category includes a wide variety of items from frozen pre-cooked dinners and baked goods, to peanut butter, potato chips, soup, and baby food (Statistics Canada, 2001). In 2004, over half of dinners consumed in Canadian homes included a prepared or semi-prepared item as part of the meal. Consumers simply enjoy the convenience and want to cut down their food preparation and cooking time. They are often “on the go”, eating food while driving (the trend is referred to as “Dashboard Dining”), or are too tired to cook dinner.

### **3.2.4 Educated Consumers**

Consumers are now becoming more conscious about the safety and quality of the foods they purchase along with how it is produced.

#### **3.2.4.1 Food Safety and Quality**

The concept of freshness has been easily understood and has increasingly become synonymous with quality, due to implications of good quality nutrition, taste, and perhaps more natural. In terms of its impact on purchasing decisions, food quality issues sit on a continuum. The perceptions of freshness, nutritional value, ingredients, convenience, and value seem to have the most immediate impact on product selection. But purchasing decisions are also formed by other attributes associated with food quality, such as aspects of production and handling throughout the food chain (Agriculture and Agri-Food Canada, 2005).



Consumers' awareness of the quality issues surrounding food have been constantly improving. They are less likely to believe that well advertised products are "good", meaning "good for you" not just "good tasting". This trend towards safety and quality consciousness can largely be attributed to media reports that in some cases exaggerate the scare of the day. The following are examples of food safety and quality issues on the minds of consumers: the risks of trans-fat, food additives, and preservatives.

#### **3.2.4.2 How Food is Produced**

Over the past four years, there has been an upward trend in the frequency of organic food purchases, likely due to the increasing availability of organics. The profile of heavier organic purchasers in Canada has been described as: female, higher income, better educated, relatively younger, and more likely to reside in British Columbia. There seems to be two primary motivators to purchase organic products: one relates to personal health and the other is a lifestyle and a philosophical commitment to the environment (Agriculture and Agri-Food Canada, 2005).

Currently, consumers have a positive image of the organic industry. Organic foods are believed to be safer and healthier than regular foods, and therefore, consumers may be more willing to pay a marginal price premium. However, organic foods have yet to achieve widespread acceptance due to the long-standing barrier of the unwillingness of consumers to pay a significant price premium (Agriculture and Agri-Food Canada, 2005).

### 3.2.5 Spending on Food

Although there is an upward trend in restaurant spending, most food is still consumed in the home. In fact, over seventy-five percent of Canadians eat only three or fewer meals per week not produced in the home. In 2001 approximately, thirty cents of every food dollar was spent in restaurants, up from 25 cents in 1981. About 80 percent of restaurant dollars were spent locally or on day trips, while the remainder was spent while travelling overnight (Agriculture and Agri-Food Canada, 2005).

As household income increases, both total food expenditures and the proportion spent in restaurants also increase. In 2001, people with a household income of less than \$20,000 spent approximately 23% of their weekly food dollar in foodservice, while those from households with incomes of \$80,000 or more spent 36%. However, even with this disparity there was almost no difference in proportional foodservice spending by restaurant type (full-service, limited-service, special food service and other) by income group. In 2001, the demographic that spent the highest proportion of their food budgets in restaurants were single men. Single parent families headed by women also dined out more than the average.

A direct relationship between spending on food, household size, and household income has been found to exist. Top income category earners tend to have higher food expenditures which is largely due to more people in the household. On the other hand, on a per-capita basis, spending on food is about one-third more in the highest income category, compared to the lowest (Agriculture and Agri-Food Canada, 2005). Greater expenditures on food by the higher income groups may be reflected by a variety of behaviours including: higher expenditures in restaurants versus food purchased at retail

stores to be prepared at home; purchasing higher quality products and spending proportionately more on expensive products such as better cuts of red meat, poultry, or types of seafood; or purchasing organically produced or fortified foods.

### 3.3 Customer Segments

Canada and Greater Vancouver are increasingly more diverse. In Canada's Ethnocultural Mosaic, 2006 Census, Statistics Canada reported that Greater Vancouver was home to more than 200 different ethnic groups in 2006 with approximately the same number in the country. Visible minorities accounted for 41.4 percent of Greater Vancouver's population, up 20.3 percent from 2001. Table 3 indicates the ethnic diversity of Greater Vancouver.

Table 3 - Ethnic Population of Greater Vancouver

<b>Ethnic Identity of Greater Vancouver</b>		
2006		
<b>Total Visible Minorities</b>	<b>875,300</b>	<b>41.4%</b>
Single Origins	853,185	40.3%
Chinese	381,535	18.0%
South Asian	207,165	9.8%
Filipino	78,890	3.7%
Japanese	25,425	1.2%
Other	160,170	7.6%
Multiple Origins	22,115	1.0%
<b>Total Aboriginal People</b>	<b>40,310</b>	<b>1.9%</b>
Rest of Population	<u>1,200,971</u>	<u>56.7%</u>
Total	2,116,581	100.0%

SOURCE: Adapted from BC Stats (2008).

Because MOS Burger will initially appeal more likely to Asian ethnicities rather than other ethnicities, the customer segments should be divided into various ethnic groups: Chinese; Japanese; Other Visible Minorities; and Other.

### **3.3.1 Chinese**

This segment makes up 18 percent of the total Greater Vancouver population. Furthermore, it is Greater Vancouver's fastest growing population; the Chinese population grew by 11.3 percent between 2001 and 2006, whereas Greater Vancouver's overall population only grew by 6.6 percent (Lupick, 2008). With MOS Burger already having a presence in Hong Kong and the popularity of Japanese food amongst the Chinese in Vancouver, MOS Burger should be able to capture Chinese customers without much difficulty.

### **3.3.2 Japanese**

Although the Japanese make up only 1.2 percent of the entire Greater Vancouver population, the Japanese community would embrace MOS Burger because of their cultural tendency to display strong loyalty towards their own products (Thomas, 2008). MOS Burger has been successful in Japan so there should not be a problem with ensuring Japanese locals frequenting MOS Burger.

### **3.3.3 Other Visible Minorities**

Other visible minorities are comprised of many ethnicities such as South Asians, Filipinos, Koreans, and Latin Americans. This group makes up over 21 percent of the

total population of Greater Vancouver. The Asian theme of MOS Burger should appeal to most of these ethnicities as the group is predominantly Asian. Additionally, because MOS Burger also operates overseas in countries such as Singapore, Thailand, and Indonesia, there should be some sense of brand awareness within this group.

#### **3.3.4 Other Ethnicities**

This group comprises the rest of the population (56.7%) and mainly comprises Anglos such as native Canadians, Americans, and Europeans. The majority of this group will not be aware of MOS Burger and may not be willing to try their products without proper marketing and adequate persuasion. Because this market is large, MOS Burger's success will rely on the penetration it receives within this group.

## **4: Competitors**

### **4.1 Types of Competitors**

The competitive landscape in the foodservice industry can be divided into segments at several different levels. At a high level, there are two segments: commercial and non-commercial. Commercial foodservice operations are those whose primary business is food and beverage service, while non-commercial foodservice operations are self-operated foodservice in establishments whose primary business is something other than food and beverage service (e.g., hotels, hospitals, department stores). The commercial foodservices industry can be further segmented into full-service restaurants, limited-service restaurants, special food services, and drinking places such as cafés, bars, nightclubs and taverns (see specific definitions of each on p. 2) and has a total foodservice industry market share of 79%. The non-commercial foodservice segment, which makes up the remaining 21% of the total foodservice market can be broken up into four subsections: accommodation (hotels, motels, resorts), institutional (hospitals, residential care facilities, schools, prisons, factories, remote facilities and offices), retail (department store cafeterias and restaurants, convenience stores, and other retail establishments), and other (vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations). This non-commercial segment is only an indirect source of competition to the commercial foodservice industry and specifically to MOS Burger therefore the rest of this section focuses on the commercial segments.

## **4.2 Main Players by Type**

The following describes the main competitors by segment within the Greater Vancouver Regional District.

### **4.2.1 Full-Service Restaurants**

Full-service restaurants can be further segmented into two formats, chained and independent restaurants, and serve a wide variety of cuisines from ethnic foods to vegetarian meals to traditional western style restaurants. Chain restaurants have multiple locations while independent restaurants are considered sole proprietor or partnership operations. In Canada, within the category of full-service restaurants, independent restaurants dominate, accounting for 61% of sales, while chained restaurants accounted for just 39% (Euromonitor International, 2008).

Western style restaurants can range from burger restaurants such as White Spot and Red Robin to more up-scale restaurants such as The Keg and Cactus Club Cafe to fine dining restaurants such as C Restaurant and West Restaurant. There are also a multitude of ethnic restaurants such as Italian, Greek, French, Japanese, Chinese and Korean restaurants. Most ethnic restaurants are not franchised and run independently. However, there are many franchised Italian pizza restaurants such as Boston Pizza and Pizza Hut Restaurant. Some popular independent ethnic restaurants in Vancouver include Hapa Izakaya and Guu Izakaya on Robson Street, Maurya Indian Cuisine on

Broadway, and Sun Sui Wah Seafood Restaurant on Main Street. All these restaurants will be either direct or indirect competitors to a MOS Burger location in Vancouver.

Full-service burger restaurants, like White Spot, will most likely compete for the same customers as MOS Burger because of similar product offerings. While they may be perceived to be higher in food and service quality, MOS Burger will have an advantage as it provides high-quality burgers for a lower price. Alternatively, other full-service restaurants will be an indirect competitor to MOS Burger. Although this competition is strong, it could be considered indirect because customers who eat at full-service restaurants are dining for different reasons (i.e. food and service quality) than at a limited-service restaurant such as MOS Burger. Therefore, while full-service restaurants compete in the same market, they largely serve a different segment and attract customers for an entirely different reason. Ultimately, the advantage that MOS Burger has is that it will provide cheaper and more convenient food.

Another strong but indirect competitor are full-service Asian restaurants. Because of the heavy Asian population of Greater Vancouver (over 32 %), there are a multitude of Japanese sushi and noodle restaurants, along with Chinese, Korean, Thai, and Vietnamese restaurants that offer a large variety of Asian cuisines. However, full-service Asian restaurants cater to a slightly different consumer base due to their different products, slower service, and higher prices. A typical meal at a Japanese noodle restaurant in Vancouver such as Kintaro Ramen on Denman Street or Benkei Restaurant on Robson Street is approximately \$10 before tip.



#### 4.2.2 Limited-Service Restaurants

Limited-services restaurants, also referred to as Quick Service Restaurants, are comprised of three sectors: fast food restaurants, 100% home delivery/takeaway restaurants, and cafeterias. In Canada, within the category of limited-service restaurants, fast food restaurants dominate; accounting for 89% of sales, while 100% home delivery/takeaway account for 8%, and cafeterias account for just 3% (Euromonitor International, 2008).

The fast food category includes many multinational chain companies. Among the top fast food companies are Tim Horton's, McDonald's, Subway, Wendy's, A&W and Dairy Queen. There are other locally-based burger chains in Vancouver such as Splitz Burger or Vera's Burger Shack which serves a variety of hamburgers in 12 locations throughout Greater Vancouver. Furthermore, in Vancouver there are many Asian fast food restaurants, both sushi and noodle restaurants such as Sushi Café and Famous Sushi, and food-court style restaurants such as Flaming Wok, Thai Express and Edo Japan. These fast food restaurants, especially burger and Asian based restaurants will be direct and strong competitors for MOS Burger.

100% home delivery/takeaway sector in Canada is typically dominated by pizza restaurants. However there has been a recent increase in the popularity of take-out ethnic restaurants, particularly Chinese cuisines (Euromonitor International, 2008). Chinese food is not only popular amongst the large ethnic Chinese population but also widely consumed among other segments of the population. A factor that has led to an increase in the popularity of Chinese food is that it is perceived as more healthy in comparison to other food types such as burgers, fries and pizza (Euromonitor International, 2008).

Table 4 illustrates the growth between Pizza 100% home delivery/takeaway and Other 100% home delivery/takeaway (e.g. Chinese food). However, the 100% home delivery/takeaway category is dominated by international companies which account for 75% of the total sales in this segment. At the top are the international chains Domino's Pizza, followed by Pizza Hut Express, and Little Caesar's Pizza.

*Table 4 - 100% Home Delivery/Takeaway by Subsector: % Foodservice Value Growth 2002-2007*

<b>% value growth</b>	<b>2006/07</b>	<b>2002-07 CAGR</b>	<b>2002/07 TOTAL</b>
Pizza 100% home delivery/takeaway	5.3	3.2	17.3
Other 100% home delivery/takeaway	6.4	4.6	25.2

SOURCE: Euromonitor International (2008).

The cafeteria sector had a decrease in sales and number of outlets in 2007. Within this category, Bread Garden originally owned by The Spectra Group of Great Restaurants held the leading position in terms of brand share in 2007 (Euromonitor International, 2008). Because both the cafeteria and 100% home delivery/takeaway segments provide a different type of cuisine and service, they are considered an indirect competitor to MOS Burger.

#### **4.2.3 Special Food Services**

Special food services include social and contract caterers, and mobile services such as street stalls and kiosks. Social and contract caterers make up the majority of this category with approximately 87% of sales while mobile services comprised of 13% of

sales (Euromonitor International, 2008). Caterers, such as Cara Operations Limited who owns Canada's leading provider of catering services to the airline and railway industry as well as local Vancouver caterers, such as Culinary Capers Catering and Out To Lunch Catering pose as only an indirect threat to MOS Burger because of their different target markets.

On the other hand, mobile services, such as hot dog carts, are direct competitors to MOS Burger due to their fast food type service. In Vancouver, Japa Dog is an extremely popular food cart operator serving hotdogs with a Japanese twist. It has already expanded to three locations in downtown Vancouver and overall, has been extremely successful since opening in 2005. Over the past four years Japa Dog has been featured in numerous articles in the Vancouver Sun, Vancouver Province, Vancouver Shinpo (Japanese newspaper) and on television by CBC, City TV, and No Reservations with Anthony Bourdain. In the 2008, Vancouver Magazine mentioned Japa Dogs in their article "101 Great Tastes/101 Things to Taste Before You Die" (Japa Dog, 2009). Vancouver Magazine wrote, "There's simply no competition when it comes to the best wiener in town. Japa Dog's crowd-drawing hotdog stand at Burrard and Haro has people waiting in line-ups down the street every lunch hour" (Vancouver Magazine, 2009). A few menu items are Misomayo (a turkey hotdog with radish sprouts, miso-sesame dressing and Japanese mayonnaise) and Beef Terimayo (a beef hotdog with teriyaki sauce, Japanese mayonnaise, seaweed and fried onions). Japa Dog poses as a direct and strong competitor to MOS Burger due to its fast food nature, and similarities in product offering, both in cuisine and perceived quality and healthfulness.

Another direct competitor that offers similar service as Japa Dog with a Japanese tailored taste is Tenku Bakudanyaki (Tenku) in Richmond which offers Japanese style fritters out of their mobile unit. Tenku opened earlier this year and has been relatively successful to date (personal communication, July 22, 2009). They have been extremely busy during weekends and peak lunch and dinner hours and are currently looking into alternatives to increase business during non-peak hours. Growth for Tenku can be improved by increasing their advertising (currently only word-of-mouth), speeding up their service, and expanding their menu. Nonetheless, the owners at Tenku Bakudanyaki have seen an increasing trend in weekly sales since their opening.

#### **4.2.4 Drinking Places**

Drinking places is divided into two segments, cafés/bars and other café/bars. Within cafés/bars, the specialist coffee shop chains are the main players, with Starbucks Coffee capturing a 12% share of total sales in 2007 (Euromonitor International, 2008). Other key players in this segment are Second Cup Coffee Co and Blenz Coffee Ltd. Regionally, in Greater Vancouver there is an abundance of bubble tea cafés. Originating from Taiwan, bubble tea is a tea beverage containing tapioca balls, or pearls, and is very popular amongst the Asian community in Vancouver. Several key players in Greater Vancouver are Pearl Castle in Richmond and Bubble World and Dragon Ball Tea House in Vancouver. In Canada the majority of the sales of other cafés/bars came from stores that focus on alcoholic beverages, particularly in the case of chained operations such as Steamworks Brewing Company. This segment is not a direct competitor to MOS Burger,

however it does serve as a food substitute to consumers which will detract from sales for MOS Burger.

Table 5 provides a brief summary of some leading players in the commercial foodservice industry in Greater Vancouver.

*Table 5 - Summary of Main Players by Type*

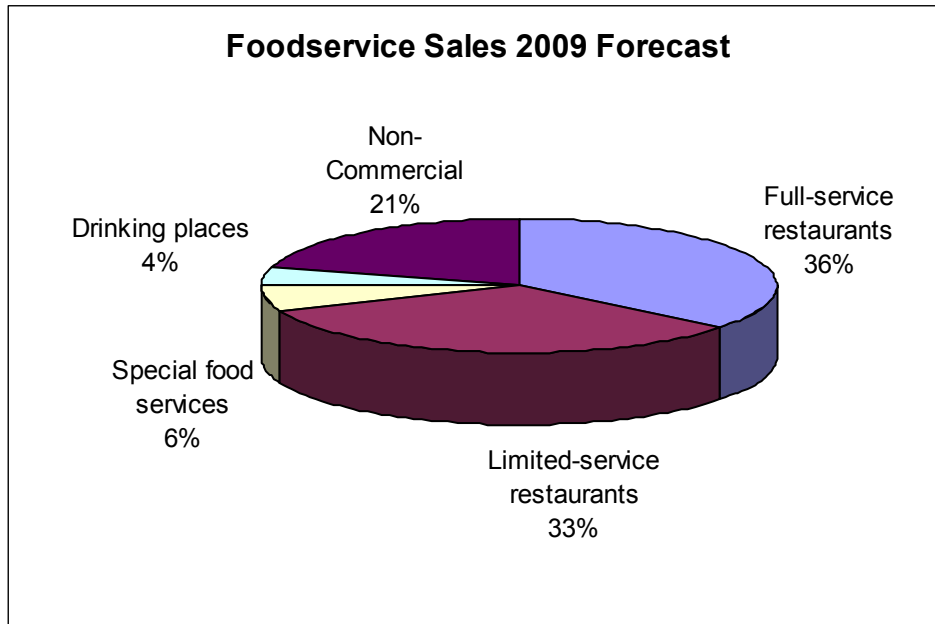
Segment	Leading Examples	Competition for MOS Burger	Comments
Full-Service Chains	White Spot The Keg	Direct Indirect	Burger based Different primary products and dining experience
Full-Service Independents	West Restaurant Sun Sui Wah Hapa Izakaya Kintaro Ramen	Indirect Indirect Indirect Indirect	All different primary products and dining experience
Limited-Service Fast Food	McDonald's Tim Horton's Vera's Burger Shack	Direct Direct Direct	Burger based products Similar service and atmosphere Burger based products
Limited-Service 100% Home Delivery/Takeaway	Domino's Pizza	Indirect	Different primary products and dining experience
Limited-Service Cafeterias	Bread Garden	Indirect	Different primary products and dining experience
Special Food Services	Japa Dog Tenku Bakudanyaki	Direct Direct	Similar cultural experience, products and service Similar cultural experience, products and service
Drinking Places	Starbucks Bubble World Steamworks Brewing Co.	Indirect Indirect Indirect	All different primary products and dining experience

### 4.3 Size Distribution

Figure 9 indicates that in Canada for 2009, the sales forecast for full-service restaurants will account for 36% of total foodservice sales; limited-service restaurants

will account for 33%; special food services will be 6%; drinking places will account for 4%; and non-commercial foodservice sales will account for the remaining 21% (CRFA, 2009).

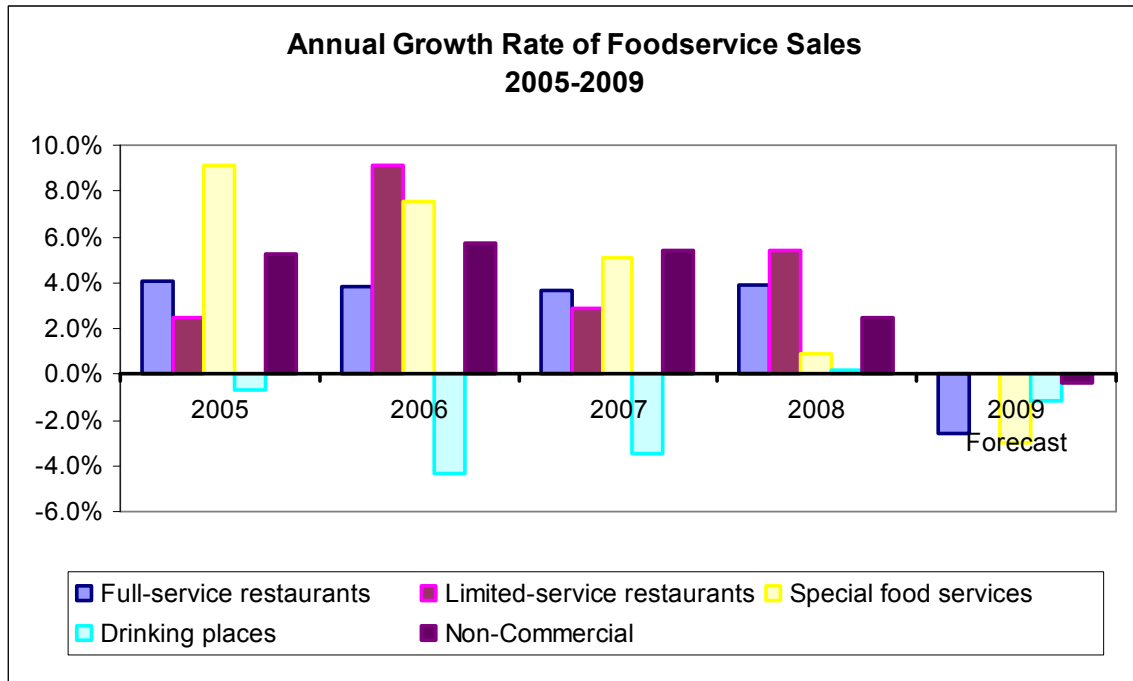
Figure 9 - Foodservice Sales 2009 Forecast



SOURCE: Adapted from CRFA (2009).

Figure 10 provides the annual growth rate of foodservice sales from 2005 to 2009. This figure illustrates that full-service, limited-service and drinking places incurred a positive growth in sales in 2008, while special food services and non-commercial foodservices experienced negative growth in sales in 2008. In 2009, all segments are forecasted to incur negative growth in sales, except limited-service restaurants which will generate break-even growth compared to 2008.

Figure 10 - Annual Growth Rate of Foodservice Sales



SOURCE: Adapted from CRFA (2009).

## **5: Porter's Five Forces Analysis**

The state of competition in an industry depends on five basic forces: threat of entry, rivalry among competitors, threat of substitutes, power of buyers, and power of suppliers. The combined strength of these forces determines the ultimate profit potential in the foodservice industry, where profit potential is measured in terms of long run return on invested capital (Porter, 1980).

The five competitive forces indicate that competition in an industry goes well beyond the established players. Substitutes, customers, suppliers, and potential entrants are all “competitors” to firms in the industry and may be more or less prominent depending on the particular circumstances. The intensity of industry competition and profitability are determined by all five competitive forces, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation (Porter, 1980).

MOS Burger is competing directly in the limited-service and special food services segments of the foodservice industry, therefore the Five Forces analysis will be specific to these segments.

### **5.1 Threat of Entry (Strong)**

The threat of entry into an industry depends on both the barriers to entry that are present and the reaction from existing competitors that the entrant can expect. If barriers



are high and/or the new entrant can expect sharp retaliation from incumbent competitors the threat of entry is low (Porter, 1980).

There are seven major sources of barriers to entry: economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, government policy, and cost disadvantages independent of scale. Very few of these factors provide significant entry barriers in the foodservice industry, therefore making the likelihood of new entrants strong.

### **5.1.1 Economies of Scale**

Economies of scale refers to the decline in unit costs of a product (or operation or function that goes into producing a product) as the absolute volume per period increases. Economies of scale deters entry by forcing a new firm either to enter at a large scale and risk strong reaction from existing firms or to enter at a small scale and accept a cost disadvantage (Porter, 1980).

In the foodservice industry, established players usually have established relationships with trusted suppliers and their bargaining power benefits from economies of scale. Furthermore, incumbent chain restaurants can reap economies similar to scale by sharing operations or functions with their multiple operations such as marketing and advertising. New entrants may have difficulty emulating the bargaining power to gain quality products more cost-effectively and distribute overhead costs over various operations. However, scale economies do not create a strong barrier, as evidenced by the large number of independent restaurants.

### **5.1.2 Product Differentiation**

Product differentiation means that established firms have brand identification and customer loyalties, which stem from customer service, product differences, past advertising, or simply being first into the industry. A barrier to entry is created through differentiation by forcing entrants to spend heavily to overcome existing customer loyalties (Porter, 1980).

In the foodservice industry, product differentiation exists throughout all restaurants. Most of the chained restaurants have widely marketed their brand image, customer service is different at every restaurant, and cuisine is offered in various ways. New restaurants can overcome brand identification and customer loyalties by serving a good quality and unique product, coupled with good service and a nice environment. Furthermore, customers are often looking for variety or for something new to try. For these customers, this dilutes the effectiveness of brand as an entry barrier.

### **5.1.3 Capital Requirements**

The need to invest large financial resources in order to compete creates a barrier to entry. In the commercial foodservice sector, entry generally requires little capital and independent foodservice outlets can be successful as sole proprietor operations. If owners are ambitious, they can expand their company beyond a single restaurant through franchising. This alternative reduces the costs for the parent company, and is a key expansion route for many large foodservice firms.

#### **5.1.4 Switching Costs**

The presence of switching costs, or one-time costs facing the buyer of switching from one restaurant to another, creates a barrier to entry. In the foodservice industry, because supply (i.e. raw food) is relatively homogeneous between suppliers, the cost of switching is pretty minimal.

#### **5.1.5 Access to Distribution Channels**

A barrier to entry can be created by the new entrant's need to secure distribution for its product. Most foodservice operators will not find this an issue because their distribution channel is providing food and service at the restaurant.

#### **5.1.6 Government Policy**

All businesses must comply with the licenses, permits and regulations of the municipality involved, along with the provincial/territorial and federal governments. Some policies that restaurants need to comply with are food establishment license, liquor license, vendor permit, building permit, health regulations and requirements, food and drugs act, and smoking regulations (Government of Canada, 2006). Because the government policies are highly realizable, they do not create a great threat of entry to potential foodservice operators.

There are also strict government regulations regarding the handling and preparation of food which could be a barrier to entry for a sole proprietor who is new to the industry. However, companies with the capital to obtain quality kitchen equipment and trained staff would not find this burdensome.

### **5.1.7 Cost Disadvantage Independent of Scale**

Established restaurants may have cost advantages not replicable by potential entrants no matter what their size and attained economies of scale. Some of the critical advantages are factors such as favourable access to materials – having locked up the most favourable ingredients and/or tied up foreseeable needs earlier at prices reflecting a lower demand for them than currently exists, and having a favourable location – acquired a location that is popular before market forces bid up prices to capture their full value.

## **5.2 Rivalry Among Existing Competitors (Strong)**

Rivalry among existing competitors takes the familiar form of jockeying for position – using tactics like price discounting, new product introductions, advertising campaigns, and improved customer service. Rivalry occurs because one or more competitors either sees the opportunity to improve its position or feels pressured (Porter, 1980). Rivalry is highest when firms compete primarily by lowering price – and is lowest when firms compete on non-price dimensions and can keep prices well above costs. Intense rivalry in the commercial foodservices industry can result from a number of interacting structural factors.

Revenue performance has been improving in the foodservice industry, therefore there are numerous and diverse competitors and minimal switching costs which creates a strong rivalry among existing competitors. However, much of this industry features great differentiation between segments and minimal exit and fixed cost which reduces the rivalry. Overall, rivalry in the foodservice industry is still assessed as strong.

### **5.2.1 Numerous or Equally Balanced Competitors**

The foodservice sector has thousands of competitors from independent restaurants to national chain restaurants. This would tend to increase the level of rivalry because it is virtually impossible to collude to keep prices high and some competitors will inevitably choose to compete by lowering prices.

### **5.2.2 Industry Growth**

Healthy revenue performance in recent years eases rivalry amongst competitors, as it is more possible for a player to increase its own revenues without encroaching on those of its competitors; foodservice companies can improve results just by keeping up with industry growth.

### **5.2.3 Lack of Switching Costs**

In any segment of the foodservice sector there are many companies with similar structures that offer comparable products such as within the fast food segment. Because of this, the consumer incurs little or no cost when switching their foodservice provider. As a result, the rivalry between players within the industry intensifies.

### **5.2.4 Extensive Differentiation**

There is immense differentiation in the foodservice industry. Restaurants differ in many aspects such as location, price, service, type of cuisine, and ambience. Furthermore, restaurants differ greatly from each segment. For instance, full-service restaurants differ greatly from special food services. Within segments, the levels of differentiation vary. Within fine dining restaurants, there is great differentiation in terms of cuisine, service, ambience, and location; whereas in limited-service restaurants such as

McDonald's and Wendy's, the level of differentiation is lower. However, even within the relatively homogenous segment of the fast food market, there are some forms of differentiation such as product line-up and marketing campaigns. This abundance of differentiation reduces the magnitude of rivalry between competitors in different segments but intensifies the competition within segments.

### **5.2.5 Diverse Competitors**

With the increase in ethnic foodservice operators there has been an increase in competition. Because of these diverse competitors, firms have different goals and strategies on how to compete which will lead to increased competition amongst each other. For example small and independent foreign restaurant owners may be satisfied with a subnormal rate of return on their invested capital, whereas such returns are unacceptable and may appear irrational to a local and independent restaurant owner.

### **5.2.6 Exit Barriers**

Exit barriers are economic, strategic, and emotional factors that keep companies competing in businesses even though they may be earning low or even negative returns on investments (Porter, 1980). In the foodservice industry, rivalry is somewhat mitigated by the relative ease of expansion and also the absence of high exit costs. Complete exit from the industry is not excessively expensive: physical assets such as restaurant properties do not represent significant sunk costs even if owned rather than rented because they can be sold for a reasonable price. Also, most of the employees that are laid off will not be eligible for costly unemployment or severance payments.

### **5.2.7 Fixed Costs**

Price competition is most likely to occur if fixed costs are high and marginal costs are low. This creates intense pressure for competitors to cut prices below their average costs to steal incremental customers while still making enough contributions to cover their fixed costs (Porter, 2008). However, in the foodservice industry costs are more variable in terms of food and labour, thus competitors can more easily adjust their output to shifts in demand. As a result price competition is less likely to occur and the intensity of rivalry is lower.

## **5.3 Threat of Substitutes (Moderate to Strong)**

In a broad sense, all firms in the foodservice industry are competing with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge (Porter, 1980). The main threat of substitutes in the commercial foodservice industry is the backwards integration of customers who prepare their own food.

The main switching cost for foodservice customers is the opportunity cost of the time spent in the kitchen, as home-cooked food is usually cheaper than a meal in a restaurant. Another substitute could be alternate leisure activities such as movie and theatre going. This would constitute an indirect substitute as consumers could decide on these activities as opposed to eating a meal in a restaurant while socializing with friends.

An increasing trend in convenience foods such as eating “on the go” or “dashboard dining” has impacted the foodservice sector as the number of formal meal

occasions for a consumer has been reduced and has driven business to retailers instead. To deal with the threat of substitutes, the usual strategy adopted by commercial foodservice is to sell an experience as well as food and drinks. Chain restaurants usually achieve this experience through investing in building their brand. For high-end independent full-service restaurants, it may involve developing a greater individualized identity or prestige, and perhaps focusing on the influence of a particular cooking style (Datamonitor, 2008).

Overall, the pressure from substitute products on the commercial foodservice industry is assessed as moderate to strong.

#### **5.4 Power of Buyers (Weak to Moderate)**

Powerful customers can capture more value by forcing prices down, demanding better quality or more service (thereby driving costs up), and generally playing industry participants off against one another, all at the expense of the industry (Porter, 2008). The only buyers in the commercial foodservice industry are the individual consumers.

The main source of consumer power is the lack of switching costs. In other words, within a given price range, a consumer's choice of foodservice provider is guided by personal taste and can vary from day to day. Also, foodservice is not strictly essential to consumers, therefore there is a relatively high price elasticity of demand. Furthermore, consumers can integrate backwards by cooking their own food and forego eating at restaurants.



Typically, restaurants and other foodservice providers require high transaction volumes to be profitable. Thus, with high volumes the impact on revenue from a single consumer is usually small. There is however, the exception of premium-priced, non-chain restaurants, whose business model relies on low-volume and high-margin sales.

With low- to medium-priced segments, investing in brand awareness has motivated customer loyalty. When this is combined with the social and convenience aspect of foodservice, it makes it a more desirable option to the consumer than eating at home.

Overall, the bargaining power of buyers in the commercial foodservice industry is weak to moderate.

## **5.5 Power of Suppliers (Moderate to Strong)**

Suppliers can exercise bargaining power in an industry by threatening to charge higher prices, limiting quality or services, or shifting costs to industry participants (Porter, 1980). In the foodservice industry, the main suppliers are labour and raw food providers.

The foodservice sector is a labour intensive industry, and wages form a significant proportion of operating costs at approximately 25-30% (Datamonitor, 2008). Because of the regulation of a statutory minimum wage, there is an increasing need for foodservice companies to keep costs as lean as possible. However, since foodservice labour is not a highly skilled work sector, the importance of this source of supplier is not strong.

The foodservice sector is generally a low-margin business, therefore, there is a need to source good quality food at low prices. Sourcing common raw foods should not create a threat to restaurant businesses because of their large supply, however sourcing seasonal or limited products can be costly depending on the supply and demand. There are also risks associated with the disruption in supply chain for the foodservice business. Switching costs could increase if a competing supplier is unable to offer the same food of adequate quality and meet various demands such as time and quantity.

There are some companies in the higher-priced segment, typically operating only one or a few restaurants that integrate backwards and purchase their food supplies directly from farmers' markets. However, this practice is often unfeasible in terms of both cost and time for the majority of restaurants that are lower or moderately-priced. Many commercial suppliers of the foodservice industry are large companies that service a large number of customers (i.e. foodservice businesses); this means that there is less pressure for these suppliers to keep their prices down (Datamonitor, 2008). For example, Neptune Food Service is a large Canadian supplier who delivers thousands of products to hundreds of foodservice businesses. Overall, because of a company's dependence on their suppliers, the bargaining power of suppliers in the commercial foodservice industry is moderate to strong.

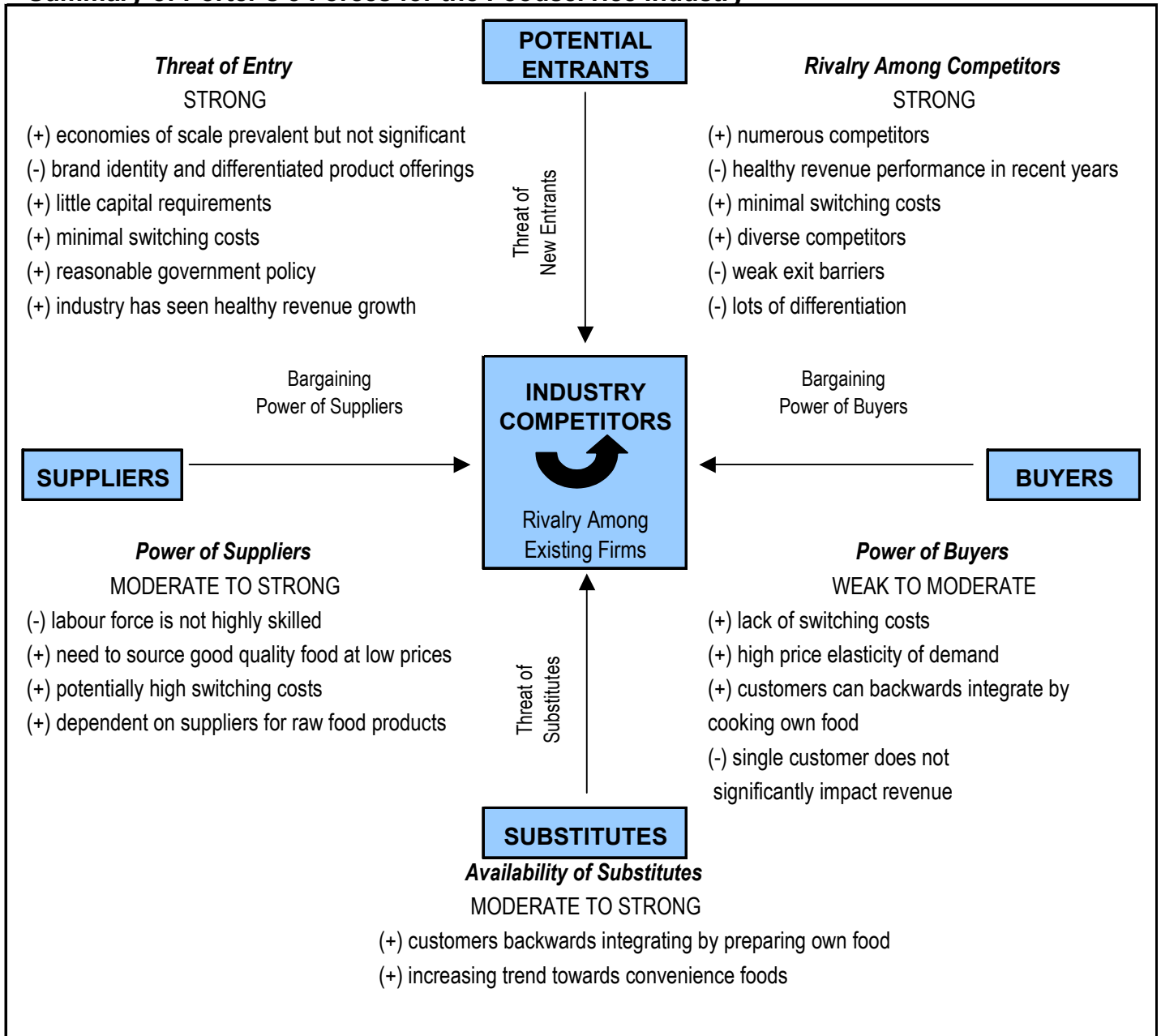
## **5.6 Summary of Competitive Forces**

The greatest threat to the commercial foodservice industry is the likelihood of consumers to increase their alternative choice of backwards integrating by purchasing

raw materials cheaply and cooking the meal for themselves. Furthermore, the large amount of competitors has created a constant battle to differentiate and attract customers by creating a unique experience and including some form of entertainment value through brand awareness and the environment they offer. Moving upstream in the sector, the suppliers in the industry are relatively independent and large in size. Suppliers can exert pressure on the foodservice companies by potentially demanding higher prices, whereas foodservice companies have the need to keep raw food prices low. As a result, suppliers have the power to reduce profit margins for the foodservice industry. Finally, the foodservice industry has been achieving healthy revenue and market growth, which when coupled with the limited barriers to entry is attractive for new players to enter the industry. Figure 11 summarizes the Five Forces graphically.

Figure 11 - Summary of Porter's 5 Forces

**Summary of Porter's 5 Forces for the Foodservice Industry**



The assessment of the strength of the forces is summarized in Table 6. The overall attractiveness of the foodservice industry in Vancouver is neutral to unfavourable because of the strong threat of entry, intense rivalry and moderately strong threat of substitutes and supplier power. However, in terms of a new entrant, the industry is slightly more favourable because of the limited barriers to entry.

*Table 6 - Strength of Five Forces and Industry Impact Rating*

<b>Five Forces</b>	<b>Strength</b>	<b>Impact to the Industry</b>
Threat of Entry	Strong	Unfavourable*
Rivalry Among Existing Competitors	Strong	Unfavourable
Threat of Substitutes	Moderate to Strong	Unfavourable
Power of Buyers	Low to Moderate	Favourable
Power of Suppliers	Moderate to Strong	Unfavourable
<b>Overall Rating</b>		<b>Unfavourable</b>

\* Unfavourable for firms in the industry but favourable for the new entrant

## 6: Sources of Advantage

The Five Forces analysis indicates that success in the restaurant business can be elusive as the industry faces relatively strong forces of competition. In order to cope with these forces, Michael Porter describes three generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation, and focus (Porter, 1980). These three generic strategies can be used to breakdown the foodservice industry into numerous sources of advantage.

In this section, I discuss ten potential sources of advantage (SofA). These sources of advantage have been collated and categorized by the three strategies in Table 7. These factors play a role in the level of success achieved in the industry by foodservice operators. However, individual firms must choose the particular factors they will use to develop a competitive advantage.

*Table 7 - Sources of Advantage by Strategy*

<b>Cost Leadership</b>	<b>Differentiation</b>	<b>Focus</b>
Low Operating and Overhead Costs Company Size	Good Location(s) High Quality Food Enjoyable Ambience Good Service	Low Price Unique Menu Offering Strong Marketing Asian Flavour

In the limited-service restaurant segment, particularly the fast food sub-segment, many companies such as McDonald's and Burger King, emphasize low cost strategies to

offer low prices and quick service. Because these companies offer similar products they cannot charge too many standard deviations above the mean otherwise customers will shift towards a competitor. However, companies such as Tim Horton's and Japa Dog use a focus strategy to target healthier and/or offer a different type of cuisine to cater to a particular market. In other words, these companies are focused around serving a particular target very well. MOS Burger will most likely utilize the differentiation and focus strategy since their products are more unique, higher quality, catered to the Asian market, and as a result offer products that are priced slightly higher than average.

The following sections describe the three strategies and the ten SofA as they fit within these strategies.

## **6.1 Overall Cost Leadership**

The first strategy to gain a competitive advantage is to achieve overall cost leadership in an industry through a set of functional policies aimed at this basic objective. Cost leadership requires aggressively creating efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, and cost minimization in areas like service, research and development, sales force, advertising, and so on (Porter, 1980). In the foodservice industry, an overall cost leadership strategy can be achieved by keeping operating and overhead costs to a minimum. Large firms can also achieve cost leadership by leveraging their purchasing power.

### **6.1.1 Low Operating and Overhead Costs**

To create a successful foodservice restaurant, the restaurant needs to operate with low costs because of low-margins. The exception to this are fine dining restaurants which typically have greater margins than the rest of the foodservice categories.

For new entrants, variable cost such as labour and food costs must be strictly managed. Overhead costs such as rent, utilities, and marketing also need to fall within budget for the long run viability of the business.

### **6.1.2 Company Size**

Having a large company can reduce the dependence on various suppliers through purchasing supplies in large quantities. This provides the company with considerable leverage over suppliers and thus reduces costs.

## **6.2 Differentiation**

The second generic strategy to gain a competitive advantage is to differentiate the products or service offerings of the firm and creating something that is perceived industry-wide as being unique. Approaches to differentiating in the foodservice industry can take many forms: having a good location, serving high quality food, having an enjoyable ambience, and providing good service. Ideally, the firm will differentiate itself along several dimensions (Porter, 1980).



### **6.2.1 Good Location(s)**

Opening a restaurant in a good location is critical to the success of the business. Regardless of a restaurant's type and sources of demand, customers must be able to find and access the restaurant easily.

### **6.2.2 High Quality Food**

Customers inherently want to eat high quality food. Serving higher quality food than your competitors will differentiate your business and attract more customers. Furthermore, high quality foods are typically synonymous with fresher and healthier foods. Therefore, it is important to consistently offer food that is of high quality.

### **6.2.3 Enjoyable Ambience**

Restaurants can differentiate themselves from competitors by the ambience and environment they create. An enjoyable eating atmosphere such as an outdoor patio, televisions, tasteful décor, live music, and a comfortable eating environment will definitely attract and keep customers.

### **6.2.4 Good Service**

Good service coupled with good food is what customers look for when they enter a restaurant. Having quality in service improves the overall experience for the customer and can be what sets a restaurant apart from another. Having poor and/or slow service creates an unsatisfying experience and can hinder the probability of recurring visits.

## **6.3 Focus**

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market. Even though the low cost and differentiation strategies are aimed at achieving their objectives industry-wide, the entire focus strategy is built around serving a particular target very well. The strategy is based on the premise that a firm is able to serve its narrow strategic target more efficiently or effectively than competitors who are competing more broadly. As a result, the firm achieves either lower costs in serving this target, or differentiation from better meeting the needs of the particular target, or both (Porter, 1980). In the foodservice industry, this focus strategy can be achieved using several methods such as: offering a low price, having a unique menu, strong marketing, and offering an Asian flavour.

### **6.3.1 Low Price**

In the limited-service segment, and particularly in the fast food sector, many customers are price conscious. Offering low or even average prices will help attract and retain customers in this segment. Full-service restaurants such as fine dining restaurants will not be adversely affected by prices because their target customers are those with higher discretionary and disposable income.

### **6.3.2 Unique Menu Offering**

Focusing on a unique menu will help attract the customers that restaurants are targeting. As long as the menu remains focused, customers will find the restaurant to be distinct and perhaps a specialty.

### **6.3.3 Strong Marketing**

Having strong marketing and advertising can help a business reach out to the population about the product, service, and atmosphere the restaurant has to offer. Marketing can broadcast a business' differentiated brand image which will help make it stand out from the competition.

### **6.3.4 Asian Flavour**

With the large ethnic minority in Vancouver, ethnic cuisines such as Asian cuisines are highly appealing to this segment of the population. Furthermore, the increase in popularity in fusion cuisines and diversified restaurants has made ethnic cuisines appeal to a broader population.

## **6.4 Competitive Analysis Based on Sources of Advantage**

Achieving some of the ten sources of advantage described is the first step to having a successful business in the foodservice industry in the GVRD. A restaurant will be even more successful if they are superior within all ten categories when compared to its competitor. Table 8 indicates the ten sources of advantage and compares MOS Burger's status with various competitors. The performance evaluation of three major competitors is scored over a 5-point scale. A score of 1 indicates the lowest perceived performance while a score of 5 suggests the highest level of performance in that area.

Table 8 - Rating of Competitors on Sources of Advantage

Sources of Advantage	McDonald's	White Spot	Japa Dog	MOS Burger
Cost Leadership				
Low Operating and Overhead Costs	4	3	5	3
Company Size	5	4	1	4
Differentiation				
Good Location(s)	5	5	3	4*
High Quality Food	1	3	3	4
Nice Ambience	2	3	1	3
Good Service	2	3	2	3
Focus				
Low Price	5	3	4	4
Unique Menu Offering	3	3	5	5
Strong Marketing	5	5	1	4
Asian Flavour	1	2	5	5
* Location for MOS Burger is undetermined				

From Table 8 we see that MOS Burger's strong SofA are all within the differentiation strategy and focus strategy which are its two intended forms of strategy. The two cost-based SofA are less than that of McDonald's because MOS Burger will not compete in this area.

## 6.5 Summary of Sources of Advantage

Several opportunities and threats have been identified based on the Five Forces and Competitive analyses. The two biggest threats for MOS Burger compared to its competitors is the low operating and overhead cost structure and the relative size of the corporation in the fast food industry (i.e. most fast food restaurants are multinational chains). Alternatively, MOS Burger has several opportunities compared to its competitors. MOS offers higher quality food, comfortable ambience, better service, a differentiated menu, and has greater Asian appeal compared to most of their competitors.

Location and strong marketing is difficult to assess since MOS Burger has not yet made any efforts to enter the Vancouver market.

## **7: MOS Burger – SWOT Analysis**

In order to assess MOS Burger's competitive advantage within the foodservices industry in the GVRD we can use the SWOT Analysis (an acronym derived from Strengths, Weaknesses, Opportunities, and Threats). A SWOT Analysis can be used to analyze firms' internal strengths and weaknesses in addition to analyzing the firms' external, environmental opportunities and threats (Bourgeois, Duhaime, & Stimpert, 1999).

### **7.1 Strengths**

The internal strengths of opening a MOS Burger Vancouver location are having an established international brand, offering a unique and premium quality product, appealing to healthy consumers, having a strong financial foundation, and its reputation for strong corporate social responsibility.

#### **7.1.1 Established International Brand**

MOS Burger has been extremely successful in Asia since establishing its operations in 1972. Currently, MOS Burger holds the second largest market share in the fast food burger sector in Japan. With their strong presence in Japan and their other locations in Asia, they are well established internationally. Having an established brand

in Asia will by help influence the Asian population of Vancouver to eat at MOS Burger and build upon their SofA of catering to Asian tastes and flavours.

### **7.1.2 Unique and Premium Quality Product**

MOS Burger positions themselves as a higher-end fast food alternative. MOS Burger's products are made-to-order and the menu is diverse and unique to the GVRD. Furthermore, MOS Burger's menus are prepared in consideration of calories and nutritional balance with minimal use of food additives (MOS Food Services, Inc, 2008). Based on the sources of advantage, their unique and high quality products will only help them succeed in the foodservice industry.

### **7.1.3 Appeals to Healthy Consumers**

In addition to being a higher-end fast food restaurant, MOS Burger is also known to serve healthier food than its competitors. The slogan of MOS Group outlets is "Delicious, safe and healthy" with "cordial service and a smile" (MOS Food Services, Inc, 2006). An example of their healthy initiatives occurred in 2006 when they changed their cooking oil to one that was blended with vitamin E which contains twice as much oleic acid (a healthy source of fat) as their previous oils.

### **7.1.4 Strong Financial Support**

As of March, 2008, MOS Burger has a capital of ¥11,412 million or roughly \$137 million CAD (conversion rate of 1 JPY = 0.012 CAD). Net sales and net income have oscillated over the past five years, however in 2009 MOS Burger expects to receive ¥552

million in net income. This large capital and positive net income for 2009 indicates that MOS Burger has large financial resources to expand their business. In doing so, MOS Burger can meet cost-based SofA by reducing operating costs and increase its company size.

### **7.1.5 Strong Corporate Social Responsibility**

MOS Burger has taken many initiatives towards CSR. In addition to their “Green MOS” outlets and “MOS Burger Food Education Promotion Committee”, MOS has entered into a voluntary agreement with the Japanese government to conserve the environment which resulted in a 50.7% conversion of plastic containers and packages into non-petroleum products and recycling of 20.0% of leftover food (MOS Food Services, Inc, 2008). Additionally, all MOS Burger chain stores have met the international standard for environment management system – ISO 14001.

## **7.2 Weaknesses**

MOS Burger’s new venture in the Canadian market will surely have weaknesses in its operations. Most notably, MOS Burger does not have any brand awareness or loyalty in Canada and its products are priced higher than most of their competitors.

### **7.2.1 Lack of Brand Awareness in the Canadian Market**

MOS Burger is new to the Canadian market meaning that they do not have direct brand awareness with local consumers. Having strong marketing can be a source of



advantage, therefore to compete with the major players such as McDonald’s, Burger King, and Wendy’s, MOS Burger will need to ramp up their marketing efforts. Also, it may be difficult for MOS Burger to build strong brand awareness due to the competitive foodservice industry in Greater Vancouver.

### 7.2.2 High Prices Compared to Competitors

MOS Burger has recently struggled in the Japanese market due to the poor economy and comparatively lower priced competitors, and has also been negatively impacted by the aggressive expansion of McDonald’s. Recently, MOS Burger lost market share in the Japanese chained burger fast food sector due to McDonald’s aggressive price-competition. In 2007, it suffered from McDonald’s new menu additions and outlet expansions (Euromonitor International, 2008). Because low price is a Sofa, being a higher priced alternative will create some weaknesses. For instance, the majority of local competitors such as McDonald’s, Burger King, and Wendy’s offer their products at lower prices. Table 9 illustrates a comparison of the cost to purchase a MOS Burger meal against its competitors.

*Table 9 - Sample Competitor Prices*

<b>Restaurant</b>	<b>Menu Item</b>	<b>Price</b>
MOS Burger	MOS Burger Meal	\$7.68
McDonald's	Big Mac Meal	\$6.08
Burger King	Whopper Meal	\$6.39
Wendy's	1/4 lb Single Meal	\$5.49
<i>Meal = fries and drink</i>		

## **7.3 Opportunities**

There are several factors that make the GVRD a potentially attractive opportunity for MOS Burger: the Greater Vancouver Regional District has a large Asian population, there is an increased focus on healthy diets, the foodservice market is experiencing growth, quick service restaurants are doing well, fast food sales are growing, and there is an increasing popularity for Asian fast food products.

### **7.3.1 Large Asian Population in Greater Vancouver Regional District**

As of 2006, the population of the GVRD is 2,116,581. Visible minorities represent 41.4% of the total population of Greater Vancouver with Chinese, South Asian, Filipino, and Japanese accounting for 693,015 people or 32.7% of the population (BC Stats, 2008), whereas the average visible minority population in Canada is 16.2% (Statistics Canada, 2008). This high percentage of ethnic diversity coupled with the proliferation of Asian and Fusion restaurants, creates a large potential market for MOS Burger. Please refer back to Table 3 for a breakdown of the ethnic diversity in Greater Vancouver.

### **7.3.2 Increased Focus on Healthy Diets**

There is an opportunity for healthier food alternative restaurants because of increased health consciousness of consumers and an aging population. MOS Burger's products contain significantly less fat and fewer calories than most of its North American counterparts such as McDonald's or Wendy's. Please refer to Table 10 for comparisons of nutritional facts between MOS Burger and its competitors.

Table 10 - Sample Nutritional Facts of Competitors

<b>Restaurant</b>	<b>Menu Item</b>	<b>Calories</b>	<b>Total Fat</b>
MOS Burger	MOS Burger	344	16g
McDonald's	Big Mac	540	29g
Burger King	Whopper	670	40g
Wendy's	1/4 lb Single	430	20g

### **7.3.3 Predicted Market Stability**

Even with the economic downturn, the Canadian commercial foodservice recorded record sales of approximately \$47 billion in 2008. However, in 2009 the estimated commercial foodservice is forecasted to fall by 1.5% (CRFA, 2009). Despite this, MOS Burger should fare well because the poor economy has led to an increase in sales for limited-service restaurants.

### **7.3.4 Increased Demand for Quick Service Restaurants**

The quick service restaurant (QSR) market is doing predominantly well during the current economic recession as Canadians continue to dine out. A survey of household spending from NPD Group indicated that the allocation of disposable income to restaurants rose 4% in the period of September to November 2008 as compared to the preceding year (CRFA, 2009). The growth in spending on restaurants was driven by quick service restaurants; consumers have increased their spending on quick service restaurants by over 5% and casual dining by 7% (CRFA, 2009).

### **7.3.5 Fast Food Growth**

In 2007, fast food sales in Canada grew at the rate of 4% to \$19 billion in spite of the increasing awareness of the unhealthy stigma of fast food (Euromonitor International, 2008). Burgers are still the consumer's number one choice when dining out at a quick service restaurant. According to a 2006 study by global market research firm NPD Group, the hamburger category accounts for 28% of all quick service visits in Canada and the U.S. (Glazer, 2007). Furthermore, from 2006 to 2007, the NPD Group monitored the incremental traffic change of the top 10 restaurant categories. The hamburger category showed the largest trend increase of 304 million more visits in 2007 than in 2006 (Glazer, 2007).

### **7.3.6 Increased Popularity in Asian Fast Food**

In 2007, the fastest growing fast food category in Canada was Asian fast food with a growth rate of 9% to a total of \$547 million, while Asian restaurant chains showed an even stronger growth rate of 11%. The growing popularity of Asian foods is attributed to its perception as being healthy. With growing health concerns associated with eating out, this category is becoming more popular amongst Canadians (Euromonitor International, 2008).

## **7.4 Threats**

MOS Burger encounters several external threats in the Vancouver market, namely the foodservice industry is extremely competitive, local consumer tastes may vary from Asian tastes, the poor economy, and the increased number of people eating at home.

### **7.4.1 Competitive Foodservice Industry**

MOS Burger will be competing in a highly competitive industry with numerous and diverse players in all segments – full-service, limited-service, specialty, and other foodservice operators.

### **7.4.2 Local Consumer Tastes May Vary from Asia**

MOS Burger's ingredients and tastes are tailored to that of the Asian population. Hence, their products may take a prolonged period before the non-Asian population of Greater Vancouver would accept it. MOS Burger's profit targets will largely depend on the 41.4% of visible minorities of the GVRD. However, with the success of Asian fast foods, MOS Burger should be able to capture market share from the rest of the Vancouver population.

### **7.4.3 More People are Eating at Home**

One of the biggest threats to any commercial foodservice restaurant is the threat of their consumers to backwards integrate into purchasing and preparing their own foods. Typically eating at home is cheaper, however, there are opportunity costs as this method usually is more time consuming.

## **7.5 Summary of SWOT Analysis**

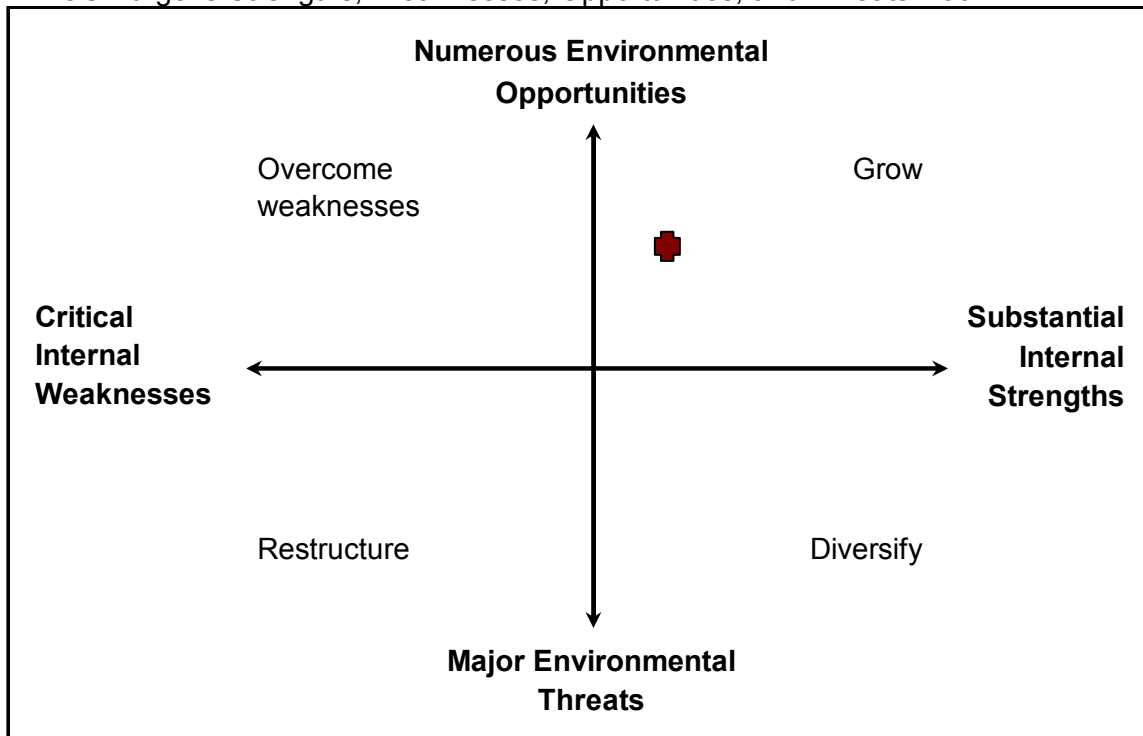
MOS Burger has many strengths such as having an established international brand throughout 7 countries in Asia; offering unique, premium, and healthy products; having strong financial support; and having strong corporate social responsibility. MOS Burger's few internal weaknesses are the lack of brand awareness in the Canadian market and price point that is higher than their immediate competitors such as McDonald's.

The current environment offers many opportunities for a new foodservice operator to succeed, especially those that are focused on healthy diets. Also, the large Asian population in Greater Vancouver (over 30%) and ethnic diversity, offer a great opportunity to expand an Asian based restaurant. Furthermore, with the increased demand in limited-service or quick-service restaurants, the growth in fast food sales, and the increasing popularity of Asian fast foods in particular, MOS Burger has great potential to succeed upon entry. On the other hand, there are several external threats such as the strong intensity of competition within the foodservice sector, uncertainty about consumers' acceptance of this new taste, and most importantly the increasing trend of consumers backwards integrating towards preparing their own meals.

MOS Burger has more strengths than weaknesses and opportunities than threats, therefore their strengths and opportunities outweigh their weaknesses and threats. As a result, MOS Burger should be placed in the upper right quadrant of the SWOT Matrix which is "grow" (Figure 12). In other words, the SWOT Analysis concludes that MOS Burger should take a growth strategy and enter the Greater Vancouver market.

Figure 12 - SWOT Matrix

MOS Burger's Strengths, Weaknesses, Opportunities, and Threats Matrix



## **8: Conclusion**

The commercial foodservice industry has seen relative growth over the past five years to sales of \$47.4 billion in 2008 in Canada. However due to the poor economy, the CRFA estimates a decrease in sales of 1.5% to \$46.7 billion for 2009. There is also an increasing threat to the commercial foodservice industry of consumers integrating backwards into preparing their own meals at home. On the other hand, the limited-service and quick service sector has experienced growth throughout the recession. The poor economy has led to an increasing trend towards consumers spending less money at fine dining or full-service restaurants and has encouraged consumers to purchase cheaper alternative foods from limited service restaurants. Furthermore, there is an upwards trend towards consumers eating healthier.

There is an excellent opportunity for MOS Burger to enter the Vancouver commercial foodservice market and capture market share. Although the foodservice industry has relatively strong forces acting against it – strong threat of new entrants and intensity of rivalry amongst competitors; moderate to strong threats of substitutes and power of suppliers; and weak to moderate power of buyers – MOS Burger has many strengths and external opportunities and should not ignore the potential for expansion into the Vancouver market. MOS Burger is already considering its strategy to expand worldwide (MOS of the World) and have the assets to do so – strong financial support and international brand awareness. Furthermore, MOS Burger can easily meet seven of



the ten sources of advantage of the commercial foodservice industry (good location, high quality food, enjoyable ambience, good service, low price, unique menu offering, and Asian flavour). For their Vancouver endeavour, it is imperative that they improve on the advantage of achieving strong marketing. The remaining two advantages of low operating and overhead costs and company size are cost-based strategies which conflict with MOS' differentiation and focus-based strategy. Overall, MOS should consider attempting to achieve its "MOS of the World" strategy by expanding into Vancouver due to the growth and popularity of fast food restaurants, the ethnic diversity of Greater Vancouver, as well as the increasing trend of Vancouverites to eat more healthy, all of which will provide MOS Burger with a competitive advantage over most limited-service restaurants and some full-service restaurants.

# Appendix

The following is a sample menu from MOS Burger Singapore:

## Main Menu



SOURCE: MOS Burger (2009)

## References

- Agriculture and Agri-Food Canada. (2005). *Canadian Food Trends to 2020 - A Long Range Consumer Outlook*. Ottawa: Agriculture and Agri-Food Canada.
- BC Stats. (2008). *Regional District 15 - Greater Vancouver Statistical Profile*. Victoria: BC Stats.
- BC Stats. (2008). *Tourism Sector Monitor*. Victoria: BC Stats.
- BK Magazine. (2009). *MOS burger*. Retrieved June 14, 2009, from BK Magazine Online: <http://bkmagazine.com/place/mos-burger>
- Bourgeois, L. J., Duhaime, I., & Stimpert, J. L. (1999). *Strategic Management: A Managerial Perspective*. Fort Worth: The Dryden Press.
- CRFA. (2009, March 16). *2008 in review: strong start, weak finish*. Retrieved June 15, 2009, from Canadian Restaurant and Foodservices Association: [http://www.crfa.ca/research/2009/2008\\_in\\_review\\_strong\\_start\\_weak\\_finish.asp](http://www.crfa.ca/research/2009/2008_in_review_strong_start_weak_finish.asp)
- CRFA. (2009, February 18). *Canadian diners unfazed by economic gloom*. Retrieved June 17, 2009, from Canadian Restaurant and Foodservices Association Web site: [http://www.crfa.ca/research/2009/canadian\\_diners\\_unfazed\\_by\\_economic\\_gloom.asp](http://www.crfa.ca/research/2009/canadian_diners_unfazed_by_economic_gloom.asp)
- CRFA. (2009). *CRFA's 2008 Foodservice Forecast*. Retrieved June 20, 2009, from Canadian Restaurant and Foodservices Association Web site: <http://www.crfa.ca/research/statistics/sales.asp>

- CRFA. (2009, January 19). *New data from Statistics Canada on household spending*. Retrieved 15 June, 2009, from Canadian Restaurant and Foodservices Association:  
[http://www.crfa.ca/research/2009/new\\_data\\_from\\_statistics\\_canada\\_on\\_household\\_spending.asp](http://www.crfa.ca/research/2009/new_data_from_statistics_canada_on_household_spending.asp)
- CRFA. (2009). *Statistics*. Retrieved June 14, 2009, from Canadian Restaurant and Foodservices Association Web site: <http://www.crfa.ca/research/statistics/>
- Datamonitor. (2008). *Foodservice in Canada*. New York: Datamonitor USA.
- Euromonitor International. (2008). *100% Home DELIVERY/TAKEAWAY - Canada*. Ottawa: Euromonitor International.
- Euromonitor International. (2008). *Cafés/bars - Canada*. Chicago: Euromonitor International.
- Euromonitor International. (2008). *Fast Food - Canada*. Chicago: Euromonitor International.
- Euromonitor International. (2008). *Full-service Restaurants - Canada*. Chicago: Euromonitor International.
- Euromonitor International. (2008). *MOS Food Services Inc - Consumer Foodservice - Japan*. Chicago: Euromonitor International.
- Euromonitor International. (2008). *Self-service Cafeterias - Canada*. Chicago: Euromonitor International.
- Euromonitor International. (2008). *Street Stalls/kiosks - Canada*. Chicago: Euromonitor International.

Glazer, F. (2007, June 18). Gourmet coffee and tea, burgers top growth segments.

*Nation's Restaurant News* , p. 16.

Government of Canada. (2006, March 9). *Starting a Restaurant*. Retrieved June 25, 2009,

from Canada Business:

[http://www.canadabusiness.ca/servlet/ContentServer?cid=1099483437553&page name=CBSC\\_FE%2Fdisplay&lang=en&c=GuideHowto](http://www.canadabusiness.ca/servlet/ContentServer?cid=1099483437553&page name=CBSC_FE%2Fdisplay&lang=en&c=GuideHowto)

Hawaii Business. (2005, March 1). HB Archives. *Hawaii Business* , p. 67.

Japa Dog. (2009). *Publicity & Famous Person*. Retrieved July 17, 2009, from Japa Dog

Website: <http://www.japadog.com/pub/index.html>

Lupick, T. (2008, April 3). *Georgia Straight*. Retrieved July 20, 2009, from Canada's

2006 census results show changing ethnicity in Vancouver:

<http://www.straight.com/article-139274/canada%E2%80%99s-2006-census-results-show-changing-ethnicity-vancouver>

McDonald's Canada. (2009). *Nutrition Calculator*. Retrieved June 15, 2009, from

McDonald's Canada Web site: <http://www.mcdonalds.ca/en/food/calculator.aspx>

MOS Burger. (2009). *Financial Highlight*. Retrieved July 20, 2009, from MOS Burger

Web site: <http://www.mos.co.jp/english/financial/>

MOS Burger. (2009). *Home*. Retrieved June 14, 2009, from MOS Burger Web site:

<http://www.mos.co.jp/english/>

MOS Burger. (2009). *Main Menu*. Retrieved July 10, 2009, from MOS Burger Singapore

Web Site: [http://www.mosburger.com.sg/mos\\_menu.php](http://www.mosburger.com.sg/mos_menu.php)

MOS Burger. (2009). *Origins*. Retrieved June 14, 2009, from MOS Burger Singapore

Web site: [http://www.mosburger.com.sg/about\\_mos.php](http://www.mosburger.com.sg/about_mos.php)

- MOS Food Services, Inc. (2005). *Business Report*. Tokyo: MOS Food Services, Inc.
- MOS Food Services, Inc. (2006). *Business Report*. Tokyo: MOS Food Services, Inc.
- MOS Food Services, Inc. (2008). *Business Report*. Tokyo: MOS Food Services, Inc.
- Porter, M. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: The Free Press.
- Porter, M. (2008). *On Competition*. Boston: Harvard Business School.
- Statistics Canada. (2008). *Canada's Ethnocultural Mosaic, 2006 Census*. Retrieved July 19, 2009, from Statistics Canada Web Site:  
<http://www12.statcan.ca/english/census06/analysis/ethnicorigin/tables/table2.htm>
- Statistics Canada. (2001). *Food Expenditures in Canada*. Ottawa: Statistics Canada.
- Thomas, D. (2008). *Cross-Cultural Management*. Thousand Oaks: Sage.
- Vancouver Magazine. (2009, May 8). *Restaurant*. Retrieved July 17, 2009, from Vancouver Magazine Web site: [http://www.vanmag.com/restaurant/Japa\\_Dog](http://www.vanmag.com/restaurant/Japa_Dog)
- Wikimedia Commons. (2009). *MOS Burger*. Retrieved July 20, 2009, from Wikimedia Commons Website: [http://commons.wikimedia.org/wiki/File:Mos\\_Burger.jpg](http://commons.wikimedia.org/wiki/File:Mos_Burger.jpg)
- Yoneyama, T. (1990, March 1). The big MOS attack. *Hawaii Business* .