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IS PERU A GREAT PLACE FOR A&W

**Graduate Project
Mr. Arthur Snyder**

Final Draft

**IS PERU A GREAT PLACE
FOR A&W?**

Miguel Atala

**Presented in partial fulfillment for the MPS
degree requirements.**

**Business Administration
Advisor: Dr. Miller**

Term III, 1996

ABSTRACT

IS PERU A GREAT PLACE FOR A&W

Executive Summary

Statement of the problem. "Peru has the ideal market for A&W restaurants."

Methods. The literature review would be done with the help of a questionnaire that had three different sections and with an interview with the president of A&W Mr. Feltenstein. The questionnaire proved that Peruvians want the presence of A&W, an American fast food restaurant in Lima, the capital of Peru. This researcher reviewed the literature concerning Peru.

Results. The final results have been very positive, Peru has economic stabilization and is recognized internationally as a star. It was bankrupt five years ago and now is growing very fast. Inflation was the lowest in two decades, only 5%, and the government has almost defeated terrorism attacks. Peru is a safe and stable place for A&W to invest. People in Peru are willing to have A&W because they want to have more places to choose from. They liked the menu and found it excellent in comparison to the existing competitors in Peru. 65% of the people that goes frequently to a fast food restaurant goes to Burger King an American hamburger chain or Bambos which is a national hamburger chain. This means A&W can serve this part of the market that is very big and served by only two companies, one local and one American.

Recommendations. It is an excellent idea to invest in an A&W in Peru because the results from the questionnaire were very positive and show people in Peru are desperate to have an A&W because of its excellent menu and because they want more American chains to invest in Peru. Peru has a potential market for growth, and they may open their second outlet after six months of their first outlet, like Burger King has done since they opened their first outlet. After one year, A&W can expand to other important cities such as Arequipa which is the second largest city of Peru in size and tourism and Cusco which is the first touristic city of Peru, where you can find Macchu Picchu one of the seven wonders of the world and be the first fast food chain that opens in those places. A&W should open immediately their first outlet in Peru for future expansion not only in Lima the capital of Peru and other important cities, but also in other neighboring countries to start building name recognition in South America, where people are desperate to have more consumer goods they did not have one decade ago.

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CHAPTER I- STATEMENT OF THE PROBLEM

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CHAPTER I

A. GENERAL BACKGROUND OF THE PROBLEM

"Peru has the ideal market for A&W restaurants."

1. Business Climate of Peru and Political Background

In the last 20 years, Peru's government has not been very stable, and this is why many foreign businesses have been afraid to invest in Peru. Dictatorships have ruled Peru many times, including the period from 1968 to 1980. In 1968, Fernando Belaunde was president, but Velasco led a bloodless coup, became socialist dictator and damaged Peru--causing instability. Velasco made agricultural reforms, and many important foreign companies, one of which was Grace, were confiscated at that time. Velasco created a major oil company for the state called Petro Peru. In 1975, Morales Bermudez defeated Velasco and stayed in power for five years as a democratic dictator, calling for elections in 1980. During these years the government closed the doors to imports and Peru did not receive foreign investment during that period of dictatorship.

From 1980 to 1985 Belaunde became president, the first democratic president after 12 years. As soon as he was in power, he opened the markets with high tariffs, and to all people who left the country during the dictatorship could return and bring all their belongings without paying tariffs. He started to give confidence to foreign investors, but a new problem started in Peru: terrorism. There were two groups, the most important of which was called the Shining Path. Terrorism was deterrent for foreign investors not to invest, and tourism declined in Peru.

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In 1985 Alan Garcia won the election, he came to power at a crucial time because Peruvians expected a lot from him. This is because the government before his could not control inflation and terrorism. His first two years were very good because his economic measures were socialist, and the people liked that even though it may not be good for the Peruvian economy. In his third year, his popularity dropped when he decided to nationalize the banks. From that moment, each decision he made was worse than the last, and inflation increased each day. When Garcia became president the money exchange was five Intis for a dollar and when he left power it was 5 million Intis for a dollar and, during Garcias rule all the private banks were nationalized, employees working in the headquarters of Peru's leading bank, Banco de Credito, witnessed a light tank breaking the bronze doors at the entrance of the bank. The assault was part of an attempt by Alan Garcia to take control of the entire banking system. However, the owners of the banks presented a claim to avoid nationalization and a legal fight made the economy even worse. Because of this, there began a new movement, Liberty run by Peruvian writer, Mario Vargas Llosa, and a group of wealthy people who were fighting to avoid nationalization of the banks. The lawyer who took care of this legal fight was Armando Lengua. Because of this situation, Vargas Llosa transformed his movement "libertad " to a political party to fight Alan Garcia. Mario wanted to be president, and he received support from the traditional parties that were democratic. For one year, Vargas Llosa was first very popular and he was supposed to be the future president of Peru, but the multitude of political advertising by this group caused Garcia to launch a campaign against Vargas Llosa. This benefited Fujimori, because he wanted to be president but for the year that election campaigns took place he was not Known by the common people or

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the wealthy people, but five weeks before elections he was known by every one, this way he became president in 1990.

Fujimori won the election successfully. He was a teacher at the University of Agriculture and a small businessman who owned a construction business. It was a surprise having him as president of Peru, and he was very successful controlling the economy and the biggest problem Peru was facing-- terrorism. After Fujimori was in power for two years, the ex-president Garcia, campaigned to remove Fujimori from office by congressional power. The senators and deputies joined with Garcia to protect their personal power interests in Peru. After two years, Fujimori called for a newly elected congress. In 1994, Peru was considered to have progressed so much in so little time. Businesses that were planning to invest in Peru felt secure as well as the business that were currently there because Peru offered as a developing country, economic and political stability when other developing countries do not. Peru was very fortunate by reelecting Fujimori on April 9th, 1995. Because of Fujimori, the inflation was brought down from last year. The economic growth was the greatest in South America at 12.5 %. And the terrorist group Shinning Path was eliminated. This is very good news for a company planning to invest in a new market. For many years imports were prohibited, and the national industries had too much protection since they had no foreign competition. These new laws and trade programs were part of the most important rules gives to Fujimori by the International Monetary Funds (IMF) in order to secure new loans to help build up Peru's infrastructure. Fujimori wants to continue with his plan and he expects more foreign investment to come in and the government giving support if necessary. In the 1994 elections, Fujimori had 57% of the vote. Perez de Cuellar, secretary the United

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Nations received 20% of the vote. From July 28, 1995, Fujimori has been in power for his second term which will end in the year 2000. He is going to continue with his economic plan to bring more foreign investment.

2. Market Economy.

Economic stabilization has made Peru a key growth country for restaurant franchises. There is plenty of opportunity for market growth. Peru's domestic market is ready for anything from burgers to mail boxes to videos. Franchising is becoming a fast growing business as economic stability is consolidated in Peru. For multinationals the country offers a fresh alternative to jaded consumers in Mexico, Brazil, Chile, and Argentina; meanwhile, local investors, are gaining the marketing know how and technology to manufacture quality products.

Most of the fledging franchises are in the fast food sector, and mostly U.S. firms are targeting untapped consumer markets. There has been more foreign brands registered in the last six months than in the past ten years.

The most important projection this year is that \$6 billion dollars is supposed to come from international capitalists who will invest in Peru because they find its economy very attractive, more so than Chile, Mexico, or Argentina. Also, Peru has no restrictions for entry of capitals. This year inflation is supposed to be only 5% the lowest in the last 24 years.

The impact of terrorism on the economy, after causing \$22 billion in property damage since 1980, is relatively modest today, due to Fujimori's efforts to destroy it. Fujimori is trying hard to impose the death penalty against these individuals. Once it is approved, terror

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The remaining government holdings, which haven't been privatized yet, include Petro Peru oil company, some electricity generators, and water companies to be sold or leased to private firms by the year 2000.

These positive results, which point to Peru's improving economic environment, have prompted many observers, inside and outside the country, to see Peru as Latin America's new star. Fujimori is also widely considered the architect of one of the most significant economic transformations in Latin America so far this decade.

On December 4 and 5, 1991, Pact presidents meeting in Cartagena, Colombia, granted final approval to move trade liberalization reforms, a greater chance in two days than in the previous two years of the pact's existence. CAF, the banking arm of the Andean Pact, recently adopted its own reforms in response to market oriented changes in the trade group's five members countries. It is increasing the percentage of loans to the private sector, actively seeking financial support from outside the area, successfully placing bond issues on international markets, and participating in regional privatization programs.

B. SPECIFIC BACKGROUND OF THE PROBLEM: SOCIOCULTURAL ACCEPTANCE OF AMERICAN FOODS CHAINS

Peruvians like to imitate other cultures, especially the American culture. This behavior of Peruvians is not something new--it has been like this for many decades but now is the moment their dream comes true because each day there are more new names of fast food restaurants appearing in the streets. This is why in Peru the American food chains that

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are already there have been very successful. People go frequently to these places to eat and have a pleasant time with their family members and friends. The American food chains are always crowded. They come to these restaurants for many reasons: If one studies at the university, works in an office, a bank, then there is little time for lunch, it is very quick and convenient to go to this type of restaurant. There is also another group of people that patronizes this type of restaurant. Young Upper class and high middle class mothers sometimes do not want to cook because they do not have time, so they go with their kids to eat at a fast food restaurant, and their children have many games to play while they eat so they enjoy coming to these places. Teenagers use these places for social reunions especially on weekends when many people go to the cinema and after they like to go and eat at these fast food restaurants. In summer, all these teenagers go out every day, not only on weekends, so they go to the cinema and the to these fast food restaurants everyday not only on Fridays and Saturdays, but from Monday to Sunday.

It is important to take into consideration that there are so few of these franchises in Peru that the people wants greater presence of these type of fast food chains and franchises. They are waiting for many other fast food chains and franchises to open, especially after the first Burger King opened in 1993. Since then they have been trying to open one more every 6 months at a new strategic location. They are always crowded.

A&W will be successful in Peru because it fits in where people live, work, learn, shop, and play. There are different concepts available: free standing buildings, kiosks, or a carts with a hot dog menu. All these A&W restaurants can be placed in different locations from A(airports) to Z (zoos).

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Another important factor to assure that A&W will be successful in Peru is that Peruvians demand quality. Fortunately, A&W stands up under the same rigid quality criteria. Burgers are made from 100% pure ground beef, this means their burgers are as good as the ones the competition serves. They also serve all beef hot-dogs, and the highest quality fries. This is because their first priority is quality.

C. History of A&W

It began with the world's best root beer. A secret concoction of herbs, spices, barks and berries. Roy Allen unveiled the special elixir when he opened the first root beer stand one hot summer day in 1919, and served his rich, creamy beverage to thirsty parade spectators watching WWI vets returning home. So positive was the response, that Allen took on a partner, Frank Wright, and the A&W name was born.

As true pioneers in the food service industry, A&W has achieved many notable "Firsts". In 1923, A&W developed and opened the nation's first car hop service restaurant. And in 1925, Allen began selling franchises to others, enabling them to open their own A&W drive-ins and vending booths, thus establishing America's first franchised restaurant chain, and the very prototype for fast food industry.

The list of "firsts" was soon expanded, and the A&W became the place for first jobs, first dates first softball victory celebrations and more, as Americans embraced the A&W concept, and made it an integral part of their everyday lives. And as America grew, so did A&W, expanding to locations across the country and around the world, now in shopping malls, airports convenience stores and colleges, serving burgers, hot dogs, fries,

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and of course, the trademark A&W Root Beer, to generation after generation.

A&W Restaurants turned 75 in June 1994, and celebrated its diamond anniversary all year long with a series of promotions. The 14 and 20 ounce collectors mugs feature a seven color logo that sits atop a diamond. The bottom of the mug is bannered with the words, "Authentic since 1919". The mugs were supported by point of purchase materials, which displayed colorful renderings of the product.

Sidney Feltenstein, former Burger King and Dunkin' Donut executive, bought A&W Restaurants, which were retooled under the leadership of president and chief executive George Michel, he also assumed the role of chairman from Alfred Taubman. Taubman sold to Feltenstein in a cash transaction somewhere close to \$20 million.

Feltenstein hopes to turn pleasant memories of A&W into top of mind awareness that wins restaurant customers. Meanwhile, A&W Restaurants continues to develop international units with more than 100 of its 800 units operating internationally.

There are three types of restaurant structures that are available for the franchise:

-A free standing unit, can cost from \$327,000 to \$512,000 to construct and equip.

This type of restaurant serves the traditional menu, and will have lots of parking spaces. It is located near shopping centers, hotel or schools.

-A kiosk, can cost \$122,000 to construct and equip.

It is compact but accommodates almost everything from the traditional menu. It is located at airports, universities or convenience stores.

-A hot dog cart, can cost \$38,000 to get the cart and equip it.

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These are located at airports, universities or convenience stores and will have an extended variety of hot dogs in the menu.

These costs are divided among leasehold improvements, signage, equipment, and fees and permits.

CHAPTER II - LITERATURE REVIEW

IS PERU A GREAT PLACE FOR A&W

CHAPTER II

"Peru has the ideal market for A&W restaurants."

A. GENERAL REVIEW OF THE LITERATURE: COMPETITORS IN PERU

The bulk of investment continues to go into fast food, which represents the traditional franchising business in Peru. At the present, the two market leaders are KFC (Kentucky Fried Chicken, which opened in 1981), that has 12 comfortable outlets. Their best location is the one located in downtown Lima and the people that frequently go there are professionals and blue collar workers. It's the most profitable of all the outlets. But there are also other ones in the best residential areas that are profitable too, and the people that frequently go there are housewives and families. Another of their great location is nearby universities and schools, a frequented by students. They have also opened a KFC in Miraflores for pick up and delivery, and it has been very successful because they will deliver. They had to do this because a national chain called Mediterraeo Chicken delivers already. In another area of Lima they have opened the last one in Plaza San Miguel that is growing very fast, and is getting very crowded.

Pizza Hut launched in 1983, two years after KFC opened its first outlet. Pizza Hut has nine restaurants in operation. The one that gets more crowded is the one located in Miraflores, which is the first one and it is located in a residential and commercial area. Another one that gets very crowded too is the one nearby universities and schools and is located in Monterrico. Nowadays this area is also becoming more commercial. Pizza

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Hut has opened in Miraflores a new outlet for pick up or delivery if you live in that area. It is located next to KFC pick up/delivery.

Pizza Hut and KFC are represented by two local firms, Delosi and Sigdelo that is owned by a joint venture comprised of local businessmen.

In 1993, the arrival of Burger King was because of a new local company firm called Saidel. They have five locations, and started up with an excellent location next to University of Lima, which is an excellent location because students frequently use it, not only to eat but also as a reunion place. Then they opened a location in Miraflores because it is a residential area and a commercial area. It is very easy to get there and people usually go there because it is the heart of the wealthy commercial district as it strives for leadership of the less developed burger market. The local joint venture is spending several million dollars to expand each operation in Lima.

Another important franchise that has arrived in Lima is Tony Roma's (USA), where you can eat burgers, ribs, chicken and steaks. It started with only one location and chose Chacarilla, a wealthy residential area, that is also developing as a commercial area, for their first outlet. Now they are opening their second one in Plaza San Miguel after two years and a half.

There is another important franchise that opened in Lima in 1993, and it is Cody's California Grill (Canada) It is located in Chacarilla area. They are planning to expand but they don't know in which direction yet.

Domino's Pizza has opened in Lima. Its first outlet opened in winter 1995, in San Isidro a commercial and wealthy residential area. They

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delivered in that area only, but people could go and pick it up if they wanted. Their second outlet opened in Miraflores which is a commercial area and residential; and their third outlet opened in Plaza San Miguel a residential and commercial area, this area is over populated, so its potential its potential for growth is excellent.

Taco Bell has opened this summer, and people are very happy because they love to eat tacos and burritos, and there was no place that served them before. Their first location is in Monterrico, near schools and universities. This area is also getting more commercial and in two years they are finishing a new mall with a food court in this area.

There are two other franchises that are planning to arrive to Lima, that have already talked to the banks and the franchisor--they are McDonald's and T.G.I. Fridays. They are looking for their locations but haven't decided.

Whenever one of these restaurants opens at a new location they have been very successful just by being an American franchise in Peru; people wait in lines for approximately one hour just to eat there. This suggests that If A&W opens one restaurant to start building up their customers, people will also wait up to one hour or more to eat there.

B. SPECIFIC REVIEW OF THE LITERATURE: COMPARISON WITH OTHER COUNTRIES

Because of Latin America's low levels of competition and unmet demand, the region is regarded as perhaps the most lucrative international market. In Brazil there are hot spots for foreign investors. Other players include KFC and Pizza Hut. Arby's operates a half dozen stores in Brazil.

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Brazil is a huge country and most people want to spend money because it may not be worth anything tomorrow.

The region is poised for what we will called explosive growth; Mexico, Brazil, Argentina and Chile have economies that are cooperating to invest there. This same thing can happen in Peru within a time period of five years, considering that Peru has 20 million people.

Kevin Bazner, the Vice President of International Operations, is returning to the United States to assume his position. Bazner has been moved up; firstly, to grow all over the world he will be in a better position in U.S. Second U.S. operations can benefit by his input because he is aware of all the innovative measures being done overseas. Additionally, he will also be made aware of some of the wonderful progress carried out in the U.S. He can, on a more efficient basis, make those ideas available to A&W's franchisees in Asia and the Middle East.

In summer 1995 Feltenstein and Bazner celebrated the 10th anniversary of an A&W in Indonesia. That same summer Feltenstein and Bazner were celebrating the First Place International Sales Award for A&W Restaurants in Makiminato, Okinawa. He also went to Malaysia and was given a Malaysian welcome by the A&W family members of A&W of Malaysia during his recent visit.

Feltenstein is interested in opening an outlet in South America to expand, and the best place to start can be Peru to expand to all neighbor countries: Chile, Brazil, Colombia, Bolivia, and Ecuador. If Peru is chosen as the first country for locating an A&W outlet it is because of its great economy, and for the last 15 years this type of business has been growing very rapidly. The perfect city to open the first outlet will be Lima because it has the people to consume this type of product(fast food). Lima is a

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centralized city with a population of eight million people. The people that consume this type of product are locals no tourists because Lima is not a touristic place. However for the last years, thanks to these locals this business has grown so fast.

In the future the chain could expand to other important cities of Peru where people have the acquisitive power to buy the type of products A&W offers. The first place to expand could be Arequipa that is the first richest and very developed city after Lima, the capital. The good reason for going to Arequipa is that A&W will be the pioneer in Arequipa. because none of all the fast food chains have gone there. Another important city in which open another A&W is Cusco, which is a touristic place. People come from all over the world to see Macchu Picchu one of the seven wonders around the world. Tourists can eat at A&W without worrying about get sick because it is an American chain that cares about food quality and the highest standards of sanitation.

CHAPTER III- METHODS AND PROCEDURES

IS PERU A GREAT PLACE FOR A&W

CHAPTER III

"Peru has the ideal market for A&W restaurants"

1. INSTRUMENT

A questionnaire consisting of three sections is used for the collection of data, and appears at the end of the report. All the questions are formulated as multiple choice and fill in the blank, because it makes it much easier for them to answer the questionnaire very easily and effectively. This will help the researcher find out which will be the best location for A&W if it is accepted by Peruvian society. This questionnaire will tell how often a person visits a fast food restaurant in Lima. In the questionnaire, there is a menu from A&W to discover if people in Peru are willing to have one like that, or if they want to make changes from the original to make the menu suitable for them, comparing the A&W menu with the one Burger King and Bambos serves; A&W's future major competitors. There is one section in the questionnaire that mentions the three types of A&W structures that can open in Peru, and the researcher wants to discover which one is more suitable for Peruvians. With these two sections people will be capable of answering a question in section c, about the presence of an A&W restaurant in Peru.

An interview was conducted with the President of A&W to help the researcher with the information necessary regarding opening an A&W in Peru. If Peru has a potential market, if Peru has all the pre-requisites for A&W to invest there and expand later into the most important areas of Peru. Also, thought must be given to later expansion into neighbor countries too. In response to the questions posed to Mr. Feltenstein, Peru is a great place

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In response to the questions posed to Mr. Feltenstein, Peru is a great place for A&W expansion especially in Latin America where they have no outlets yet. By opening the first A&W in Peru, nearby countries will know about this chain, and in the future, they might want to open one in those countries as well.

He said that Peru offers a stable economy, and it is also growing very fast; this means more services will be needed and this makes it the perfect moment to start opening one in Lima the capital of Peru. What was taken into consideration was that no one in Latin America, especially in Peru knows A&W, therefore a big advertising campaign should be put in place, to be well known and recognized as the competition. This way it will succeed and will start to grow as Burger King and other chains did a few years ago, by opening one location approximately every 6 months.

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2. Questionnaire Sample:

Section 1.

Instructions: Compare the A&W menu, with the one Burger King and Bembos offers to the public and if there is any item you think should be added or removed please do so.

a. Double Mozza Burger

Mozza Burger

b. Bacon double cheeseburger

Bacon cheeseburger

c. Double cheeseburger

Cheeseburger

Hamburger

d. Grilled chicken sandwich

Chicken chunks

e. Hot dog

f. Fries

Onion rings

g. Kids meal

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h. (In this question mention if you have tried it before)

A&W Root Beer

A&W Root Beer Float (with ice cream)

Diet A&W Root Beer

i. Cola

Coffee

Tea

Milk

Section B

Instructions: Which type of restaurant structure and location for an A&W restaurant do you prefer to have in Lima: A, B, or C. Please circle your choice.

A. Free Standing Unit:

- Located near a shopping center, hotel or tourist attraction.
- Easy to find, with lots of parking spaces for your convenience.
- Will serve the traditional menu, showed on questionnaire #1.

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B. Kiosk Unit:

- Located at airport, university or convenience stores.
- It is compact, but accommodates both hamburger and hot dog fare, the only things not served will be: the double Mozza burger, Mozza burger, the Grilled chicken sandwich, and the Chicken chunks.

C. Hot Dog Cart:

- Will be located at airports, universities or convenience stores.
- It will have a hot dog menu including the following:

- | | | |
|---------------------|----------------|------------------|
| 1. Coney cheese dog | 4. Cheese dog | 7. Kraut dog |
| 2. Coney dog | 5. Hot dog | 8. Cola |
| 3. Bacon cheese dog | 6. Chicago dog | 9. A&W Root beer |

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Section C

Instructions: Please answer the following questions: circle your choice and fill in the blanks where necessary. This questionnaire is completely confidential.

1. How often will you visit a fast food restaurant in the next six months?

- a. every day
- b. once a month
- c. once a week
- d. twice a week
- e. never
- f. once every six months

2. Which fast food chain do you prefer?

- a. Burger King
- b. KFC
- c. Bambos
- d. Pizza Hut
- e. Taco Bell
- f. Domino's Pizza

3. Based on the information about A&W, provided to you in section A and B would you like to have A&W restaurants in Peru?

Yes

No

4. Where do you think the ideal location is for a fast food restaurant in Lima? _____

5. What are your personal comments about bringing A&W restaurants to Peru? _____

CHAPTER IV- RESULTS

IS PERU A GREAT PLACE FOR A&W

CHAPTER IV

"Peru has the ideal market for A&W restaurants."

The researcher found the final results very successful after the literature was reviewed and the questionnaire responses were analyzed to come up with the final answer to the problem. Peru seems to be the perfect place for an A&W restaurant. The economy is very stable, and Peru has had an inflation of 5%--the lowest in two decades. Its growth was 12% the highest in the continent. Many foreign companies have started to invest in Peru because there are plenty of opportunities for market growth. Fujimori has done all he can to gain confidence from Peruvians and foreign investors to build more capital in Peru and to continue its growth. Where it is possible, the government gives help to start up a new business. At this present time, there are lots of news businesses that give services and have been very successful starting with one location, and in a couple of years, they have several locations. This is due to Peru's economy and Peruvians who consume all the products these companies offer. These services were not available a few years. There is a high demand for these services, from a hamburger from Burger King to a video from Blockbuster and other important American chains that already exist or are planning to open a first location with a future expansion plan. So why not open an A&W to give Peruvians what they want as consumers: a quality service, in this case, from hamburgers, hot dogs, and beverages to other products.

Peru has 22,639,443 million people, and in Lima that is Peru's capital lives 6,386,308 million people; and has 33,895 square kilometers.

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Lima has a per capita of 814 soles which is 370 U.S. dollars. The per capita in Lima is very low because there is a lot of people that lives in extreme poverty, approximately four million people lives in shanty towns. This is why the researcher has discovered that approximately two million people can consume these types of products and services. It is composed by Lima's middle class, high middle class, low upper class and high upper class.

The other important city that was chosen to expand was Arequipa which is the second most important city in Peru. It has a population of 916,000 people, and has an area of 63,528 square kilometers. The per capita in Arequipa is 3,660 soles which is 1,635 U.S. dollars and it is much higher than the one in Lima because there is a lot less poverty in Arequipa because Peru is a centralized country and most Peruvians emigrates from their cities to go to the capital. Arequipa has been chosen because around 65% of the people can consume these products and services. Also Arequipa is the second most touristic city in Peru, and tourists are also consumers. A&W has the opportunity of going there and being the first ones in the market of Arequipa that is still virgin and people also demand high quality products and services.

Another important city to open an A&W restaurant is Cusco, which is the first touristic city of Peru, and has 1,028,763 people and has an area of 76,225 square kilometers. There are 24 flights every day to this city, because in Cusco you can visit one of the seven wonders of the world. Actually there is no American chain serving these tourists from all over the world.

All American fast food chains have been very successful in Peru, Kentucky Fried Chicken started with one restaurant in 1981, and now has twelve outlets. Pizza Hut opened in 1983 and has nine outlets now.

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Domino's Pizza opened in 1995 and has three outlets now. Burger King opened in 1993 their first restaurant, and now they have five locations, and Taco Bell just opened three months ago. All these fast food restaurants have been very successful in Peru, and they have expanded very quickly specially in the last three years. McDonald's is planning to open their first restaurant in Lima; this means A&W should go now to open their first restaurant, and take advantage of the ideal market Peru offers to set up this type of business.

The questionnaire that was given to Peruvians from ages ranging from eighteen to twenty-eight was positive. This age group was chosen because they are the biggest consumer group in Peru.

Every person who was shown the menu from A&W, said that it had a good variety compared to Bembo's (the national chain), or Burger King which is the only American burger company at the present time in Peru. Table 1, shows which items people like the most, and which items they like the least from the A&W menu. The researcher discovered that only a few people have tried A&W Root beer. This is because in Peru no one sells A&W Root beer. This will be a new product for many Peruvians who will taste it for their first time at an A&W restaurant. A cheeseburger seems to be the type of burger they like most because Peruvians are high consumers of dairy products, and french fries were chosen the most as a side dish compared to onion rings. Everybody said they will love to have a kid's meal because this will be something new to the Peruvian market. Refer to table 1 at the end of the chapter.

Out of 40 people, 38 people preferred the Free Standing Unit because they say it is more comfortable, more convenient, and more clean than the other two choices. Two people said that it is good to have something new in the country as a hot dog cart, with an extensive variety of

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hot dogs and where we can eat the hot dogs in a car, at the office or standing next to the cart. No body said it was a good idea to open a Kiosk in Peru. The reason they were asked which type of restaurant they preferred was to let them know what type of restaurant is A&W. This way they can answer the questions in section C, because definitely the researcher wants to open the Free Standing Unit that looks alike to the restaurants Burger King and Bembos has.

In Peru, people from middle class to upper class goes very often to consume in fast food restaurants; 35% of the people questioned visits a fast food restaurant once a week, and 30% of the people questioned visits a fast food restaurant twice a week. fifteen percent visit a fast food restaurant three times a week. five percent visits a fast food restaurant everyday. If we add these four percentages 85% of the people visits at least once a week a fast food restaurant; this percentage is very high. The remaining 15% is for people who go once a month. No one visits a fast food restaurant once every 6 months. Refer to table 2 at the end of the chapter.

When people were questioned which chain they preferred; 30% preferred Burger King, 35% preferred Bembos, 12.5% preferred KFC, 10% preferred Domino's, 7.5% preferred Taco Bell, and 5% preferred Pizza Hut. The researcher has discovered from these figures that 65% of the people prefer to go to a burger fast food restaurant as Burger King or Bembos. Refer to table 3 at the end of the chapter.

From the questionnaire the researcher found that every person who responded to the questionnaire wanted an A&W restaurant, and the ideal location for an A&W restaurant was Plaza San Miguel which is a commercial area that is growing very fast. The other ideal location was

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Miraflores which is a commercial and residential area and the other location was Chacarilla, which is a commercial and residential area.

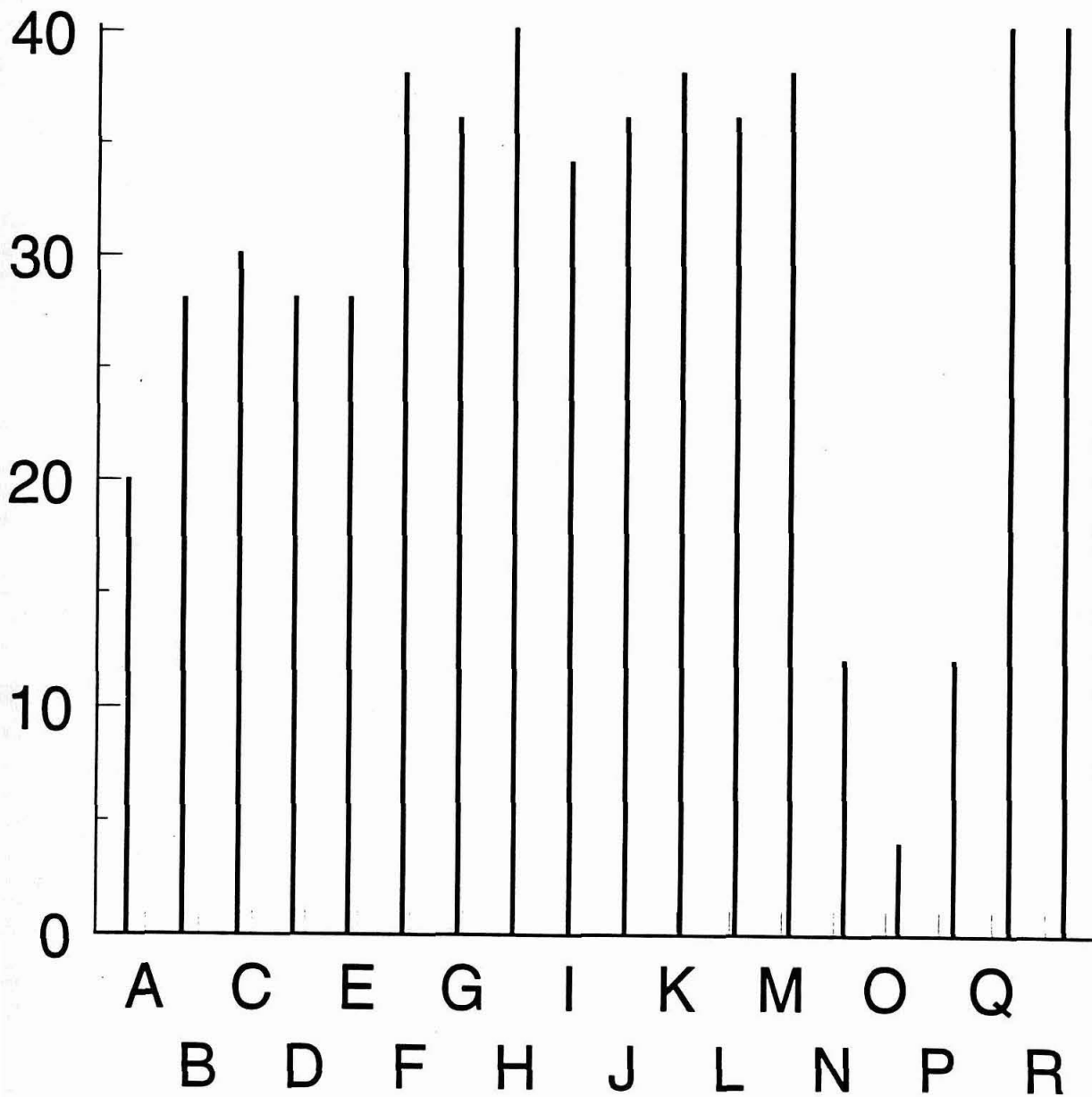
Almost everybody answered that they are concerned about cholesterol and fat; but at the same time they said that they still like to go frequently to a fast food restaurant and eat fast food such as burgers, tacos, fries, onion rings, hot dogs, pizzas, etc.

People's comments towards A&W in Peru were very positive: It will be good to have A&W because there will be more competition and consumers will have more choices. They have an excellent menu to compete with their competitors, and competition will make them have outstanding service. It is good to have something new and it is not so expensive as a regular restaurant. It is important for A&W to have competitive prices in comparison to its competitors to gain new customers. There is no doubt A&W will be very successful.

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Table 1

People's Preferences From A&W Menu



- A. Double Mozza Burger
- B. Mozza Burger
- C. Bacon double cheeseburger
- D. Bacon cheeseburger
- E. Double cheeseburger
- F. Cheeseburger
- G. Hamburger
- H. Grilled chicken sandwich
- I. Chicken Chunks

- J. Hot dog
- K. Fries
- L. Onion Rings
- M. Kids meal
- N. Have you tried A&W Root Beer
- O. Have you tried A&W Root Beer Float
- P. Have you tried Diet A&W Root Beer
- Q. Coia
- R. Coffee, tea, milk

Table 2

How Often People Visit a Fast Food Restaurant

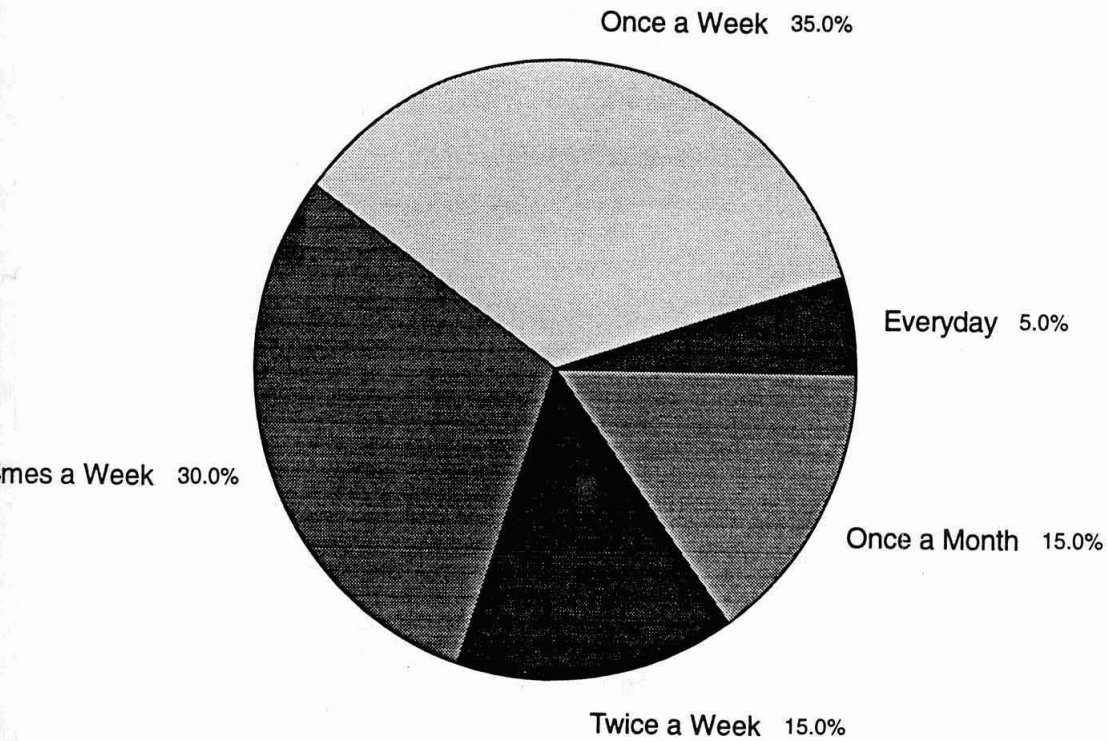
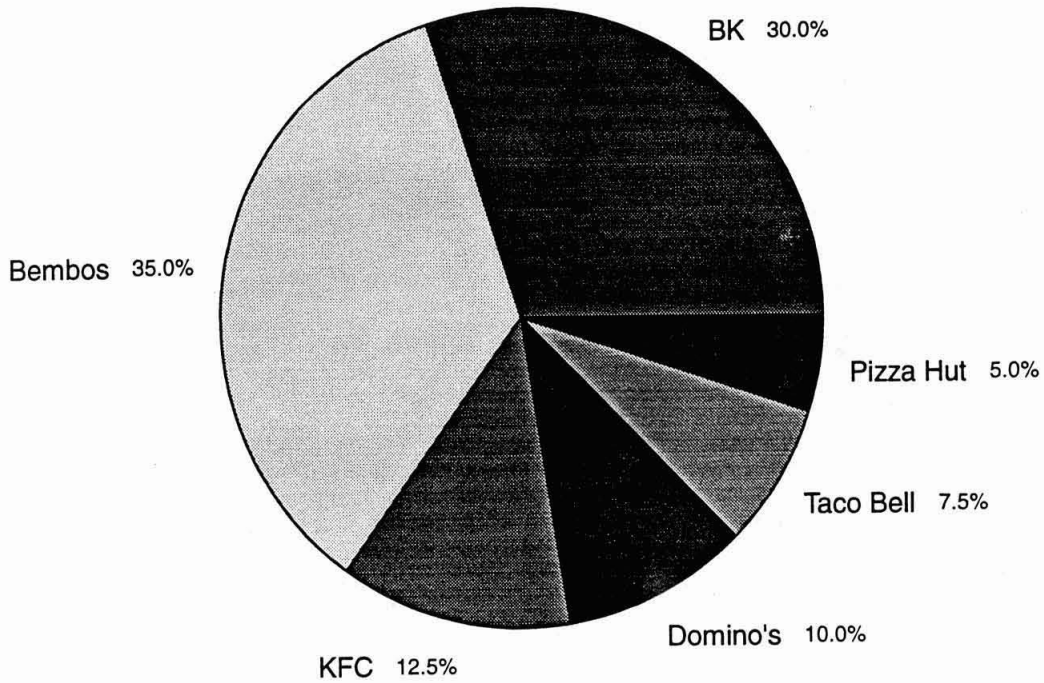


Table 3

Fast Food Restaurant Preference in Peru



CHAPTER V
RECOMMENDATIONS/DISCUSSION

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CHAPTER V

"Peru has the ideal market for A&W restaurants."

After all the research is finished, the researcher thinks it is an excellent idea to invest in an A&W restaurant in Peru because the results were very positive and people seem to be interested in having one because they have only Burger King and Bembos for burgers, and they want to have more choice. They liked the menu of A&W compared to the one Burger King and Bembos offer. If McDonald's is planning to open their first outlet in Peru no doubt it will be very successful as it has been in other Latin American countries like Chile and especially Brazil. Peru has a potential market for rapid growth, and there is no doubt that six months after A&W opens its first location in Plaza San Miguel, which is a very successful commercial area, they will open their second location in Miraflores, which is a residential and commercial area. After one year it will open its first location it will open its third location. It is important for A&W to open as soon as possible, to take advantage of the ideal market Peru offers as a country. A&W will be able to grow fast as the other American chains have done in the past. The good thing for A&W is that besides its good menu, Peruvians love to have American products. In this case, A&W brings its food menu from the United States with outstanding American service, and quality. Another important factor to take into consideration is that Peru has other important cities that do not have these types of service businesses, so the benefit for A&W is that it can be the first. The first city to open one A&W location after one year is Arequipa, which is the second most important city in Peru, and where people have the money to buy these

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products from these American franchises. Another important city where A&W can open one fast food restaurant is in Cusco. Cusco is a tourist city where people from all over the world come to see one of the seven wonders of the world Macchu Picchu. Tourists will consume a quality product from an American chain without worries about getting sick.

After A&W opens in Peru, they can open in Peru's neighboring countries. This way A&W can expand in Latin America and be very successful as it has been in Asia and Middle East.

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A&W Franchise Development brochure (Nov. 1995)

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Information is available about types of restaurants, startup costs, testimony from other franchise owners, and kinds of food.

A&W Newsbearer. A&W Restaurants, Livonia, MI

Summer, 1995.

The company news magazine devoted to history, president's message, menu changes, new openings, local events, advancements in sales and advertising. Especially useful was the information regarding Malaysia, Indonesia, and Okinawa.

Anonymous. "Progress on Licensing and Technology Rules"

Business Latin America, Vol. 29 (Feb. 21 1994): 4-6.

This article talks about the progress that has occurred in Latin America when it is about licensing and technology rules; this makes it much easier for American chains to invest there.

Anonymous. "Best Promotions", Nation's Restaurants News,

(Dec. 19 1994):88.

The author talks about the sales promotions of some of the best restaurant and food service industry for 1994, and A&W has made different sales promotions to gain back old customers.

Anonymous "Dark Side of the Boom", The Economist, (Aug.5

1995): 33-38.

The article article discusses Peru's president Alberto Fujimori who rescued Peru from near collapse and made it Latin America's fastest-growing economy, this makes Peru the perfect place for A&W to start.

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Anonymous. "Fujimoriland", The Economist, (May. 7 1994):48.

This feature highlights Peru's stabilization and its economic growth. This makes Peru the perfect place to start a new business.

Ali, Qassim. " Catch a Rising Star", The Banker, (Aug. 1994) : 35-37.

The writer reports, inflation is very low, and major foreign banking institutions may be on the brink of return to lima. This means that A&W will invest in Lima, because of the stability Peru is offering.

Ali, Qassim " Franchise Fervour", Business Latin America, Vol. 29 (Aug. 15 1994): 6-7.

The author mentions that Peru is one of the most lucrative international market, for franchise restaurants. There is a high demand for the products they offer to the consumer, and franchising is becoming a fast growing business, especially in the fast food sector.

Alva, Marilyn. " El Sid", Restaurant Business, (March 1 1995) : 35-38.

Alva talks about Sid Feltenstein, the new president of A&W, who purchased A&W because he has confidence that it will be well recognized again, as happened with Nathans or IHOP. Hard work and building a franchise team are necessary, which will include more field support.

Kapner, Suzanne. "A&W Celebrates Birthday with Nostalgia Promos", Nation's Restaurant News, (March 7 1994):12-13.

Kapner comments on how A&W Restaurants celebrated its 75th birthday, bringing old memories from 1919 when A&W began as a root beer stand and has now grown to approximately 800 units.

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McCarthy, Brenda. "Sandwich Chains Take Bigger Bite"

Restaurants and Institutions, (Jul. 15 1993): 144.

McCarthy mentions in this article how fast food chains are growing so fast, and A&W at present wants to continue to expand but not only in the U.S., especially internationally.

Martin, Richard. "US Operators Flock to Latin America"

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Martin says in this article that many important companies, have invested in Latin America responding to waves of democratization, legal reform and economic growth, having great results. This makes Peru the strategic place place in Latin America for U.S. operators.

Moreno, Julio Cesar, "How to Avoid Poverty in Peru",

Exporting Special Edition,(Feb. 1996) Vol. 12.

This magazine was used to find out which were the poor cities in Peru and which were the richest; therefore this helps to determine the correct places for expansion of A&W after it opens in Lima.

Savage, Robert. "An international Franchise Sampler"

Franchising World, Vol. 26 (Nov. 1 1994): 52-55.

Savage says that American Franchises have been very successful in Europe, Latin America and Asia. This makes Peru a perfect place to open an A&W restaurant.

Walkup, Carolyn. " American Hot Dog Chains Make Global

Headway" Nation's Restaurant News,(Jul 24 1995):19.

Walkup talks about American hot dog chains that have decided to go global and are prospering. A&W has a hot dog cart setup, so this would be a positive sign for their investing in other countries.