CHEESE MARKET NEWS The Weekly Newspaper of the Nation's Cheese and Dairy/Deli Business

## Guest Columns

**Perspective: Export Expertise**

# Peeling back the layers of international foodservice

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In all the media reports about the ambitious global expansion plans of McDonald's, Subway and the Yum! family of restaurants (Pizza Hut, KFC and Taco Bell), it might seem like the mega-chains are the only international game in town. There is in fact a thriving, locally-based, foodservice chain second tier in most emerging markets that is expanding rapidly, increasingly beyond national boundaries and into surrounding regions. Often specializing in U.S.-style fare, many of these restaurants are sizable users of cheese and prime examples of growing but often overlooked potential customers for U.S. dairy.

The U.S. Dairy Export Council (USDEC), a non-profit organization that leads overseas marketing development on behalf of the U.S. dairy industry and is primarily funded by the dairy checkoff, is currently in the midst of exploring these second-tier chains. The objective: gauging their size, cheese use and growth prospects to assist U.S. suppliers in targeting the sector.

Initial insights are encouraging.

Like their larger brethren, dairy is often integral to the menu. Based on an initial look at key markets, the volumes they use are nothing to sneeze at. A cross section of companies hints at the possibilities:

• Herfy is a fast-growing network of more than 170 hugely popular quick-service restaurants across Bahrain, Egypt, Kuwait, Saudi Arabia and the United Arab Emirates (UAE). The company serves burgers, wraps and sandwiches utilizing cheese, as well as cheesecake and ice cream desserts. Plans to expand into Lebanon are in the works.

• Mr. Pizza, one of 69 pizza chains in South Korea, runs more than 400 stores, mostly in its home market, but also in China and Vietnam. It even operates two units in the United States. The company plans to enter Southeast Asia this year and ramp up Chinese expansion.

• Saizeriya is a chain of more than 1,000 Italian-style family restaurants (i.e., big cheese users) based in Japan, but also with operations in China, Taiwan and Singapore. Short-range plans are to add at least another 70 stores in its home market.

• Restaurantes Toks operates 100 outlets in 18 states in Mexico, using cheese in breakfast items and U.S. and Mexican sandwiches and entrées, as well as selling milkshakes and desserts with dairy content. The company is adding new stores at a rate of about 16 per year.

• Shanghai-based UES opened more than 400 units in China since it was founded in 1999, primarily in second and third tier cities where the big Western chains have been slower to capitalize. The company sells a mix of traditional Western fast-foods, like burgers and ice cream, and rice dishes.

There are also scores of smaller, domestically-based businesses operating 15 or more stores across all the markets: Mosburger with 38 outlets in Singapore, Thailand and Indonesia (utilizing processed cheese on burgers); Eat & Drink with 20 outlets in the UAE (using cheese in sandwiches, burgers and wraps); Spoon with 26 stores in Costa Rica (using cheese in breakfast items, lasagna and sandwiches); El Salvador-based Los Cebollines with 21 outlets across Central America (using cheese in Mexican dishes); and Ashley American Grill & Salad with 121 outlets in South Korea — to name just a few.

These may not be Subway numbers, but the common thread is cheese use and an eye toward growth. These are companies looking to expand, often following the example set by the mega-chains and crossing borders into neighboring nations.

Earning the business comes with a caveat: Like any customer, domestic or export, these operations expect committed suppliers and products made to their specifications. The United States might have invented modern fast-food, but product requirements are often different overseas, even for U.S.-based chains.

In Asia, for example, buyers often seek multiple cheese formats — slices, shreds, cubes — smaller package sizes and often smaller slices than are typical for U.S. menus.

Buyers value suppliers who understand the tastes, applications and trends in foreign markets. Desserts made with cream cheese and breads made with cheddar and pepper jack are big in Asia. Healthier eating is on the rise in Latin America. Pizza is immensely popular the world over, but many emerging markets are looking for blends of mozzarella with cheddar and/or gouda for more flavor.

In addition, we have some catching-up to do in seeking to serve some of these chains. Our competitors have established relationships with many of these buyers, meaning U.S. suppliers will need to convince users of better quality, taste, reliability, service or price — or a combination of those factors. Although U.S. suppliers have made strides demonstrating their commitment to international cheese markets, riding out less favorable pricing and delivering the products in the varieties and package sizes buyers want, plenty of room exists for improvement.

The effort is worth it. As we have often stated in this column in the past, foreign markets are at the heart of global foodservice (and dairy) growth in the years ahead.

Euromonitor foresees greater than 5 percent compound annual growth in foodservice sales from 2012-2017 in Brazil, Chile, China, Colombia, India, Saudi Arabia, the United Arab Emirates and parts of Southeast Asia. In absolute dollar terms, incremental fast-food sales gains in the Asia-Pacific region from 2011-2106 will nearly triple U.S. growth at $58 billion vs. $20 billion. And that growth is not just coming from the major U.S. franchises.

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