THE COMPARISON OF EXPORTING FOOD CONCEPT AND BUSINESS MODEL BETWEEN THE UNITED STATES AND CHINA IN FOOD AND BEVERAGE CHAIN COMPANIES: A CASE STUDY OF STARBUCKS AND LITTLE SHEEP HOT POT

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PROJECT: THE COMPARISON OF EXPORTING FOOD CONCEPT AND BUSINESS MODEL BETWEEN THE UNITED STATES AND CHINA IN FOOD AND BEVERAGE CHAIN COMPANIES- A CASE STUDY OF STARBUCKS AND LITTLE SHEEP HOT POT

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ABSTRACT

The primary objective of this study is to determine which features are effective in Chain Restaurants in terms of food concept and the business model when United States chains move their businesses to China while the Chinese chains open their operations in the United States. From their successes or failures, the goal is to summarize the principles of keeping or changing food concept and business model in a foreign atmosphere for international chains. In order to gather the information, Starbucks and Little Sheep Hot Pot were selected as the examples and the Case Study method was used.
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CHAPTER 1
INTRODUCTION

This research is about restaurant chains. “Restaurant chains are two or more eating establishments at separate locations under common ownership or related through other legal entities (e.g., franchising) which, as the dominant activity, provide prepared food for consumption on or off premises” (Wyckoff & Sasser, 1978). There are a large number of chain restaurants nowadays. With the United States chains as the example, in 2011, there were 4,834 chain restaurants (Michael, 2011). Among them, 40 chains had more than 1001 units (Michael, 2011). In order to get a better idea of the operation for a large number of chains, deeper research needs to be done about it. Both the United States and China have big markets. In the United States, the total retail sales have grown from 1.81 trillion to 4.53 trillion from 1992 to 2013 (Statista, 2014). China’s economy is also growing fast; Chinese consumers generated a retail sale of 544 billion USD in a single year in 2003, growing by about 10 percent compared to the last year (Zinzius, 2004). In 2006, fast food restaurants in China gained revenue of 313 billion yuan (Statista, 2016). The Chinese market has a bright future; many foreign enterprises have expanded their businesses to China, with more than 465,000 in recent years (Zinzius, 2004). There are many United States chains that have made their way to China around the year 1990, but Chinese chains have just developed in the United States in recent years. Starbucks and Little Sheep Hot Pot were selected as the examples, because they are both big companies and develop well. The expansion of United States restaurant chains in China and the expansion of Chinese restaurant chains in the United States would seem to raise questions beyond those that need to be answered when a company opens a new property in its
country of origin. This study is an investigation of issues involved in chain restaurant
growth in the context of expansion outside the country of origin. Two major segments of
issues will be the focus of the study: food concept and business models. The purpose of
the study is to determine the level of change made by companies during this type of
expansion. The companies investigated in this study are Starbucks, a United States
company and Little Sheep Hot Pot, a Chinese company.
CHAPTER 2
LITERATURE REVIEW

The second chapter of this study focuses on the literature review in which past research studies are discussed in relation to the topic. The literature review has been divided into five parts: Food Concept, Business Model, Starbucks, Little Sheep Hot Pot, and Case Study.

2.1 Food Concept

2.1.1 Menu Offering

Selling food has many factors, such as cost, convenience, packaging and so on, but food quality has four principle quality factors: appearance, flavor, texture, and nutrition (Malcolm, 2002). Different countries have different food concepts; sometimes even one chain has different food concept strategies in different countries.

As Lee pointed out in her 2008 TED Talk, since Chinese food first began to serve food in the United States in the 19th century, it has done its best to evolve and suit United States tastes. It is much different from traditional Chinese food, compared both now and then (Lee, 2008).

The food that United States chain restaurants offer in China does not have many differences next to the Chinese Restaurants opened in the United States. But according to the research, there are still differences. KFC is also famous for its fried chicken in China, but it has unique foods that are not offered in the United States. For example, KFC in China has the old fashioned Peking chicken Burrito, Half Chicken Half Shrimp Hamburger, and Herbal Tea (KFC, 2015). KFC in the United States offers less than 30 kinds of food in total, while in China, foods are divided into breakfast, lunch, afternoon
tea, dinner, and even porridges for food taken at night (KFC, 2015).

2.1.2 Food Supplier and Food Safety

It was reported in January, 2013 that, “As sustainable food sources will continue to rise up the corporate agenda, emerging markets are becoming increasingly important and commodity prices continuing to rise. Poor harvests have put pressure on resources and this is exacerbated by emerging markets consume themselves” (Food Manufacture, 2013). It is more and more important to pay attention to quality, safety, provenance, and responsible sourcing of materials in the supply chain. Nowadays, supply chains, especially the international chains, should meet the demands of security, environment protection, resource scarcity, and the need for reliability (Cetinkaya, Cuthbertson, Ewer, Klaas-Wissing, Piotrowicz, &Tyssen, 2011).

Concerning the United States and China, they are both facing the problems with food supplier. Yum Brands Inc. and McDonald’s Corp faced a food safety scare in China for several times. In 2012, Chinese regulations shut down a local meat supplier following a TV report that showed workers picking up meat from a factory floor and mixing meat beyond its expiration date with fresh meat (Jourdan &Baertlein, 2014). In 2012, McDonald’s also got into a problem when workers prepared and served beef that had fallen on the floor (Bottemiller, 2012). McDonald’s got into problems of selling chicken wings more than an hour and a half after they were cooked, even though half an hour is the company’s self-imposed rule (Bottemiller, 2012). Food safety should also be under consideration.

On the other hand, Chinese Chains are also facing this kind of problem. The New York based Chinese food supplier New Yung Wah Trading Co., which served
numerous Chinese restaurants throughout the East Coast and Midwest, was found with significant violations of the FDA’s Current Good Manufacturing Practice regulations for manufacturing, packing, and holding human goods (FDA, 2014).

2.1.3 Food Trends in the United States and China

There are also huge differences between the United States and China in social situations. The United States is an immigrant country and China is not. The difference of social situation may affect the local taste and food market.

According to the Migration Policy Institute, Chinese immigrants are now the third largest foreign-born group in the United States. The number of Chinese immigrants went up to 2,018,000 in the United States in 2013 (Hooper & Batalova, 2015). While in China, there are only 4000 foreigners got the green card in China, since the year 1984 when China created the law that foreigners can gain permanent residence status (Fang, 2013).

With the growth of the Chinese economy, consumers’ income has grown substantially, which has led to changes in food consumption (Zhou, Tian, Liu & Cao, 2012). People are now searching for more diverse kinds of food, and food with higher quality. As China’s domestic supply is not able to meet the rising demand for food in the future, food imports have become a growing trend in China in recent years (Zhou, Tian, Liu & Cao, 2012).

2.2 Business Model

2.2.1 Business Model

The popularity of the term “business model” is a relatively young phenomenon; people have done great research about it in recent years (Osterwalder, Pigneur & Tucci,
It is a term that is hard to define; many people have their own definition depending on how they are using it.

According to research, many results have been discovered. From a part of Drucker’s “theory of the business,” he claimed “business models” are “assumptions about what a company gets paid for” (Drucker, 1994). Then, Magretta divided the business model into two parts: “Part one includes all the activities associated with making something: designing it, purchasing raw materials, manufacturing, and so on. Part two includes all the activities associated with selling something: finding and reaching customers, transacting a sale, distributing the product, or delivering the service. A new business model may turn on designing a new product for an unmet need or on a process innovation” (Magretta, 2002). According to Sako, business model refers to the way that the company creates and delivers its value to customers (Sako, 2012). More recently, Osterwalder indicated the business model canvas, which has led global companies like GE, P&G, and Nestle. The business model canvas includes customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure (Osterwalder, 2013).

The conclusion of books about Starbucks is that it has built its business model in an unusual way (Henricks, 2007). “Unlike McDonald’s which is franchise, Starbucks retained ownership through corporate-owned locations. And unlike traditional marketing where you’d use a lot of ad dollars, the brand has leveraged itself without advertising” (Michelli, 2006). Also, Moore says, “What Starbucks does magnificently well is treat employees not as pawns, but as partners. They spend as much time and as many dollars trying to speak to employees as they do trying to speak to customers” (Moore, 2006).
2.2.2 Chain Restaurants

A chain is a form of business model. As explained by Wyckoff and Sasser in 1978, chain restaurants are two or more eating establishments that have common ownership or are related to other restaurants through legal issues (such as franchises). Chain Restaurants are divided into the following types in terms of food service: Cafeteria, Casual Dining, Family Restaurant, Fast Casual, Fine Dining, Full-Service Sit-Down Dining, In-Store Feeder, Mobile Units/Kiosks, Quick Serve, and Vending Machine (Michael, 2011). There are many types of Chain Restaurants. All types of Chain Restaurants are challenges for operators, but there are still many advantages (Zimmerman, 2011). The advantages of Chain Restaurants are recognition in the marketplace, greater advertising clout, sophisticated system development, and discounted purchasing (Restaurant, 2013). Because the advantages of chain restaurants are so obvious, there are more chain restaurants opening throughout the whole world. Take the chains in the United States for example. In spring 2012, there were 614,460 chain restaurants in the United States, and in spring 2014, the number has grown to 635,494 (Statista, 2015).

Among all the chains, there are many restaurants that are not limited to just one country. International Chain Restaurants can be found in many parts of the world. According to Foodtank (2015), “The growing trendiness of Western fast food among young people in China has contributed to its increased consumption. American franchises such as KFC are thriving. In the U.S., the chain amassed 4,618 locations in 61 years. In China, though, KFC boasted 4,260 locations in only 26 years. China now consumes twice as much meat as the U.S., a whopping 71 million tons per year.” On the other hand, we can safely say that there are hardly any national Chinese sit-down chains in the United
States (David, 2013).

The business model’s elements of value proposition, target customer segments, partnerships, and channels were listed to show the growth of a company (Jovanovski, Gecevska, Polenakovic, Sutevski, Stankovska, 2015). According to Cohen, pricing has great impact on brand, product, and purchasing decisions (Cohen, 2014). Also, there are more factors that can show company growth. Roush has said in his book that a measure of determining a company’s health is their measure of operating margin; store sales are very important to a company (Roush, 2011). A specific company should be compared with the competitors and the whole industry (Roush, 2011). Profitability is one of the factors as well; the company’s profitability is the most important qualitative index of the economic activity that expresses the capacity of making profit (Costuleanu, Dumitrescu, Ignat, & Bobitan, 2014). Last but not least, as Bassett pointed out, equipment is one of the biggest factors that can affect the growth of a restaurant (Bassett, 2015).

2.2.3 Government Regulations

Different countries have different kinds of government regulations for their companies. As my research is about food service, the regulations I mention here are all directed at food and beverage companies.

According to the U.S. Food and Drug Administration (FDA), restaurant employee health control is one of the five key public health interventions (FDA, 2009). Also, food safety is a big responsibility; it impacts a restaurant’s reputation (Food safety, 2015). According to Cleverism, a license is one of the factors that international chain operators should pay attention to (Cleverism, 2015). Another regulation that is different by country is employment law. As Locke mentioned in an interview, global labor issues
have become more prominent nowadays (Locke, 2014). Moreover, regulations for building and government regulations for international chains are what the international chains should pay attention to.

The regulations that are needed when opening a restaurant in Los Angeles County (the United States) and Shanghai (China) can be found in Appendix A and Appendix B.

2.3 Starbucks

According to the Starbucks website, the first Starbucks was opened in 1971. Back then, the company was a single store in Seattle’s historical Pike Place Market. It served the world’s finest fresh-roasted whole bean coffees.

Starbucks has been developing very fast. Annual sales are approaching $13.4 billion (Saporito, 2012). According to the Starbucks 2013 Annual Report, the revenue reached a record of $14.9 billion, which is, “a 12 percent increase over last year driven by a 7 percent rise in global comparable store sales and the opening of 1,701 net new stores around the globe.” Moreover, in fiscal year 2013, more than 3 billion customers have visited more than 19,000 stores in 62 countries.

According to Saporito, Starbucks keeps adding new products to their list, and the most popular Starbucks drinks in the United States are Brewed Coffee, Caffe Latte, Vanilla Latte, White Mocha, and Caramel Macchiato. While in China, the Frappuccino is their biggest bit. Chinese people consider Western style, especially luxury goods, as “modern”, “global”, and a prestigious social identity (Podoshen, Li & Zhang, 2011). Moreover, with the economic reforms since 1979 and the rise of the Chinese middle
class, more and more Chinese people have made their way to Starbucks (Smith & Hu, 2013). Alternatively, Starbucks did their best to customize their products in China (Wang, 2012).

2.4 Little Sheep Hot Pot

According to the Chinese website for Little Sheep Hot Pot, the first Little Sheep was opened in 1999 in Inner Mongolia and came into the market in Hong Kong in 2008. In 2012, Yum! Brands officially became the biggest shareholder of Little Sheep. Little Sheep was then under the company umbrella of Yum! Brands (Little Sheep Hot Pot, 2015). On October 20, 2015, Yum! China (China) has separated from Yum! Brands (United States) and operated as an independent company. Little Sheep Hot Pot has belonged to Yum! China (China) since 2015 (Maze, 2015).

There are now 28 Little Sheep Hot Pot stores that are open in the United States, and three more are coming soon (Little Sheep Hot Pot, 2016). Most of the sub branches are open in Northern and Southern California.

2.5 Case Study

The research will be done with the method of case study. Case study is widely used in many social science studies especially when doing some in-depth research of a social behavior (Zainai, 2007). Case study allows the exploration and understanding of complex issues (Gulsecen & Kubat, 2006). Moreover, through case study, researchers can go beyond the result and understand the behavior conditions through the actor’s perspective.
(Tellis, 1997). In this case, there are so many countries and companies in the research field. So two international companies are chosen to do the case study, in order to get in-depth information and to see the behavior from the companies’ perspective.
CHAPTER 3
RESEARCH METHODOLOGY

Case Study was the method used. The literature review indicates three issues of focus for operations expanding internationally: food concept, business model, and government regulation. Starbucks (a United States company opened their operations in China) and Little Sheep Hot Pot (a Chinese company opened their chain in the United States) were selected. Both companies are successful and are continuing to grow their business. By comparing what they have done to operate the business in the country of origin and in the country they moved their operations to through the aspects of food concept, business model, and government regulations, I want to find certain factors that should be paid attention to in the process.
CHAPTER 4
RESULTS

4.1 Company History

4.1.1 Starbucks


In 1981, Howard Schultz jointed Starbucks. In 1982, he became the director of operations and marketing when Starbucks only had four stores (Starbucks Official Website, 2016). Then, from 1983, he began to bring the Italian coffeehouse tradition to Starbucks. The mission of Starbucks is “to inspire and nurture the human spirit- one person, one cup, and one neighborhood at a time.” The theme of Starbucks is to create a “Third Place” where people can gather, relax and interact after work. They have created the “Coffee Culture” (Schultz & Yang, 1997).

By the year 1987, Howard Schultz purchased the company and made Starbucks a bigger company with more stores (Loyd, Jackson, & Gaulden, 2001). Starbucks went public in 1992 (Koehn, F. N., Besharov, M., & Miller, K., 2008). As they desired to expand their brand and bring the “Starbucks Experience” to the world, the management team decided to open international sites (Clemons, Gonzalez, Green, Larson, & Ruscio, 2012). The first international Starbucks site was opened in Tokyo in 1996, as Japan had shown signs of coffee growth in 1990, and young generations had become interested in American culture (Clemons, Gonzalez, Green, Larson, & Ruscio, 2012). The response was extraordinary (David, 2013). In 2012, Starbucks opened stores in nearly 60 countries (David, 2013).
Now, Starbucks has more than 21,000 stores in over 65 countries. Starbucks has successfully spread their coffee passion to places with different languages and cultures (Starbucks official site, 2016).

Fiscally, Starbucks is also developing very fast. Annual sales are approaching $13.4 billion (Saporito, 2012). According to Starbucks 2013 Annual Report, the revenue reached a record of $14.9 billion, “a 12 percent increase over last year driven by a 7 percent rise in global comparable store sales and the opening of 1,701 net new stores around the globe.” Moreover, in fiscal year 2013, more than 3 billion customers have visited more than 19,000 stores in 62 countries (Starbucks Fiscal Report, 2013).

4.1.2 Little Sheep Hot Pot

Hot Pot is a part of Chinese culinary culture and has gained popularity in Chinese communities. It is always cooked in a metal pot with the soup simmering. Dishes like sliced meat; leafy vegetables and seafood are placed in pot for a while. Then, cooked ingredients can be eaten with the dipping sauce. There are different kinds of Hot Pot in China: instant-boiled mutton in Beijing, mutton hotpot in Inner Mongolia, numb and spicy hotpot in Sichuan and Chongqing, and canton hotpot in Guangdong and Hong Kong (Wu, Guo, Tsui, Chen, & Zhao, 2013).

According to Baidu news in 1999, a worker called Gang Zhang working in Baotou Iron and Steel Company found a great primary soup for hotpot. Even ingredients are tasty without the dipping sauce, so he decided to open a hotpot restaurant with his friends. After the first store opened, the Little Sheep Hot Pot management team realized the trend of chain restaurants in China and began to apply the form of franchise. In 2001, they consolidated the chains and introduced the joint stock system. In 2002, the volume of business reached
300 million USD. In 2006, Little Sheep Hot Pot became the first mainland Food and Beverage Company to go into the Hong Kong market. In 2012, Yum! Brands bought the Little Sheep Hot Pot for 660 million USD (Baidu News, 2016).

After being purchased, the new management team worked to upgrade the brand by tightening business controls, increasing standardization across all stores, and streamlining the opening of new properties to relieve the existing expansion bottleneck. According to Sohu Business News, the new team lacked innovation to bring about new menu items, which has limited the growth of the company (Sohu Business News, 2016). The Little Sheep Hot Pot was not so successful as usual in recent years.

Now, Little Sheep Hot Pot has their stores in four countries: the United States, Canada, China, and Japan. They have 28 store in the United States, 8 stores in Canada, 195 stores in China, and 15 stores in Japan (Little Sheep Hot Pot Official Site, 2016).

4.2 Concepts

According to Goldman, restaurants must have a clear-cut identity, which is a defined concept that can attract certain groups of customers. Concept components include significant items, service system, decor, and pricing (Goldman, 1993).

Concepts of Starbucks and Little Sheep Hot Pot:

4.2.1 Starbucks

4.2.1.1 Significant items

Table 1

*The menu of Starbucks in the United States and China (Starbucks Official Site, 2016)*
<table>
<thead>
<tr>
<th>United States</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Drinks:</strong></td>
<td><strong>Drinks:</strong></td>
</tr>
<tr>
<td>Starbucks Refresher Beverages</td>
<td>Freshly Brewed Coffee:</td>
</tr>
<tr>
<td>(3 kinds)</td>
<td>Espresso</td>
</tr>
<tr>
<td>Iced Coffee</td>
<td>Café Americano</td>
</tr>
<tr>
<td>(9 kinds)</td>
<td>Cappuccino</td>
</tr>
<tr>
<td>Iced Tea</td>
<td>Latte</td>
</tr>
<tr>
<td>(22 kinds)</td>
<td>Vanilla Latte</td>
</tr>
<tr>
<td>Freshly Brewed Coffee</td>
<td>Caramel Macchiato</td>
</tr>
<tr>
<td>(11 kinds)</td>
<td>Mocha</td>
</tr>
<tr>
<td>Chocolate Beverages</td>
<td>Fibert Flavored Latte</td>
</tr>
<tr>
<td>(1 kind)</td>
<td>Flat White</td>
</tr>
<tr>
<td>Starbucks Espresso Beverages</td>
<td>Espresso Mocha</td>
</tr>
<tr>
<td>(31 kinds)</td>
<td></td>
</tr>
<tr>
<td>Frappuccino Blended Beverages</td>
<td>Tea:</td>
</tr>
<tr>
<td>(26 kinds)</td>
<td>Matcha Latte</td>
</tr>
<tr>
<td>Kid’s Drink &amp; Others</td>
<td>Black Tea Latte</td>
</tr>
<tr>
<td>(6 kinds)</td>
<td>Very Berry Refresher Beverage</td>
</tr>
<tr>
<td>Smoothies</td>
<td>Classical Chocolate Beverage</td>
</tr>
<tr>
<td>(5 kinds)</td>
<td></td>
</tr>
<tr>
<td>Fizzio Handcrafted Sodas</td>
<td>Frappuccino:</td>
</tr>
<tr>
<td>(3 kinds)</td>
<td>Expresso Frappuccino Blended Coffee</td>
</tr>
<tr>
<td></td>
<td>Mocha Java Chip Frappuccino</td>
</tr>
<tr>
<td></td>
<td>Very Berry Refresher Beverage</td>
</tr>
<tr>
<td></td>
<td>Classical Chocolate Beverage</td>
</tr>
<tr>
<td></td>
<td>Expresso Mocha</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Food:</strong></td>
<td><strong>Food:</strong></td>
</tr>
<tr>
<td>Bakery</td>
<td>Breakfast:</td>
</tr>
<tr>
<td>(43 kinds)</td>
<td>Blueberry Muffin</td>
</tr>
<tr>
<td>Starbucks Petites</td>
<td>Chocolate Muffin</td>
</tr>
<tr>
<td>(4 kinds)</td>
<td>Whole Grain Walnut Muffin</td>
</tr>
<tr>
<td>Bistro Boxes</td>
<td>Chocolate Danish Pastry</td>
</tr>
<tr>
<td>(7 kinds)</td>
<td>Blueberry Danish Pastry</td>
</tr>
<tr>
<td>Hot Breakfast</td>
<td>Croissant</td>
</tr>
<tr>
<td>(10 kinds)</td>
<td>Croissant with Ham and Cheese</td>
</tr>
<tr>
<td>Sandwiches, Paninis &amp; Salads</td>
<td>Honey Pudding</td>
</tr>
<tr>
<td>(13 kinds)</td>
<td>Lunch:</td>
</tr>
<tr>
<td>Yogurt and Fruit</td>
<td>Turkey &amp; Smoked Ham Sandwich with BBQ Sauce</td>
</tr>
<tr>
<td>(4 kinds)</td>
<td>BBQ Beef Sandwich with Pimento Sauce</td>
</tr>
<tr>
<td></td>
<td>Afternoon Tea:</td>
</tr>
<tr>
<td></td>
<td>Blueberry Cheesecake</td>
</tr>
<tr>
<td></td>
<td>New York Cheesecake</td>
</tr>
<tr>
<td></td>
<td>French Style Chocolate Cheesecake</td>
</tr>
<tr>
<td></td>
<td>Chocolate Brownie</td>
</tr>
<tr>
<td>United States</td>
<td>China</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Macaron</td>
<td>Tiramisu</td>
</tr>
<tr>
<td></td>
<td>Chocolate Cookie</td>
</tr>
<tr>
<td></td>
<td>Honey Oatmeal Cookie</td>
</tr>
<tr>
<td>Others:</td>
<td>Mint Chewing Gum (Sugar-Free)</td>
</tr>
<tr>
<td></td>
<td>Mint Hard Candy (Sugar-Free)</td>
</tr>
<tr>
<td></td>
<td>Lollipop Imported from French</td>
</tr>
<tr>
<td></td>
<td>Nougat with Filbert and Taffy</td>
</tr>
<tr>
<td></td>
<td>Cashew Nut</td>
</tr>
<tr>
<td></td>
<td>Mixed Nutlet and Preserved Fruit</td>
</tr>
<tr>
<td></td>
<td>Classical Italian Style Hardlack</td>
</tr>
<tr>
<td></td>
<td>Coffee Italian Style Hardlack</td>
</tr>
<tr>
<td></td>
<td>Chocolate Hardlack</td>
</tr>
<tr>
<td></td>
<td>English Style Butter Biscuit</td>
</tr>
<tr>
<td></td>
<td>Coffee Egg Roll</td>
</tr>
</tbody>
</table>

**United States:**

Starbucks began with dark roasted coffee beans and coffee merchandise, and then, Howard Schultz transformed the company by providing Italian coffee including espresso drinks and elegant camaraderie. Also, Starbucks offers pastries, deserts, and lunch items (Seaford, 2012). Because the United States is the country of origin of Starbucks, the number of drinks is far more than China.

**China:**

Starbucks realized that Chinese people do not like the bitter taste associated with black coffee or espresso, so they do not include them as key items in China as seen in Table 1. Instead, they emphasize milk-based drinks in China. For example, Lattes, Mochas, and especially the Frappuccino have become very popular from when they were first introduced into China (Barlow, 2013). Starbucks in China does have some special items; they put great effort in the Green Tea Series. They have offered moon cakes in accordance with the Chinese traditional festival- Zhong Qiu Festival (Barlow, 2013).
4.2.1.2 Service system

From the beginning, Starbucks’ brand was positioned as the “third place” between a person’s home and work (Seaford, 2012). Starbucks values their service quality in every one of their properties.

According to Hanft, Starbucks’ service quality can be seen in these five aspects:

- Starbucks keep focusing on their customer experience from greeting to wrapping.
- They pay attention to their “brand consciousness” and have a distinct and recognizable voice, significant smile and music playing in the store.
- They are not trying to squeeze every last cent out of a customer. They are making the customer comfortable in every experience.
- They accept conventional price ceilings. Starbucks could have been killed by industry experts if the management team had accepted the saying that no one would ever pay $1.75 for a cup of coffee if they could buy one for 85 cents instead. It is a price sensitive world nowadays, but there is still upward elasticity.
- Starbucks is a master at recombinant culture marketing. They always do their best to adapt to the local culture they are serving. It can be seen that Starbucks is doing different in the United States and in China. In the United States, they will call the customer’s name for them to pick up their order. In China, since names are considered a part of privacy, they just say the name of the beverage instead of the customer’s name (Hanft, 2005).

Beside these examples, there are other things that Starbucks has done to improve their service quality. This is Wi-Fi provided and drive-through service. Starbucks gives customers free access to the Internet (Wi-Fi) in nearly all countries, which has contributed to the chain’s increased revenue (Flynn, 2004). Free Wi-Fi has made it possible for people
to work and do business in the store, which can attract more young people into it. The other service that Starbucks offers is drive-through service. By 2005, many Starbucks in the United States had begun offering customer drive-through service (Seaford, 2012). However, drive-through service is not offered in China because cars are not as popular as they are in the United States.

4.2.1.3 Décor

Starbucks is “green” in design and décor (Horoitz, 2010). Not only about the color they use, but also about the attitude they hold. Starbucks is trying to reduce the impact of their stores on the environment. They pay attention to their design and construction, including landscape, building methods, materials, lighting and more. They believe that a coffeehouse should be welcoming, inviting and familiar for people to connect, though they build their stores to reflect the unique characteristics of neighborhoods they serve. They do their best to reduce energy and water consumption. They also use locally inspired design details and materials in their stores. Starbucks design studios are located around the globe, so their designs can more reflect the communities they serve (Starbucks Official Site, 2016).

Compared to the United States, Starbucks in China has some unique characteristics. As “Many Chinese drinkers place greater value on the experience and environment café shops provide, rather than on the quality of the coffee itself,” Starbucks must pay greater attention to the décor than they did in other countries (Barlow, 2013). Moreover, because Chinese people do not like to take their drinks to go and prefer to value the “Starbucks experience”, Starbucks in China emphasizes larger seating areas (Barlow, 2013).
4.2.1.4 Pricing

According to Peterson, Starbucks charges approximately 20% more for its drinks in China than in the United States (Peterson, 2014). Starbucks was under fire in China for the higher price. Reports in CCTV (China Central Television) said that a medium-sized latte in Beijing costs 27 yuan ($4.43). It is one-third more than the price at the Chicago store in the United States (CCTV, 2013). To respond to this query, the Starbucks Company said, “Each Starbucks market is unique and has different operating costs, so it would be inaccurate to draw conclusions about one market based on the price in a different market” (Eells, 2013). Because of the high import duties and tax rates, imported products often cost more. According to DutyCalculator.com, roasted coffee beans draw an import duty of 15% and a sales tax of an additional 17% (DutyCalculator.com, 2013).

4.2.2 Little Sheep Hot Pot

4.2.2.1 Significant items

Table 2

*The menu of Little Sheep Hot Pot (Dianping.com, 2016)*

<table>
<thead>
<tr>
<th>China</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food:</strong></td>
<td><strong>Food:</strong></td>
</tr>
<tr>
<td>Hot Pot Soup Base (9 kinds)</td>
<td>Hot Pot Soup Base (4 kinds)</td>
</tr>
<tr>
<td>Meats (14 kinds)</td>
<td>Meats (6 kinds)</td>
</tr>
<tr>
<td>Bean products (10 kinds)</td>
<td>BBQ (7 kinds)</td>
</tr>
<tr>
<td>BBQ (2 kinds)</td>
<td>Seafood (1 kind)</td>
</tr>
<tr>
<td>Deserts (11 kinds)</td>
<td>Vegetables (22 kinds)</td>
</tr>
<tr>
<td>Combo (8 kinds)</td>
<td>Sweets (4 kinds)</td>
</tr>
<tr>
<td>Other (15 kinds)</td>
<td></td>
</tr>
<tr>
<td>Seafood (2 kinds)</td>
<td></td>
</tr>
<tr>
<td>Vegetable (15 kinds)</td>
<td></td>
</tr>
<tr>
<td>Cold dish (13 kinds)</td>
<td></td>
</tr>
<tr>
<td>Mushroom (6 kinds)</td>
<td></td>
</tr>
<tr>
<td>Meatball (11 kinds)</td>
<td></td>
</tr>
<tr>
<td><strong>Drinks:</strong></td>
<td><strong>Drinks:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
According to the official site of Little Sheep Hot Pot, the significant items in China and the United States are both Hot Pot. By looking at Table 2, it is obvious that China has more choices on both soup and other items. For example, Little Sheep Hot Pot in the United States has soup choices of House Spicy Pot, House Original Pot, and the Half& Half Pot. But in China, Little Sheep has more choices, like Healthy Tomato Pot, Mushroom Pot, Lamb Spine Hot Pot, and Achyranthes Bone Tomato Pot (Little Sheep Hot Pot Official Site, 2016).

4.2.2.2 Service System

Little Sheep Hot Pot has its own Operating Manual, Service Manual, and Processing Manual (Zhen, 2012). Among them, the standardized Service Manual has included manuals from greeting to food serving and checking (Little Sheep Hot Pot Service Manual, 2011). Moreover, the standardized system also values the dish they serve. Every item they serve should be weighed before serving and cannot have an error of over 5g (Ma, 2013).

The menu of Little Sheep Hot Pot in the United States is written in Chinese and English to make it easy for both Chinese and people from other parts of the world to order. Another famous Hot Pot restaurant also opened their chains in the United States and it offers overloaded service that Americans are not adapted to. Little Sheep Hot Pot just offers help when the customer is in need. It is like the way American restaurants offer services. In order to determine the right way to serve, Little Sheep Hot Pot in the United States established their specific management team there (Zi, 2013).
4.2.2.3 Décor

The environment of the Little Sheep Hot Pot in China is better than normal Hot Pot restaurants. According to my observation, however, oil stain on the table and ground can still be observed. Compared to Chinese chains, stores in the United States are usually cleaner, bigger, and more upgraded (WJ, 2014).

Also, according to Zi, the Little Sheep Hot Pot has kept their tradition of big pot here, people come in a party of two or more can sit at one table using one big pot. There are still many big tables in the stores that are open in the United States. But in order to attract more customers, they have also added bars with small pots for a single person or people who are not used to sharing a big pot with other people (Zi, 2013).

4.2.2.4 Pricing

Little Sheep Hot Pot has maintained their way of acceptable prices, which have attracted many customers (Zi, 2013). Although the price of Little Sheep Hot Pot in the United States is higher than the price in China, compared to similar restaurants in the United States, Little Sheep Hot Pot has remained affordable.
5.1 Keeps and Adaptations

To observe the keeps and adaption, they have been divided into the following three parts: food concept, business model, and things in regard to government regulations.

5.1.1 Food Concept

Both Starbucks and Little Sheep Hot Pot have made changes to their menus after moving their organizations into other countries. As the United States and China have different food concepts, both Starbucks and Little Sheep Hot Pot have made efforts to adapt to the foreign atmosphere.

When the chains decide to open their business in another country, they have to pay attention to consumers’ preferences, cultural preferences, availability of raw materials, food safety, their ability to control business, and differences in food trend.

As we can see from the Table 1 and Table 2, Starbucks in the United States has 117 kinds of drinks and 81 kinds of food; while in China, it has 21 kinds of drinks and 30 kinds of food. Little Sheep Hot Pot in China has 116 kinds of food and 11 kinds of drinks; while in the United States, it has 44 kinds of food and 2 kinds of drinks. The number of food and drink items in China is so much smaller than it is in the United States. Moreover, it has been shown that Little Sheep Hot Pot offers three kinds of alcohol in China and does not offer alcohol in the United States.

The first aspect is consumers’ preferences. As Chinese people are not used to drinks with too much sugar, Starbucks simply introduced items that are not too sweet into China; the same item in China is lighter than one in the United States. Moreover, as
Chinese people value the Western style of life in their “Starbucks Experience,” a lot of items in China use names from the American, French, or English style. These kinds of names can attract more customers to buy their products. Little Sheep Hot Pot also simplified their menu when they opened their business in the United States. They just kept their most traditional kinds of food. Little Sheep Hot Pot is a relatively young company in the United States, so they just developed their menu while testing. When they realized that the foreign market accepts their traditional items, they began trying to add other items in the United States.

The next aspect to consider is cultural preferences. As Chinese consumers take the Starbucks consumption as the “Starbucks Experience” rather than the coffee itself, Starbucks pays more attention to the decor of stores in China than to the drinks, resulting in Starbucks having a smaller number of drinks in China than in the United States. Moreover, as Chinese consumers do not like to take drinks to go and spend a relatively long time in-store, Starbucks in China offers more kinds of foods than drinks. Thus, the proportion of drinks and foods in the United States and in China is different. The ratio of drinks and foods in the United States is 144%, and the ratio of drinks and foods in China is 70%. On the other hand, for the Little Sheep Hot Pot, as Americans do not have the culture of eating hot pot, and they do not eat as many varieties of food as Chinese people, such as organs or skins of animals, Little Sheep Hot Pot only introduced a limited number of items into the United States.

The availability of raw materials is also an important factor. The availability of raw materials can affect the menu significantly. For example, there are different import and export regulations in the United States and China. Some kinds of coffee cannot be
imported into China, and the import fee is very high. As a result, Starbucks in China is trying to get Chinese raw materials into use. According to Hongde Coffee Analysis in China, Starbucks has changed their food suppliers to Chinese local companies (Hongde Coffee, 2010). For example, they have changed their milk supplier from Nestle to MengNiu China and changed their food supplier to Beijing Inflight Meal Company, as well as other local Chinese companies. They are also trying to use coffee beans produced in Yunnan province rather than imported them (Hongde, 2010). This may more or less affect the menu in storehouses. Little Sheep Hot Pot is also facing this kind of problem. The meat in Little Sheep Hot Pot in China is all from their factory in Inner Mongolia. But according to the US law, meat cannot be imported, so Little Sheep Hot Pot has to find a way to find local meat producers in the United States. In this way, both Starbucks and Little Sheep Hot Pot have experienced some difficulty in importing raw materials.

Food Safety should also be paid attention to when developing chains into a foreign atmosphere. Nowadays, supply chains, especially the international chains, should meet the demands of security, environmental protection, resource scarcity, and the need for reliability (Cetinkaya, Cuthbertson, Ewer, Klaas-Wissing, Piotrowicz, & Tyssen, 2011). The chains always have less power of control in a foreign atmosphere. For example, it took time for Starbucks and Little Sheep Hot Pot to find safe food suppliers and to find methods to keep the food safe while operating.

Moreover, the menu of restaurant chains also reflect their confidence of controlling their product in a foreign country. Starbucks only had a few items when they came into China, and Little Sheep Hot Pot only introduced their most traditional kinds of food. Companies need time to adjust and develop their menu in a foreign country.
Last but not least, the food trend also affects the menu setting. For instance, Starbucks tends to offer lighter kinds of food in China because of Chinese people’s taste. Starbucks realized that Chinese people do not like the bitter taste associated with black coffee or espresso, so they do not include them as key items in China. Instead, they emphasize milk-based drinks in China. For example, the Frappuccino, Lattes and Mochas, especially, Frappuccino have become very popular from when they were first introduced into China (Barlow, 2013). Little Sheep Hot Pot also realized that Americans cannot accept some unique Chinese food like pork tripe or chicken heart, so they just did not bring them into the United States market.

5.1.2 Business Model

Pricing strategy is a very important factor in business model. Proper pricing strategies can speed up company growth and failure-pricing strategies may beat the business.

When developing a business in another country, they must pay attention to market position setting, target customers, economy status of the proposed country, and net disbursement of business according.

The first thing is market position setting. Starbucks could have been killed by industry experts if the management team had accepted the saying that no one would ever pay $1.75 for a cup of coffee if they could buy it for 85 cents. It is a price sensitive world nowadays, but there is still upward elasticity. Starbucks has broken the price ceiling since they began their business. In China, they also positioned themselves as a leisure experience, which turned out to be successful. The price of Starbucks in China is approximately 20% higher than the price in the United States, but products still sell well.
Little Sheep Hot Pot applied their acceptable price both in China and in the United States. They also did an all-you-can-eat deal in the summer in China and the United States when there tends to be less people eating Hot Pot. This strategy can both increase their revenue and act as an advertisement for their food.

The second thing is the target customer. The target customers of Starbucks in China are young people, white collars and middle class, with these people considering Western, especially luxury goods as “modern”, “global”, and prestigious social identity, Starbucks steps into China with the image of light luxury (Podoshen, Li & Zhang, 2011). People like to spend more to get the Starbucks experience in China, so the higher price in China is a good strategy to meet the mental need of Chinese people. However, Little Sheep Hot Pot has a different situation. People in the United States are curious about Chinese food, but they are not likely to treat Chinese food as a luxury experience. Moreover, as the United States is an immigrant country, Little Sheep Hot Pot realizes that most of the customers in their stores in the United States will be Chinese people or people with a relation to China. These people can easily get to know the store price in China, so Little Sheep Hot Pot keeps their prices acceptable in the United States.

The next factor that affects the price setting is the economy status of the proposed country. The economy status of the country is one of the most important factors when a company decides to open chains in another country. The economy status of the country can affect company profit. Moreover, making pricing strategy should also take the economy status into account. Can people in that country afford this? Are they willing to pay money for a new product? For example, if most of the people are starving in one country, they are not likely to buy Starbucks coffee with such a high price; they are more
likely to buy food that can fulfill them. Therefore, pricing strategy must take the country’s economic status into consideration.

The fourth thing that can affect pricing strategy is net disbursement of the business. Because Chinese consumers believe that Starbucks is more like a luxury experience and tend to spend more time in stores. Starbucks stores in China have bigger spaces and lower turnover rates. This may increase the net disbursement of the store and the item price can be higher than the United States. Little Sheep Hot Pot also has this kind of problem. As the meat cannot be exported to the United States, they have to find local companies to support them. Moreover, the cost of labor is higher in the United States than in China, so although Little Sheep Hot Pot has a pricing strategy to have affordable prices, the price in the United States is still higher than their stores in China.

5.1.3 Things regard to Government Regulations

The government regulations in every country are different. Comparing Appendix 1 and Appendix 2, it is obvious that the United States has more regulations when opening a restaurant than does China and the regulations are more specific.

The first different point is that the United States has more regulations for the compensation of workers. They have ruled that companies must have workers’ compensation insurance, and they also have to attain occupational safety and health benefits for workers. There are laws about wages and working hours of workers and discrimination. These regulations do not exist in China. The second point is that there are laws about weights and measurements in the United States and not in China. Additionally, the United States has more specific regulations about taxes, selling alcoholic beverages, and environmental protection. Chinese regulations have mentioned
these aspects but do not expand as specifically as the United States regulations. Moreover, it is listed in the regulations that employees hired after November 6, 1986 must provide proof of eligibility to work in the United States.

On the other hand, the only regulation that Chinese regulations have that the United States does not have is examination of price.

Chinese companies should pay more attention to all the regulations before they decide to open up chains in the United States.

Little Sheep Hot Pot has to obey all government regulations in the United States. That can be one of the reasons why the price is still higher than stores opened in China, although they have the strategy to have acceptable prices in the United States. Moreover, it can be seen from the menu that Little Sheep does not have alcohol beverages in the United States. This may be related to the fact that the regulations concerning alcohol in the United States is more specific than in China.

5.2 Success and Problems

5.2.1 Starbucks

China has become the second largest market for Starbucks and the revenue in China keeps growing. Starbucks has achieved great success in the Chinese market. They have created a loyal customer base. Both the menu and their vision and mission meet the needs of their target customers (young people, white collars and middle-incomes). There are, however, some issues. Raw materials are becoming more difficult to bring into China, so they have begun to source raw materials in China. The economy in China is growing and with that growth, the coffee culture is spreading. The result is increased
competition with the opening of more Chinese coffee chains or independent coffee shops. The challenge is huge. Starbucks must make an effort to meet the challenge.

5.2.2 Little Sheep Hot Pot

Little Sheep Hot Pot has been growing in the United States. The number of properties has been increasing and that growth is being fueled by food tastes, customer approved method and good pricing strategy. On the other hand, their growth is diminishing because of their failure to innovate their menu. Guests seem to be getting bored with the offerings.
CHAPTER 6
CONCLUSION

There are a great number of chain restaurants nowadays, and with the development of transportation and communication, there are more and more international chains being developed. Among all the countries, the United States and China both have very large markets with a bright future. United States chains made their way to China early in the 1990s. Chinese chains have just developed their businesses into the United States in recent years. For this study, Starbucks (a United States company opened business in China) and Little Sheep Hot Pot (a Chinese company opened business in the United States) were the focus.

When opening a restaurant, food concept (menu offering, food supplier and food safety, food trends in the United States and in China) and business model (chain restaurants, company growth, government regulations) are the main aspect that should be taken into consideration. A literature review was done on food concept, business model, Starbucks, and Little Sheep Hot Pot.

The primary objective of this study was to use the case study method to determine the features that chains hold when opening a new chain in another country. By doing a comparison of the menu, service system, décor, and pricing of the companies in their domestic operations and their international operations, it was found that when a company opens a chain outside their country of origin the following issues should be given close attention to. The first issue is the menu. The menu is impacted by consumers’ preferences, cultural preferences, availability of raw materials, food safety, their ability to control business, and food trend differences. The second issue is pricing, which is impacted by position setting, target customers, economic status of the proposed country, and net
disbursement of business. The third issue is government regulations. Government regulations vary from country to country impacting the start-up and ongoing operation of the business. Moreover, through researching the two companies, it is obvious that both companies have some strong points, but both companies need to do further development at some point in the future. For example, Starbucks has kept growing in China, and has earned a loyal customer base, but there are more coffee shops opening in China in recent years and it has become more difficult to bring raw materials into China. Starbucks must figure out methods to overcome this. Little Sheep Hot Pot also has a growing number of stores opening in the United States. But with the lack of innovation of the menu, guests seem to be getting bored with the offerings. This is where Little Sheep Hot Pot needs to put in effort.
CHAPTER 7
LIMITATIONS

Some limitations are confirmed in this study. First, the research in this work has been limited to only two companies: Starbucks, a United States company, and Little Sheep Hot Pot, a Chinese company. In light of this foundation for research, the findings cannot be overlaid on other companies and countries. The findings are of sufficient interest to encourage future study with a broader base to achieve more universally applicable findings. Secondly, the restaurant type is limited. Starbucks is mainly a beverage company, and Little Sheep Hot Pot is a casual dining restaurant concerning in Chinese Hot Pot service. Thirdly, it has been determined that food concept, business model and government regulations are important factors that affect the business. But there are still more viewpoints concerning business operations. The comparison point of this research is limited. The external environment is not deeply considered in this study, and may be a limitation for this research. There is still more research which can be done in this field.

For future studies, more companies in more countries should be compared in this field of research. Also, studies can be done for more diverse types of restaurants, because different type of restaurants may face different situations when opening their operations in a foreign country. At the same time, research can be done for different comparison aspects in the future, and external environment can be considered in the future. A future study comparing more chains in more countries using different types of restaurants would be ideal, because the viewpoints of more detailed comparison aspects will contribute to the universality of findings for this area of study.
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Starbucks official site, 2016, Sustainable design is part of who we are and what we do.


What permits and registrations we need when we plan to open a restaurant in China,


APPENDIX A

The necessary permits, licenses, and regulations that we need when we want to open a restaurant in Los Angeles County (the United States)

- “IRS identification number: Restaurant owners must register with the state of California and the federal government for a Federal Employer Identification Number.

- Seller’s Permit: A seller’s permit is required for all restaurants in California. Online registration for a seller’s permit can be found on the California Board of Equalization website.

- Health Operational Permit: This permit is for the sale of edible goods, and the costs and rules vary by county. You will have to apply with your local health department. With this permit, you are subject to periodic inspections by your city’s health inspector.

- Workers’ Compensation Insurance: California law requires employers to have workers’ compensation insurance even if you only have one other employee.

- Food Safety Certification: California law requires each food facility to have at least one employee/owner that has passed a state-approved Food Safety Certification exam.

- Food handler permit: All employees that handle food must have a permit to do so.” (Upcounsel, 2016)

Moreover, if we want to open a restaurant specifically in Pasadena for instance, we also need permits like:

- Building and Construction Permit
  
  Required for all new and remodeling construction, including change of occupancy.

- Burglar Alarm Permit
A permit must be obtained from this department for any business requiring a burglar alarm or security system.

- **Business License- Business Tax Certificate**
  
  Required for all entities doing business with city limits.

- **Fire Prevention Information/Inspection**
  
  Business may be subject to a yearly inspection of facility.

- **Public Health License**

- **Business Personal Property**
  
  Property used in the operation of a business such as machinery, equipment, trade fixtures, etc. is taxable and subject to assessment. Business operations need to file a Business Property Statement annually with Assessor declaring property on hand as of January 1 of each year.

- **Fictitious Business Name- Doing Business as Statement**
  
  A Fictitious Business Name (FBN) or Doing Business As (DBA) statement is required when the business name does not include the surname of the individual owner(s) and each of the partners; or the business name suggests the existence of additional owners; or the nature of the business in not clearly evident by the name of the business.

- **Hazardous Material/Waste Management Program**
  
  Subject to local CUPA/HMUPA and accidental release program if handling any hazardous materials, generating or treating hazardous waste, storing in above ground or underground storage tanks.

- **Public Health Operating License**
Required of restaurants and businesses manufacturing food, ice or soft drinks.

- **Weights and Measures**
  Businesses using scales, fuel pumps, electronic or manual price lookup scanner devices, or other measuring devices must ensure proper calibration and pass inspections.

- **Authority to Construct/Permit to Operate**
  Required if any person constructs, alters, replaces or operates any units that emit, may emit, or may reduce air emissions within the Region. An Authority to Construct must be obtained before building or installing a new emissions unit or modifying an existing emissions unit that requires a permit. A Permit to Operate is issued after all construction is completed and the emission unit is ready for operation. A permit is required for any sanding, coating, painting or the venting of vessels into the air. In addition, a Portable Equipment Registration is needed for any portable welders (over 50-hp) you operate (i.e. welding shops).

- **Alcoholic Beverage License**
  Entities selling, manufacturing, importing or distributing alcoholic beverages must register

- **Alcoholic Beverage Tax**
  Entities selling, manufacturing, importing or distributing alcoholic beverages must register

- **Conditional Use Permit/Alcohol Sales**
  Required for retail alcoholic beverage sales.

- **Corporation, Company or Partnership Fillings**
If you are considering becoming a corporation, (either stock or nonprofit), a limited liability company or a partnership (limited, or limited liability), you must file with the Secretary of State's Office.

- **Discrimination Law**
  Harassment or discrimination in employment is prohibited if it is based on a person's race, ancestry, national origin, color, sex (including pregnancy), sexual orientation, religion, physical disability (including AIDS), mental disability, marital status, medical condition (cured cancer), and refusal of family care leave. Discrimination in housing, public services and accommodations is also prohibited.

- **Industrial Activities Storm Water General Permit**
  National Pollutant Discharge Elimination System (NPDES) General Permit No. CAS000001 includes waste discharge requirements for discharges of storm water associated with industrial activities, excluding construction activities.

- **Occupational Safety and Health Information**
  Businesses with employees must prepare an Injury and Illness Prevention Plan. The state provides a no-fee consultation service to assist employers with preventing unsafe working conditions and workplace hazards.

- **Registration Form for Employers**
  Required to file a registration form within 15 days after paying more than $100.00 in wages to one or more employees. No distinction is made between full-time and part-time or permanent and temporary employees in meeting this requirement.

- **Sales & Use Permit (Seller’s Permit)**
  All businesses selling or leasing tangible property must obtain a Seller's Permit.
- **State Income Tax Information**
  Businesses should obtain the appropriate State income tax forms from the Franchise Tax Board.

- **Wage/Hour Laws**
  Businesses with employees must comply with laws establishing minimum standards for wages, hours and working conditions.

- **Waste Discharge Requirements**
  Any facility or activity that discharges, or proposes to discharge, waste that may affect groundwater quality or from which waste may be discharged in a diffused manner (e.g., erosion from soil disturbance) must first obtain waste discharge requirements.

- **Workers’ Compensation Information**
  Businesses with employees must maintain Workers' Compensation Insurance coverage on either a self-insured basis, or provided through a commercial carrier, or the State Workers’ Compensation Insurance Fund.

- **Employer Identification Number**
  Employers with employees, business partnerships, and corporations, must obtain an Employer Identification Number from the I.R.S.

- **Proof of Residency Requirement**
  Employees hired after November 6, 1986 must provide proof of eligibility to work in the United States (Governor’s office of Business and Economic Development, 2016).
APPENDIX B

The necessary permits, licenses, and regulations that we need when we want to open a restaurant in Shanghai (China)

- Pre-approval of the name of restaurant
  The restaurant should make sure the name could be used before getting other permits.

- Business License
  After getting the approval, the manager should take the permit note to the Industrial and Commercial Administration to fill in the registration form, which includes the information like: the name of the restaurant, location, site for business operation, legal representative, the nature of the entity’s operations, business scope, mode of business operation, registered capital, number of employees, ground area of the business, operating period, and embranchment.

- Hygienic License
  Business manager should go to the Sanitation and Antiepidemic Station to apply for the Hygienic License. Then the station will send people to the store to make an on-the-spot investigation.

- Environmental Permit
  The Environmental Permit is in charge of Environmental Protection Agency. It is mostly about the check of noise and pollution discharge.

- The registration of trade management
- Examination of the price
- Alcohol Beverage License
- The permit of the City Appearance Administration
- Tax Registration (Website of Chinese lawyer, 2016)