Restaurant Industry in Germany

Team 5
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Cultural Analysis - Hofstede
Specific Relevant Cultural Nuances

- Much lower standard of service
- No Drive-Thrus
- Highly organized
  - Reservations are important
- Cash Economy
- Greater small business preference
- Extremely sensitive to privacy
- Very little tipping
- Environmentally focused
  - Recycling is huge and mandatory

- Germans value quality over price
- Business closures on Sundays
- Difficult to fire employees
- Propensity towards healthier options (compared to US)
- Restaurants regarded as a social experience
- Local/cultural food vs American food
- Important locations for restaurants:
  - Train stations
  - City centers
  - Tourist areas
Legal environment

- Few formal barriers exist for US trade or investment
  - Bureaucratic complexities could indirectly favor local business
- Corporate tax rate - base 15% - final rate maxes at approx. 30%
  - Location, industry, size of company can factor into greater taxes
- Food codes and standards vary by state
  - Federal Office of Consumer Protection and Food Safety (BVL) performs similar role to FDA
  - Governed generally by EU standards
- Types of companies
  - GmbH (~LLC), AG (Corporation), OHG (General Partnership), KG (Limited Partnership)
- Common sense standards for starting a business
  - Fees based on size of company (share capital)
  - Register with bureaus, trade offices, local courts etc
  - Open bank accounts
  - Register for health and social insurance
Social Environment

- Population: 82.67 million (2016) - 16th in the world
- Ethnic diversity
  - ~81% German, ~6.5% Middle Eastern (half Turkish), ~8% other European (Polish, Russian)
- Regional diversity
  - Largest cities: Berlin, Hamburg, Munich
  - Most populous states: NRW, Bavaria, Baden-Württemberg
- Median age of 46 years and rising
- Highly developed country; high internet/tech access
- Class size - dominant middle class
  - Increasing income inequality seems be concentrating more wealth in upper class, consistent with other developed countries
  - Consistent data difficult to find - middle class approx. 50-60% before tax, 70% after tax
Economic Environment

- Capitalism - Social Market
  - Mix of free market and social elements
- Extremely strong
  - 4th largest economy in the world, biggest in EU
- Highly stable
- Ease of Doing Business: Rank 20
Trade Environment

- Almost half of Germany’s economic output is in exports
- ~10% imports from China, ~6% US
- ~9% exports to US, ~6% China
- Subject to EU trade restrictions and tariffs
  - European Union Customs Union
  - European Union Common Customs Tariff
    - TARIC
  - Free trade between EU members

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<thead>
<tr>
<th>Balance of Trade</th>
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<tr>
<td>Total Exports</td>
<td>€110.4 billion</td>
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<tr>
<td>Total Imports</td>
<td>€86.3 billion</td>
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<td>Balance of Trade</td>
<td>€24.1 billion</td>
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<th>Tariffs and Imports by Product Group (EU) (WTO)</th>
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<td>Product Group</td>
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<td>Animal Products</td>
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<td>Dairy</td>
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<td>Fruits/Vegetables/Plants</td>
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<td>Coffe, Tea</td>
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<td>Cereals &amp; Preparations</td>
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<td>Oils &amp; Fats</td>
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<td>Sugars &amp; Confectionary</td>
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<td>Beverages &amp; Tobacco</td>
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<td>Fish &amp; Fish Products</td>
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Major Exports of the Export Economy
Monetary Environment - The Euro

- 1 Euro = 1.17 USD / 1 USD = .86 Euro
- PPP - July 2017 - 1 Euro = 1.35 USD / 1 USD = .74 Euro
- Purchasing power varies across Euro member countries
EU Foreign Direct Investment (FDI) Map

- Change between 2014-15
- Scored on:
  - FDI Inward Flows
  - FDI Outward Flows
  - FDI Inward Stocks
  - FDI Outward Stocks
- Germany scores positively in all but FDI Outward Flows, making it one of the best ranked in the EU
Political Environment

- Federalist Democracy
- Very stable and well-insulated from radicalism
  - World Bank estimates of Stability/Absence of Violence/Terrorism slightly higher than US
- Dominant political power in the EU (and world in general)
- Political factors create little risk and would have similar impact as US
Size and Growth of Industry

- Largest food and beverage market in (western) Europe (large population)
- Food and beverage - third largest industry sector in Germany
  - Food service - second biggest distribution channel
- Food retailing revenue grew 2.3% (191 billion Euro) in 2015
  - Food service sales- +3.5% growth in 2015 - 73.6 billion Euro
- Food and beverage R&D spending = 3.9 billion Euro in 2016
- Food Service growth in 2016 was above average
  - BUT market shows increasing trends to fewer, bigger outlets
- Strong economic conditions continue to raise disposable income and encourage restaurant dining
  - Euromonitor predicts stability in this indulgence for 5+ years
- Germans show strong preference for independent operators over chains
Trends in Industry

- **Desire for natural, authentic foods and regional products**
  - Large agricultural production capabilities facilitate local/natural sourcing

- **Leader of Europe’s alcoholic beverage market**
  - 16% of all alcohol consumed in Europe sold in Germany

- **Growing popularity of Vegetarianism/Veganism**
  - 18% of the world’s vegan products launched from Germany
  - Increase in meat substitutes
  - Veggie Burgers at McDonalds!

[2016 Vegan Food Launches By Country]

Source: MINTEL Global New Products Database
Restaurant Industry by Segment

- Extremely limited market for Full-Service restaurants
  - 3% growth in 2016 due to disposable income increase
  - No chain has more than 1% share
  - Three largest chains are Block House (NA), Hans im Glück (NA), Maredo (Latin)

- Small potential market in Fast food industry
  - 2% growth in 2016 (11.9 billion Euro) - attributed to economic confidence/growth, increasing demand for quick and easy meals
  - McDonalds and Burger King market leaders with 40% combined share
  - Euromonitor predicts growth to 12.6 billion by 2021
    - Best market opening according to Euromonitor estimates: higher value offerings

- Chains offering exclusively take-out/delivery considered weakest market
Competitive Environment: Full Service

- Largely favors independently operated businesses
- Core competencies:
  - Atmosphere for social gatherings
  - Quality food (compared to other restaurant segments)
- “Full” service very lacking by US standards!
- Reminder: Biggest single competitors
  - Block House (NA), Hans im Glück (NA), Maredo (Latin)
- Probably NOT recommended to enter market
Competitive Environment: Fast Food

- Most important differentiation dimensions
  - Chain vs Independent
  - Traditional (American) Fast Food vs German Cultural Foods
- Cultural Chain
- Cultural Independent
- Traditional Chain
- Traditional Independent
Fast Food - Continued

- Business in this context **limited to traditional chain**
- Core competencies:
  - Cheap (although more expensive than US equivalents)
  - Quick and easy; appealing given increasingly hectic lifestyles
    - Perfect for travel (train stations)
- Largely limited to sizeable cities
  - Even larger towns will likely have only a few or no chain fast food restaurants
- Important differences
  - No Drive-Thrus
  - Strong focus on eco-friendly packaging/practices
- Market nearly cornered by giant multinational brands
  - McDonalds, Burger King, Dominos, Pizza Hut, KFC, Subway, Dunkin Donuts
- Biggest potential market opportunity: (relatively) **high quality fast food**
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