BTEC Business Unit 5 Assignment 3

International business (Sixth Form (UK))

Unit 5: Assignment 3

Subway is a fast-growing international American fast food restaurant franchise, in the restaurant industry, founded on 28 August 1965 in Bridgeport, Connecticut, United States, by Fred DeLuca, Peter Buck. They are headquartered in Milford, Connecticut, United States. It is owned by Doctor's Associates, Inc. They primally sells submarine sandwiches, beverages, and salads. Currently, Subway is in 41,600 locations in 111 countries worldwide. Subway is a Private Limited company (LTD), with Depatments of Human Resources (HR), Research and Development (R&D).

In this segment I will be explaining how products and processes must be adapted for Subway an international business.

Product adaptation is the process of the firm adapting their products to meet the standards and needs of the local markets or customers. This is important for International companies that export their products as it ensures they meet the regulatory requirements of the local markets. The top four requirements for adaptations are: Culture, Market development, Competition, and Laws. To successfully adapt their product to different markets: Customer Research, Export Research, Competition, and Priorities.

Glocalization is a combination of the word's 'globalization' and 'localization.' This is used to describe a product or service that is developed and distributed globally but is also adjusted to accommodate the user or consumer in a local market.[1]

When Subway enters a new market, the first issues they should face is having to build brand awareness and learning about potential customers' eating preferences and customs as well as if the country has any food laws that must be abided by, Subway attempts to adapt quickly to a new restaurant's immediate service area. In Israel, for example, the company omits pork items from its menu to avoid violating religious dietary customs. In countries where people are not used to eating sandwiches, Subway has had to educate consumers about this uniquely American product.[2] For example, the picture below shows a Subway sandwich in India, as shown in the picture it is mostly vegetables, which is because around 20% of the population in India are vegetarians and the majority of India are Hindus or Muslims, so they do not eat meat or pork, due to their religious belief. Which would mean in India their menu would mostly consist of vegetarian options. [3]

Subway has adapted and changed their products depending on the country they operate or the consumer in the local market, by adopting the countries cultural preferences and taste towards their products, so that they can innovate products that pleases the individual's preferences while respecting the countries culture or traditions on food. Glocalization has made them one of the fast-growing franchises worldwide, as they rank fourth most valuable fast-food brand globally.[4] In Australia, they have one of the toughest food safety law worldwide, meaning Subway would have had to find a way to adapt to their strict food laws. Australia's rules are against endangering the current habitat and wildlife as well as certain foreign foods, and plant materials. So, for Subway to abide by their rules they would have to change their products to match Australia's preferences, such as having to create a healthier menu and adding a vegan sub and gluten-free wraps, as well as using their traditional food. [5] This is seen in the picture below where they combine the traditional flavor of schnitzel, a thin, breaded pork cutlet, with coleslaw, creating a contrast of flavors that work very well together.[6]

Subway in Germany have incorporated pork, beef, veal, poultry, and game into their menu, as in Germany these are the most favorably consumed meat, so by adopting a couple of traditional pork dishes into their menu,[7] the local area would have interest in it. This is shown in the image below, where they have used pork into their dish, named pork riblet.[8]

Subway uses a mix of demographic and geographical segmentation method to make its products more appealing to the targeted group of customers. Geographic is where the core menu stays the same however, they make changes to the menu in the exception of some cultures. Demographic is the age group, which allows them to see what menus most attract a certain age group, for example age (18-39) might be into fitness around that age and keeping healthy, so fresh, notorious, and healthy food would appeal more to them. Subway uses undifferentiated targeting strategy to design the offerings and services as per the choice of the customers.[9] They have introduced 'Make it what you want', this where the consumer can customize their food the way they want to. "This campaign marks a new direction for us," says Chris Carroll, chief advertising officer at Subway. "We're defining who we are in a more contemporary way, and uniting our brand with today's consumer's lifestyles, but the fundamentals don't change. Customization, everyday affordability and delicious, nutritious sandwiches are still at the core of our business."[10]

Subway comes under role culture and power structure. Having Role culture means that they are based on rules and procedures, it is a very bureaucratical culture, and it also means that each employee has a clear responsibility or role. Subway follows power culture depending on the situation. Being related to power culture means that they are more dependent on individuals that influences the organization. Subways has a flat organizational structure, which means that they have less levels of management and a wide span of control. Their structure consists of the managing director, manager, and staffs. Subway's culture and structure can impact the organization negatively and positively. It could positively impact on the motivation in the organization, which increases productivity within the business and the advantage of differentiating their organization to their competitors who do not use the same structure and culture. Subway's culture and structure is flexible and inexpensive to maintain. However, the weakness of the structure is that everything relies on one person, so if that person makes a mistake, it could affect the company's decision making and information.

Subway also operates as a takeaway restaurant, which means that they are few people working at the branch. This could affect the organization positively, as staffs gets bonuses and are appreciated for their work, and there is not much workload on the staff and the manager. This encourages the employees and improves productivity. Subway set a trademark on their food production to meet customer satisfaction. The taste, quality, and the behavior of the organization is effective.

In this segment I will be analyzing the effectiveness of the strategies and resources used by Subway.

Subway has used franchising as a strategy to expand in. Franchise is a marketing method where businesses can trade in the same style as an existing business, who pays a royalty and an initial fee for the right to do a business under the franchisors name and system, such as McDonalds or KFC or in my case Subway.

The procedure for franchising a Subway restaurant is that the franchise and the franchisee is required to pass a few specific requirements before entering full licensing agreement with the franchisor. The franchisee must have a specified net worth between $80,000 and $310,000. The liquid cash requirement ranges from $30,000 to $90,000. Upon gaining site approval and passing the capital requirements, next the franchisee enters into a licensing agreement with the franchisor. One of the greatest benefits of a franchised business is the ability to gain use of the company’s operational procedures, trademark rights, and branding. With these licensed business advantages, franchisees can primarily rely on the established marketing of the franchised business for its sales.[11]

Franchising gives Subway (the franchisor) several opportunities including, capitalized expansion as the franchisees invests their own funds to expand the business, increases and steadies' revenues as they benefit from continuing royalties, in addition Subway gains economies of scale increasing the volume purchases and leverage with business suppliers and vendors, this also helps expand brand value and recognition.

However, franchising also includes potential risks and disadvantages, such as, Subway not having full control of the franchisees as it would be difficult to control their activities, the franchisee also effects the company's reputation so if the franchisee does not meet the quality standards it could have a negative effect on their reputation. Franchising may not be effective as it not a quick method of growth through franchising compares to mergers and acquisitions.[12]

Subway is one of the cheapest restaurants to franchise as the company charges a $15000 franchise fee and startup cost range from $116,000 to $263,000, unlike McDonald that charges a franchise fee of $45,000, and startup expenses can cost up to $2.2 million.[13] This means that they would be more franchisee wanting to buy a subway franchise which would increase revenue and sales for Subway.

Another strategy that Subway uses is a subsidiary when choosing to trade internationally. Subsidiary is a company that are distinct legal entities owned and controlled by another company which are called a Parent company or holding company, subsidiary helps protect assets of various properties from each other's liabilities. Subway's subsidiaries includes: Subway Development of Northern Michigan Inc., Subway International B.V., and Subway Franchise Systems of Canada, Ltd.

Subsidiary gives Subway access to new markets, lower production and manufacturing costs, cheaper labor, expands brand recognition which helps increase the overall share of the market, in addition it helps the company to merge or sell their subdivisions more easily and cheaper in the future, and the subsidiary can establish its own management style by adopting the country's culture and laws into their methods of operating and cooperating, to fit the location of the business.

On the other hand, subsidiary may mean that the parent company (Subway) would not have full access to cash flows of the subsidiary, which means they will not be able to know the information about their cash receipts, net change in cash and cash payments. The subsidiaries also effect the parent's companies' reputation as the Parent company is liable for their subsidiaries actions and the Parent company would need to pay off debts linked to the subseries.

Another strategy that Subway uses is partnership when choosing to trade internationally. Partnership is a formal arrangement by two or more parties to manage and operate a business and share its profits. All partners share liabilities and profits equally, while in others, partners have limited liability.[14] Subway have partnered up with DoorDash, Grubhub, Postmates and Uber Eats to provide delivery.[15] The NFL (sports), HRUK (Charity)[16], Aramark [17], and Disney. [18]

Using partnership increases Subway's capital and revenue, there would be more ideas as there is additional knowledge and help from the other partner, which would help get tasks done faster than if they worked alone as well as gaining skilled expertise knowledge from the other parties which enhances human resources development, reduces financial burden as Subway would not have to pay for resources and inventory by themselves because it is split up, in addition there are fewer tax forms.

On the other side, partnership could lead to some disagreements as Subway cannot make the decision themselves, which could lead to conflict, Subway and their partner would have to split profits, but it might be small, as the profit distributed would depend on how many partners you have. In addition, doing a partnership would mean that the equal liability of the partners losses and debts would increase.

A strategy Subway could use when choosing to trade internationally is outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff. It usually is undertaken by companies as a cost-cutting measure.[19] Such as manufacturing, customer service, marketing and Adverising and many more.

Outsourcing could be highly effective, as it is more cost efficient, which could help Subway releases capital for investment in other departments of the business, increases competitive advantage as they would be able to gain mor knowledge and skills, gain better access to facilities and capabilities. In addition, this could increase efficiency and help gain economic of scale, as well as lower labor cost.

However, outsourcing might not be very effective as there would be lack of control, which could lead to friction the risk of service delivery not being on time, and lack of flexibility.

I will now be analyzing the effectiveness of these recourses: capital cost, Revenue cost and Training cost for local labor.

Capital cost is a cost incurred on the purchase of land, buildings, construction and equipment to be used in the production of goods or the rendering of services.[20] Capital of cost is a useful finance and accounting tool that companies and investors can use to make better decisions on how they allocate their money.[21] Subway charges a $15,000 franchise fee, and startup costs range from $116,000 to $263,000 (in US).[22] In UK the franchise fee is £8,500 and the total investment is £85,750-£221,240[23]. This shows that the startup cost and franchise fee differ compared to the location, size, and necessary renovations.

Capital cost is effective towards Subway as it helps them and their investors in evaluating investment opportunities also aid in making key company budget calls that use company financial sources as capital.

As well as evaluate progress of ongoing projects and investments[24], this would help manage their financial records.

Revenue cost is the total cost of manufacturing and delivering a product or service to consumers.[25] The types of revenue costs are: Salaries and employee wages, Research and Development (R&D), utilities and Rent, Business travel, Property taxes, and selling, general and administrative expenses (SG&A). Revenue cost is important as it is what keeps businesses running, because increasing revenue increases profits, so by Subway tracking their revenue cost and finding ways to increase it they also gain profit in the process. In addition, managing their revenue cost can tell them their weak points and strong points in the business.

Training costs are the reasonable costs associated for the local labor force. Training costs means the reasonable costs of training and education for sensitivity, anti-harassment, minority development or diversity programs but only when required under the terms of a settlement, judgment, or consent decree; provided, however, that such training and education is commenced and completed within 12 months of the date of said settlement, judgment, or consent decree.

In this segment I will be compare the success of the strategies and resources used by Subway in their markets. Subway have used franchising, and partnership as strategies to develop into international markets, with them achieving successful and unsuccessful moments in their business that has contributed or not contributed to where they are now, based in Australia.

Subway franchise has contributed many successes such as, Subway being the largest fast-food chain worldwide, with more than 42,000 locations, in over 100 countries.[26] One of which is Australia which is the top high growth potential for Subway, as Australia is the first to hit 1000 stores outside of North America and Australians prefers Subway as the number one healthy quick service restaurant.[27] This would give them a wider access to skills and more revenue potential. Explore and adapt to new cultures and expose them to foreign investment opportunities, this would overall improve the company's profile. In addition, having a strong healthy reputation, 'eat fresh' became a core principle in the brand image. This gave Subway a unique selling point that most other fast food chain stores did not have, which was being a healthy alternative to burgers.[28] Therefore despite early struggles, (with competing with existing competitors such as KFC and Mc Donalds) its franchise has turned into a success, which gave Subway a competitive advantage over their competitors, gained them loyal long-term customers, improved revenue and brand image.

However, although Subway gained numerous locations worldwide rapidly, which gave them many benefits, but this also led to sale declines and closed stores, such as in Australia over the past few years their stores have been decreasing rather than growing, as it is down to 1311 stores in 2019 from 1444 in 2015,[29] resulting in almost 10% less stores across Australia. This meant that Subway's revenue was also declining, as the chain's revenue also dropped by $17.2 million in the 12 months from 2016 to 2017.[30] Unfortunately, the declining of sales and stores closing currently is continuing. Their mistake, that partly led to this misfortune, is Subway not deeply focusing on the locations of the stores as it resulted into the stores competing with each other in the same company.[31] For example, in Australia, there is Subway in Nicolson Ave and Elliott St & Playford Ave, which is only within a 35-minute walk or five-minute drive between the two locations.[32]

Subways Partnerships achieved various success to a degree, as they have successful partnerships, that has helped Subway, such as Disney as they have collaborated with Subway for several years. In 2012, Subway restaurants and Disney collaborated on films including Disney-Pixar's "Brave," Disney's "Frankenweenie," and Walt Disney Animation Studios' "Wreck-It Ralph," recently winning the award for "Best Promotional Campaign" around these movies at the 2013 Cynopsis Kids Imagination Awards. In 2013, the brands teamed up for Disney-Pixar's "Monster's University" and Marvel's Iron Man 3.[33] Through this they established a healthy nutritious KidsPak to the Subway menu as well as six different Disney character branded lunchboxes and products, which would encourage consumers to collect.[34] For example, in Australia, Subway has promoted Walt Disney studios Motion Pictures 'Inside out' and through Kidspack six collectable messenger bags.[35] Not only did this help promote Disney shows, but it also helps promote Subway, which helped them improve company's value, receive more customers and customer loyalty, which also increases profit and revenue.

In contrast, they have also been a partnership that did not go as expected, with Jared Fogle an American spokesperson, who famously lost 200 pounds on a Subway diet and exercise, which helped Subway promote their brand and gain customers. He also helped Subway as sales rose by 20% in 2000,[36] due to him promoting subway in adverts. However, Jared Fogle was sentenced to 16 years in prison due to federal charges. This damaged Subway's reputation as he also represented the brand image of the company, which also effected Subway's sales growth to decrease.[37] This has led to Australia having to make up a new campaign launch as a testing ground, hoping to adopt a similar strategy in other markets if successful. Subway's new approach in Australia contrasts with the company's use of a celebrity brand ambassador strategy, which has proven problematic.[38] Therefore, although having a celebrity as a brand ambassador was helpful to the company to a certain extent, they now know for the future that doing celebrity endorsement could have some risks which they may not be able to recover from.

Capital cost of Subway compared to other franchises is modest as the total cost of setting up the store varies depending on size and necessary renovations, but it is estimated to be around £85570 to £221240. This includes property acquisition and conversion, equipment, insurance, supplies, training expenses for staff, and the opening advertisement.[39] This allows Subway to gain a competitive advantage as their capital cost is cheaper compared to other franchises. This also helped them successfully become the largest fast-food chain worldwide, as many franchisees became interested into wanting to invest and open a new outlet under Subway due to the cheap cost. For example, Australia's initial investment ranges from $195,000 to $360,000 AUD.[40] Revenue cost for Subway in Australia is €77.6 million ($128.1 million).[41] Training costs, Subway's training will consist of 5 days, but becoming a Subway Franchisee consists of two weeks. The training expenses for staff is included in the additional funds.[42] In Australia Training classes are held throughout the year. They have a training center located in Brisbane in Queensland. In addition, newcomers to subway are required to complete a two-part test, focusing on English and Math. As a result, this would train the staffs which would attract employees and keep employees in the long term, this also helps increase productivity and output. Having cheap cost to open a Subway franchise would also attract investors.

From this research I have come to conclude, Subway has had a degree of success and unsuccessful moments, that has affected them in a positive or negative way, which has led them to where they are now. As they were times that they have successfully partnered up with other corporations such as Disney that went exceedingly well as this helped boost their profit and brand value but there were also times that are not as successful such as the decline of sales and closing of stores leading to loss of profit and revenue partly due to them not being rational of the locations of the franchises. However, their success in the future depends on if they can get back on track with their sales and opening stores, but I believe with the stores and sales decreasing each year and on top of that the pandemic that is going on currently, I think it would be exceedingly difficult for them to maintain them being in the top 10 largest fast-food chain worldwide.

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