

case fourteen

# Outback Steakhouse: Going International

## TEACHING NOTE

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### ■ SYNOPSIS ■

During the early 1990s, Outback Steakhouse was one of America's most successful restaurant chains as a result of a strategy that was unusual but fitted well with Outback's targeted niche and its resources and capabilities. By 1995, Outback is seeing the first signs of market saturation. Nevertheless, Outback's founder and chairman, Chris Sullivan, remains committed to expansion. In the US, Outback is diversifying into other restaurant concepts, but it is overseas where Sullivan believes that the most exciting opportunities lie. Outback's new president of international operations, Hugh Connerty, is formulating an international expansion strategy that envisages franchised Outback Steakhouse restaurants in Hawaii, Canada, Puerto Rico, the Far East, and Europe.

The case requires an assessment of Outback's prospects in overseas markets. This requires an assessment of whether the Outback restaurant concept, strategy, and business system are suited to overseas markets, and the extent to which Outback can recreate its US-based resource and capability strengths in non-US markets. On the basis of this analysis, students can conclude whether international expansion is desirable and, if so, suggest the type of international strategy that will offer Outback the best chance of success.

### ■ TEACHING OBJECTIVES ■

The case offers a straightforward and easy-to-comprehend approach to analyzing and understanding the factors relevant to international expansion decisions. It deals with three key issues concerning international strategy:

- Evaluating an overseas expansion decision.
- Designing a foreign market entry strategy.
- Implementing a system for managing overseas business operations – with particular reference to the issues of globalization versus national differentiation.

The case offers an overview of the fundamental considerations relevant to the decisions of whether and how to expand internationally.

### ■ POSITION IN THE COURSE ■

I use the case as an introductory case for the part of my strategic management course that deals with international strategies.

### ■ ASSIGNMENT QUESTIONS ■

1. What are the principal features of Outback Steakhouse's strategy in the US? Why has the strategy been so successful?
2. What are the key elements of the international expansion strategy being proposed by Hugh Connerty?

3. Assess the proposed strategy in relation to: (a) Should Outback Steakhouse expand internationally, or would it be better to expand through starting new restaurant chains within the US? (b) Does the strategy outlined by Connerty make sense?
4. If Outback is to expand internationally, advise Chris Sullivan on: (a) The optimal rate of international expansion; (b) The best mode of entry into foreign markets (e.g. direct management, JV, franchise); (c) Which country(ies) to enter first; (d) Whether Connerty is the right person to head the International Division.

## ■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishers, 2008, Chapter 14.

## ■ CASE DISCUSSION AND ANALYSIS ■

### What are the principal features of Outback Steakhouse's strategy in the US?

Outback's US strategy is an interesting topic in itself. The company has flouted conventional wisdom in the restaurant industry and pursued a contrarian strategy. In particular, the company has pursued a number of practices which at first glance seem inefficient: limited opening hours, a low percentage of restaurant space devoted to dining tables, relatively high pay and benefits to employees, and almost all foods prepared within the restaurants "from scratch".

Its strategy emphasized differentiation along several dimensions:

- Quality food (especially with regard to ingredients)
- Casual, fun ambiance.
- Quality service achieved through motivated, good-natured, well-trained employees.
- Alignment of incentives between restaurant managers and the company (the partnership structure).

### Why has the strategy been so successful?

The simple answer is *fit*. The strategy fits with the business environment, with the resources and capabilities of Outback, and is internally consistent:

- In terms of fit with the business environment, the US has become predominantly a nation of suburbanites, and in the suburbs competition between restaurants is weaker. Providing an ambiance and eating experience that is casual and fun fits with the preferences of middle-class Americans.
- In terms of fit with Outback's resources and capabilities, the company has developed its locations, its human resources, and its corporate values to fit with the strategy it has pursued from the beginning. At the center is Chairman Chris Sullivan who possesses an innovative approach to the restaurant business together with considerable insight into people – customers, managers, and front-line employees. The system for developing and remunerating local and regional managers provides a strong impetus for expansion.
- In terms of internal consistency, the components of the strategy fit together exceptionally well. The suburban locations (cheaper real estate) mean that restricted opening hours are viable. Suburban locations also encourage lower rates of employee turnover and higher rates of customer loyalty. The menu, Australian theme, and the restaurants' ambiance fit with Outback's desire to provide a quality dining experience that is casual and fun. The HRM policies are consistent with the emphasis on flexible, attentive customer service. The unusual partnership structure encourages a high level of motivation among managers and also allows decentralized decision making and local adaptation.

### What are the key elements of the international expansion strategy being proposed by Hugh Connerty?

- Foreign entry through franchising (this probably means signing a master franchise agreement with a single partner in each foreign country). Franchises to be selected on the basis of personal qualities and commitment to Outback's principles and beliefs; franchises to be managed on the basis of mutual trust.
- Rapid but sequential expansion: first year, Canada and Hawaii followed by Korea, Japan, and the far East; second year, Britain and Europe.
- Use Outback's existing suppliers to supply overseas restaurants.

## **Should Outback Steakhouse expand internationally, or would it be better to expand through starting new restaurant chains within the US?**

To assess the case for Outback expanding overseas we can begin with the two sources of superior profitability: industry attractiveness and competitive advantage. In terms of attractiveness, to the extent that most overseas countries have restaurant markets that are less saturated than the US, this offers some good prospects.

However, the critical issue is competitive advantage. Can Outback replicate its US competitive advantage in overseas markets? This depends on two factors: will the offering be appealing to overseas consumers (i.e. can Outback's restaurants be expected to have the same appeal to Japanese, British, and Canadian customers as to US customers) and can Outback transfer/recreate the same resources and capabilities overseas as in the US?

On the first of these, it is not obvious that an Australian themed, casual dining experience with a steak-based menu will have the same appeal in Paris or Tokyo as in Atlanta. A suburban-based, dinners-only approach may also be inappropriate – in some European cities (e.g. Paris) the suburbs are the centers of poverty and social discontent. In other countries, suburbanites typically eat at home rather than at restaurants.

On the second set of considerations, it is not clear that Outback can recreate the same capabilities overseas as in the US. Central to Outback's capabilities in customer service, innovativeness, and high levels of employee and manager commitment are its HR practices. Inevitably, engendering motivation, commitment, and individual responsibility are highly culturally dependent.

In terms of the ability to transfer/recreate Outback's resources and capabilities, it would seem easier to do this through new restaurant chains within the US than through Outback restaurants overseas. In particular, Outback's partnership system and its HRM practices would seem to be suitable for other restaurant concepts.

### **Does the strategy outlined by Connerty make sense?**

A phased rollout is sound. This is going to be a learning approach for Outback and it needs to adopt an experimental approach: start up one or two restaurants within a country, then adjust the offering and the system on the basis of careful observation. The implication is that the timescale envisaged by Connerty is overambitious in the extreme. It could be argued that with a franchising system, the risks are primarily with the franchisee – however, if Outback is interested in building a successful, long-term international presence, it cannot adopt a short-term strategy of maximizing its sales of franchise rights.

Franchising is the conventional approach to internationalization by catering companies – and many other service businesses. Despite Outback's limited experience with franchising (in the US, its predominant mode has been partnerships), for overseas markets franchising would allow it to draw on local market expertise (especially if its master franchises are with large, experienced local restaurant/catering companies).

Connerty's idea that the close relationships with Outback's suppliers will result in them building plants overseas (see p. 249 in the case) seems misguided. Most suppliers of meat, fish, and fruit and vegetables will be domestic companies with little or no international experience. The idea that they will establish facilities overseas just to supply Outback franchises looks unrealistic and undesirable.

### **If Outback is to expand internationally, advise Chris Sullivan on:**

#### *(a) The optimal rate of international expansion*

See comments above about the need for an experimental approach in which the first restaurants in each country are viewed as opportunities to “test the water” and refine the strategy.

#### *(b) The best mode of entry into foreign markets (e.g. direct management, JV, franchise)*

Direct management and joint ventures give Outback greater control. However, the critical issue is likely to be Outback's need for knowledge about local customer requirements and preferences, local/national regulations, local human resource practices, and purchases of raw materials and other supplies. For gaining access to such knowledge, franchises are likely to be most appropriate.

#### *(c) Which country(ies) to enter first*

Presumably, it will be those in which the Outback concept is likely to be most appealing to consumers. These may be countries that in terms of culture and culinary preferences are closest to the US (e.g. Canada), and perhaps countries that are culturally different but where US-based service offerings are popular (e.g. Japan, UK, Germany).

(d) *Whether Connerty is the right person to head the International Division*

The issue is whether Connerty's extensive US-based knowledge of franchising offers an adequate knowledge base for directing overseas expansion. From Connerty's quotes (on pp. 246 and 249), it appears that there is some risk that Connerty is ill-informed about overseas markets and overconfident in his assessment of Outback's prospects.

■ **KEY TAKE-AWAYS FROM THE CASE DISCUSSION** ■

The Outback case is both brief and uncomplicated. It offers insight into the critical issues in the decision by any business seeking to expand abroad:

1. Are overseas markets attractive relative to the home market?
2. Is our product offering likely to appeal to customers in the overseas market?
3. Are we able to transfer or replicate our resources and capabilities in the overseas market in order to build a competitive advantage similar to that in our home market?
4. What is the best strategy for entering overseas markets?
5. What other aspects of our strategy and its implementation need to be adapted to the conditions of the overseas market?