

[Articles (論説)]

## The perspective of Internationalization of service multinationals

– A Case Study Analysis for Food Service in the Philippines–

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### Abstract

This research focuses on the advantage of the concept of global marketing of Japanese service multinational enterprises (MNEs). There are extensive discussions about the advantages of the services of multinational companies in previous researches. In addition to that is the expansion of food companies' industry to Southeast Asian countries (ASEAN). However, there is accumulation of studies about food service company's internationalization in ASEAN. In previous researches, it is difficult for food service companies to have local adaptation in those countries due to great deals of environmental factors. To acquire conceptual idea, I used CAGE framework which revealed several distances. This paper will show two case studies about food service internationalization which will focus mainly in the Philippines wherein the strategy has grown faster than in any other countries in Asia.

### 1. Introduction

The presence of service multinational is increasing in Southeast Asian countries (ASEAN). UNCTAD (2016) showed top prospective host economies for 2016–2018<sup>1</sup>. In the report, not only goods trade but also service trade has become important in 2015. Service continues to hold over 60 per cent of global FDI stock<sup>2</sup>. The report also focuses on the importance of the presence of inward FDI stock to developing Asia. The top 15 host countries of FDI include developing Asian countries such as Indonesia, Malaysia, Philippines, Myanmar, and Vietnam. Such countries' service sector shared 70 percent to global inward FDI stock<sup>3</sup>. It shows that the importance of the presence of service trade in Southeast Asian countries will certainly continue.

At the same time, there is a noticeable trend about Japanese service multinationals in food service sector. Kawabata (2016) noticed that almost half Japanese food restaurant company started to internationalize from 2010 to 2014<sup>4</sup>. With the rapid growth of service inward FDI to

Southeast Asian countries, the study about food service internationalization should be paid attention. Nevertheless, there are only few studies which focus on service internationalization; these include food service business' internationalization in Southeast Asian countries.

The purpose of this paper is to focus on those studies, particularly; food service internationalization. Not only theories and previous researches that had been reviewed, but also two case studies had been conducted about Japanese food restaurant's internationalization in the Philippines.

## **2. Literature review**

There are many studies about service multinational's internationalization. One of the most famous studies is Boddewyn and Halbrich (1986). It has stated that in previous studies services mainly have six properties namely; intangibility, perishability, customization, simultaneity of production and consumption, consumer participation in production, and use without ownership. They defined service in two criteria. First, which is more prominent is intangibility and the other is dependence on a customer's participation in the service's production<sup>5</sup>. There had been arguments which made a stir for service multinationals but these aren't enough to reflect the value of service market in recent years.

Another famous research is Ghemawat (2001). He insisted that multinational enterprises should overcome distances when expanding to foreign countries. The main concept has four factors: Cultural distance, Administrative distance, Geographic distance and Economic distance. These factors are crucial in determining the advantages and disadvantages in the market competition. In his research he used the CAGE framework which helped clarify and classified these factors. However, it did not mention about current Southeast Asian countries' restaurants' food service whereas it mentioned some service industries (financial services) and fast-food chains in Mexico.

Yanagida (2013, 2016) noticed that there are unavoidable distances between Japan and Southeast Asian countries. In these researches, Yanagida used CAGE framework and mainly discussed the difficulty of internationalization to Southeast Asian countries (ASEAN).

One very reliable source of data about food service is JETRO in Japan. JETRO (2015) reported concrete situations in Thailand. The report focused on Japanese restaurant activities.

The number of Japanese restaurants in Thailand is over 2,000 in 2014. Half of them concentrated in Bangkok area. It's necessary for many restaurants to make food distribution channel but it was not possible at the time. Therefore, Japanese restaurants were forced to open within the area of Bangkok.

### 3. Methodology

This research shows the findings from field researches and interviews about food restaurant services. Yanagida (2013) showed the exploratory model in Philippines based on beauty business market. The main analysis of this paper is also based on CAGE framework. This paper analyzes service market from a long-range perspective (Table 1). In the light of the framework, some factors are more important in operating food service market in the Philippines. Some factors are family size and population, especially middle age population. Many customers visit the restaurants with their families which is why the target customer automatically becomes the younger generation. This clearly reveals the importance of each dimensions of distance but it's limited to figure out food service market in Southeast Asian countries. Hence, this paper focuses more on micro vision to complement the CAGE framework.

**Table 1. CAGE framework of Philippines**

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<b>Attributes creating distance</b>	1. English (It becomes important advantage to do business.) 2. Religion (Filipino take hold on Catholic about 80%) 3. Image of Brand (Japanese brand have a trustworthy reputation.) <b>4. Family size (Filipino has lots of members of family. They emphasis on family's activities.)</b> 5. Americanized (Young people are based on American culture because of experience under American occupation.)	1. None of colonial tie ( Philippines was colonized by Spain.) 2. Japan-Philippines Economic Partnership Agreement in 2008. 3. None of political hostility between Philippines and Japan. 4. Strong initiative by the government of Duterte. 5. Corruption among government bureaucrats.	1. There are about 3,000 km between Manila and Tokyo. 2. Not share common border. 3. There are lots of island in 300,000 square kilometers. 4. infrastructure (internet, electric and transportation channel) vary considerably from one region to another because of typhoon or some reasons. 5. Tropical climate (a hot and humid climate all year long).	1. There are 2,865 a per capita GDP compared with Japanese 32,486 in 2015 (US\$). <b>2. Population (100,981,437 in 2015).</b> <b>Median Age of Population is pretty young (24.2 years old)</b> compared with Japanese (46.8 years old) in 2015. 3. Main industry is service including business process outsourcing ( BPO ) becomes important role in Philippines.

Source: Made by author based from International Monetary Fund, World Bank, Ministry of Foreign Affairs of Japan, Philippines Statistics Authority, and author's field work in Philippines

This paper also uses the concept of service marketing<sup>6</sup> in a complementary way.

## 4. Case study

### 4-1. Growing standards of service market in the Philippines

There has been a growing awareness of the importance of food service market in ASEAN since 2010. Kawabata (2016) noticed that Japanese food restaurant companies have shifted from China to these countries in 2010 s<sup>7</sup>. From among these Asian countries, Thailand (Bangkok) is the most noticeable. In Bangkok, many Japanese style restaurants were established. But recently, many Japanese food service companies withdrew because of the saturation of the food service market and too many competitors in the said area.

This paper focuses on the Philippines' service market among ASEAN. There are important factors to be considered are the consumer expenditure (Table 2), population and average age (Table 3). These factors are constantly increasing every year. In 2015, the Filipino

**Table 2. Consumer Expenditure (USD million)**

	2010	2011	2012	2013	2014	2015
Philippines	141,963.20	163,849.30	184,786.60	201,812.10	205,547.70	214,900.20
Indonesia	426,194.80	496,368.40	519,301.80	520,034.00	510,058.70	492,656.80
Thailand	187,771.50	212,053.30	231,065.20	247,768.30	235,842.80	228,028.40
Malaysia	132,516.70	152,392.30	164,167.80	176,568.90	187,855.90	168,506.80
Vietnam	80,162.20	93,974.20	105,496.30	116,815.20	126,881.40	132,515.70
Singapore	83,577.40	99,657.60	106,553.70	110,850.60	113,260.20	105,271.10

Source: Euromonitor International.

**Table 3. Total Population ('000) and Average age (years)**

	2010	2011	2012	2013	2014	2015
Philippines	93,038.90 23.2	94,501.20 23.4	96,017.30 23.6	97,571.70 23.8	99,138.70 24	100,699.40 24.2
Indonesia	241,613.10 27.2	244,808.30 27.5	248,037.90 27.8	251,268.30 28	254,454.80 28.2	257,563.80 28.4
Thailand	66,692.00 35.5	66,903.00 36.1	67,164.10 36.6	67,451.40 37.1	67,726.00 37.6	67,959.40 38
Malaysia	28,588.60 26.3	29,062.00 26.7	29,510.00 27.1	30,213.70 27.6	30,598.00 28.1	30,995.70 28.6
Vietnam	88,357.80 28.4	89,321.90 28.8	90,335.50 29.2	91,378.80 29.6	92,423.30 30	93,447.60 30.4
Singapore	5,076.70 38.7	5,183.70 39.2	5,312.40 39.8	5,399.20 40.4	5,469.70 41	5,535.00 41.6

Source: Euromonitor International. (Top number is population. Bottom number is average of age.)

population exceeded one hundred million while the average age is about 24.2 years old which is younger than in other ASEAN Countries' people.

#### **4-2. The type of contract as technology transfer in the Philippines - Case of YABU<sup>8</sup>**

The food service market research in the Philippines. This paper focuses on two case studies. First is one of the most famous Japanese food service companies in the Philippines; YABU. YABU was established by a Filipino partner whose name is John Concepcion. He was the Director and Chief Executive Officer of Unilever RFM Ice Cream Inc. particularly, Selecta<sup>9</sup>. He introduced Katsu in Manila (Philippines) and impressed the people with its taste. But it wasn't enough experience of genuine Japanese food style to impart. He decided to collaborate with Japan in 2011. In January 2011, he went around Tokyo and visited several Katsu restaurants to acquire partnership and failed. After several tries, he then succeeded when he met with Takeda Kazuya who is the owner of Takeshin. Takeshin was established in Kanagawa prefecture and became one of the most famous Katsu restaurants in 1974. It has expanded in Tokyo in 2006<sup>10</sup>. John and Takeda have agreed for a "Technology transfer" as part of their agreement. John's passion and rapidness in venturing into the business played important roles in its success for a fact that other food restaurant companies failed to internationalize due to slow decision making and lack of passion. Efficient communication also played an important role during the agreement process as both of them could speak in English well. Takeda took Business Accounting at the university in Ohio for about a year which has equipped him with English skills. He also aimed to venture into global business. John was highly motivated and had a clear plan to establish Katsu restaurant in the Philippines. In ten months after they met, in November 2011, they opened the first Katsu store in Manila named YABU. The company's market was outstanding. YABU placed their shops prominently in large shopping malls like SM-Mega mall.

The entrance of YABU is huge compared to other restaurants. The restaurant's facade created a profound effect for advertisement. In Japan, this strategy is not applied because most companies save location cost to avoid the risk of high expenditure. YABU operates spacious restaurants with about 100-120 seats, fifteen hall staffs and fifteen kitchen staffs (thirty staffs in total). These staffs went through training according to the policy guidelines compiled by Takeda. These policies have set the standard operating procedures of the company of the

company which was strictly being implemented to maintain the same level of service to the customers. The product price ranges from 400 to 500 pesos (around 900 yen) per person that aims target customers in middle-income group, with over 90 percent who are domestic people. In the Philippines, the style of free refill was and still epoch-making. Most customers enjoy having unlimited rice and cabbage. They enjoy not only eating itself but also chatting with their families or friends while eating. Having known these customs, the company operates accordingly. YABU is a well-known real Japanese restaurant as it displays authenticity on its store walls and menus<sup>11</sup>. Therefore, it has continued operating longer compared to other Katsu restaurants in Japan. The company also had specific advertising strategy using SNS<sup>12</sup>. In the Philippines, the most effective tool of advertisement is not TV commercial or company's website but SNS<sup>13</sup>. YABU opened in sequence. It has established 10 stores in Manila this year. The location strategy is also noticeable. In Manila, it's difficult to transport by automobile due to heavy traffic jam. Most people are forced to have their daily lives around their houses. YABU dispersedly opened its stores for them to access easily. The company has already attained supremacy in large shopping malls.

It's also important for partners to get networks in food restaurant multinationals. Takeda introduced John with the owner of Chikaranomoto which is one of the most famous Japanese noodle company named Ippudo. John acquired a franchise and opened Ippudo in Manila last September 10<sup>th</sup> 2014. In 2015, Ippudo opened its second branch and continued to run smoothly.

#### **4-3. Franchising in Philippines - Case of Tenya**

The other famous Japanese food service company in the Philippines is Ten Corporation<sup>14</sup>. The company opened a food store named Tenya in 1989 in okyo. One of Tenya's highlights is Donburi (meals) which is a Japanese traditional food style. The fried batter is light, crunchy but not hard and its ingredients are very juicy. Tenya started its global operation under a franchise agreement in Shanghai last 2008. Its base operation moved to Thailand in 2013, to Indonesia in 2014 and to Philippines on April 2015.

Tenya made a contract agreement with a Philippine local company Tencav Corporation. TenCav Corporation's knowledge in food service operation manifested in the success of one of its famous food shops namely Shakey's which has 67 franchised and 95 directly managed stores in the Philippines. Tenya opened four branches with TenCav in Manila in September 2016.

It is important to consider a company's longevity like YABU. Tenya in Japan sets its layout and operation in a short period of time because its main target customers are business people. Being time efficient is very important. On the other hand, Tenya in the Philippines does not take this into much consideration. Most customers take longer time to eat as it is believed that people like chatting while eating which could take approximately forty minutes per group of customers. The space and total number of staffs are also different from Japanese Tenya.

Advertisement in the Philippines is also a notable factor. Tenya also used SNS advertising instead of TV commercial. Moreover, Tenya took advantage of the traffic jam and placed billboards in the middle of the highways. Japanese staffs wouldn't have expected but local staff recognized the vital importance of advertisement.

#### **4-4. Discussion**

This paper analyzes from getting two case studies of YABU and Tenya. These two have highly suggestive concepts. YABU is willing to overcome Japanese tradition style and apply new concepts. YABU's important concept is that serving traditional or "Genuine" Katsu is not necessary in the Philippines. Many customers, even those Japanese people who have eaten Katsu in Japan, think that YABU's quality of Katsu is same as in Japan. In some instances, some asserted that it's completely different from a traditional high-end Katsu restaurant in Japan taking into consideration its quality of ingredients (meat) used, its flavor, the eating custom and so on. It's forbidden in the Philippines to cook pork in a different style. Instead, YABU created a new cooking style. The chef should tap meat the strongly and consistently until it turns soft. The product is close but not the same as Japanese "Genuine" Katsu. Some similar food restaurant companies were stuck in the dilemma between local adaptation and globalization. But Takeda pursued to abandon typical traditional persistence of Japanese persistence.

To analyze the result of research, this paper shows the following list (Table 4). Most factors are based on the concept of service marketing as 7 Ps. Additionally, the key factor is partner (passion). To achieve internationalization in Philippines, the role of partner is critical.

**Table 4. The analysis of GLOBAL service marketing about YABU**

Traditional 4 Ps		GLOBAL Service 4 Ps	
The factor of product	Japanese Katsu (to eat rice and cabbage freely) which is close but not the same as Japanese traditional Katsu	The factor of process	Longer sojourn time than compared with traditional Japanese restaurant
The factor of price	400-500 pesos (around 900 yen) targeted for upper-middle-class	The factor of physical evidence	Cartoon in each restaurant wall to enjoy vivid Japanese for family
The factor of place	Prime location at large shopping mall like SM-Mega mall in consideration of traffic congestion	The factor of people	staff's manual book which is fundamentally different from traditional Japanese style
The factor of promotion	SNS (Instagram, twitter, facebook)	The factor of partner (passion)	John Conception's continuous passion and network

Source: Author

## 5. Conclusions

This paper focused on the food service market in Philippines and tried to clarify the competitive advantage of Japanese food service multinationals. According to the CAGE framework, there is one of the most important agenda to overcome cultural distance in Philippines. Moreover, some factors are also important in the internationalization. This paper discussed two case studies and analyzed the property of food restaurant internationalization in the light of global marketing.

There are some limited contents in this paper. First, it couldn't refer to other food service companies in Philippines. Particularly, this paper discussed only two case studies that are necessary for the research of the other food service multinationals in Philippines. Second, it only focuses to one country's activities about food service multinational and could not give comparison among ASEAN countries. And finally, this paper couldn't show new conceptual framework about food service internationalization. These limited contents are subject to future investigation.

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### Notes

- <sup>1</sup> World Investment Report (2016) p 28
- <sup>2</sup> World Investment Report (2016) p 3
- <sup>3</sup> World Investment Report (2016) p 13
- <sup>4</sup> Kawabata (2016) p 6
- <sup>5</sup> Boddewyn and Halbrich (1986) p 42
- <sup>6</sup> Kotler (2001, p 202) noticed the concept of service marketing as 7 Ps. Traditional elements are Product, Price, Place, Promotion. Additionally, three important elements are People, Physical evidence, Process. Such elements collectively are named as service marketing-mix. Lovelock (2001) also referred same concepts and showed eight elements: Product elements, Place and time, Process, Productivity and quality, People, Promotion and education, Physical evidence, Price and other costs of service.
- <sup>7</sup> Kawabata (2016) pp.66-70
- <sup>8</sup> In the case study, the author had interview to Kazuya Takeda who is the owner of TAKESHIN.
- <sup>9</sup> Tina Arceo-Dumlao (December 10<sup>th</sup> 2011) "John Concepcion turns Japanese" *Philippine Daily Inquirer*, (<http://business.inquirer.net/34463/john-concepcion-turns-japanese>) [Accessed 20 September 2016]
- <sup>10</sup> TAKESHIN website ([http://take-shin.net/bunten/index\\_e.html](http://take-shin.net/bunten/index_e.html)) [Accessed 23 September 2016]
- <sup>11</sup> The first page of YABU's menu is not food exhibition but Takeda's half-length portrait. The objective is to give customers a better impression of YABU as real Japanese Katsu restaurant.
- <sup>12</sup> The online restaurant and beauty review site named Wongnai (<http://www.wongnai.com>) is famous in Thailand. But there is no similar website in Philippines. [Accessed 25 September 2016]
- <sup>13</sup> In Philippines, one of the most famous SNS was twitter. YABU started Instagram from 2012. It's early time's activities.
- <sup>14</sup> In the case study, the author had interview to Mayumi Sumita who was Joint General Manager (Project Planning) of Corporate Planning Division on Royal Holdings CO., LTD in 2015