

Free WiFi as Strategic Competitive Advantage for Fast-Food Outlet

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ABSTRACT

Food outlet has its own strategy to secure their return on investment and profitability. Porter's five competitive forces model layout five forces which can affect any industry, including food industry to remain competitive. The five forces are bargaining power of supplier, bargaining power of customer, threat of new entrants, threat of substitutes and competition among rivalries. Using the model, an assessment is done to identify if such strategy is benefiting the food outlet in terms of strategic competitive advantage. Result has shown that by offering free WiFi to meet the customers' needs, can help the food outlet to stay competitive. With proper analysis of the overall business environment, free WiFi can be used as strategic competitive advantage for any food outlets.

Keywords

WiFi, Porter's Five Forces Model, competitive advantage, food outlet

1.0 INTRODUCTION

Knowledge-based society is characterized as the society who believe that "the most valuable asset is investment in intangible, human and social capital and that the key factors are knowledge and creativity" (Knowledge Society Homepage). To build a knowledge-based society and economy, the society must be equipped with the ability to generate and capture new knowledge and to access, absorb, share and efficiently use information, knowledge, data, and communication. In line with this, people should realize that technology is an added value in achieving competitive advantage in the knowledge era. Those in businesses, including food industries, are of no exception.

In Malaysia, players in the food industries are competing on capturing market share, thus increase their return on investment and profitability. Various types of food outlet can be seen everywhere with consumers having so many choices to choose from. In order to be competitive among rivals, each and everyone has its own strategy in order to win against its rivals. One phenomenon that has been observed is providing free WiFi to customers.

The first quarter of 2009 has recorded an increased of wireless broadband subscription to 536100 from 13100 in 2006, that is an increase of almost 400% within three years in Malaysia (Malaysia Communication and Multimedia Commission, 2009). Among the wireless subscription, 80% of total wireless subscription is mobile wireless. These figures indicate a huge demand on mobile wireless in Malaysia. Thus, there had been a lot of commercial premises, including food outlets, starting to offer free WiFi service to their customer. To witness the huge demand on wireless technology, food outlets, ranging from international fast food chain outlets, such as McDonalds and Starbucks, to local chain food outlets such as Nasi Kandar Pelita and Kayu, and now, even food courts are providing free WiFi.

In general, food outlets may fall into any of these categories: i) fast food restaurants, ii) casual dining restaurant, or iii) café. Fast food restaurant is normally referred to as a type of quick service restaurant where customer will only select from the menu and food is served in within a short time. Casual dining restaurant refers to a restaurant where there will be server to take the order and food is being served to the customer. Café on the other hand, refers to restaurant that offers things like coffee, espresso, mocha, other types of coffee-

based beverages, pastries and sandwiches. Normally customer order over the counter and serve themselves. However, cafés that offer full meal, usually known as bistro.

The questions are: 1) What drives the management of such food outlets particularly the fast food outlets to invest on installing such technology, and provide it free of charge to their customers; 2) Is providing free WIFI actually bringing higher return on investment (ROI) to their businesses? Hence, using the Porter's Five Forces Competitive model, a research was conducted to assess whether adopting WiFi technology can help food outlet for being/remain competitive.

2.0 LITERATURE REVIEW

Michael E Porter, in his book entitled "Competitive Strategy: Techniques for Analyzing Industries and Competitors" (Porter, 1980) has proposed one of the vastly used model in current industry analysis, which is Porter's Model of Five Competitive Forces. This model consists of five main elements which are supplier, customer, new entrant, substitute and rivalry. Each of these elements will affect either directly or indirectly to the business competitiveness. The well-known five forces are depicted in Figure 1.

According to BusinessDictionary.com, supplier is defined as any entity that provides common off the shelf parts or services or even input to organizational task and labors. Thus customer-supplier relationship plays an important role in determining the bargaining power especially on prices. When supplier is dominating the market, under such condition, bargaining power will be very high on supplier side. Bargaining power of customers will determine how much margin or profit an organization can make. Thus, when customer power is high, especially when the condition is dealing with monopoly⁹, producing entity will be facing enormous pressure of lowering prices and eventually eating out the profit margin.

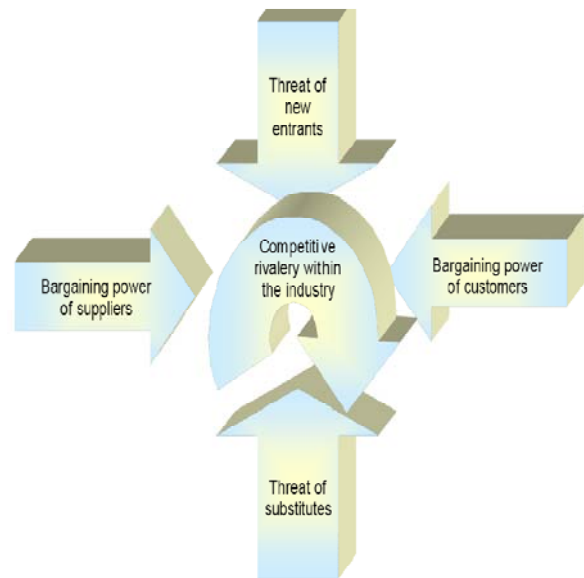


Figure 1: Porter's Five Competitive Forces Model (adopted from Recklies, 2001)

Customer force will be high when the purchase is contributing to significant proportion of producing industry. Threat of new entrants is possibility of new firm joining the competition in grabbing market share. New entrant may force prices down and affect the overall profit margin. Once the new entrant has bridge the barrier of entry, it will significantly pose a threat to current producing firm. The treat of new entrants is high when process of making the similar product is not difficult to learn. Similarly, if start up cost, access to input and economical scale is minimal, new entrant will be much easier to challenge current position of current producing firm. When the product is undifferentiated, threat of substitutes will be greater. One product of a company can be replaced by another product from another company as long as it is serving the purpose of fulfilling customer requirement. Competitive rivalry is basically refers to head to head competition. Competition among players within the same industry is a norm in current environment, especially in open market. High competitive between rivals will put a lot of pressure onto the profit margin in particular. In most cases, competitive rivalry become tense when one player initiate program to grab market share and eventually wish to become market leader.

Despite the popular usage of Porter's Model in business context, Table 1 also shows the applications of Porter's model in a non-business contexts such as in expert system design and development (Arons & Waalewijn, 1999).

⁹ Monospony is defined in BusinessDictionary.com as sole customer of several competing suppliers.

Table 1: Applications of Porter's Model

Researchers	Application of Porter's Model	Findings/conclusion
Gabriel (n.d)	To determine whether any of the five forces is labeled as favorable (positive sign) or unfavorable (negative sign) in Tanzania's banking industry	<ul style="list-style-type: none"> The banking industry of Tanzania is not attractive enough due to three negative forces (rivalry among the existing banks, threat of new entrants and bargaining power of customers) compare to two positive forces (threat of substitutes and bargaining power of suppliers). More differentiation strategy shall be required in order to be competitive.
Arons and Waalewijn (1999)	Applied the model in designing and developing an expert system.	Knowledge contained in an expert system can be represented in several ways using the Porter's model. Uncertain or incomplete knowledge can be best dealt with using inexact reasoning.
Draoui and Liu (2007)	To determine rubber subcontractors should be considered in order to maintain competitive in automotive industry in Sweden.	All the five forces basically impacting the studied companies and they also added additional forces that also playing one of the major forces in determining the competitiveness. The six forces is role of the Swedish government.
Eduardo (2007)	Analyze non-alcoholic beverage industry at global level	Government policy and industry evolvement is the main factors that determine the future competitiveness of non-alcoholic companies at global level.
Smith (2008)	Applied the model in determining the forces that compel game technology industries to adopt game technologies for their core products and services.	Proposed a game impact theory that describes the forces that are driving the adoption of these technologies in a number of industries.

3.0 METHOD

Interviews were conducted on owners and customers of the selected fast food outlet. For the interviews, a set of interview questions were formulated based on the five areas of Porter's Model with the addition of government policy. For the bargaining power of suppliers, information regarding the Internet Service Providers (ISP), cost of maintaining the service, and the duration of service being provided were collected. With regard to bargaining power of customers, information on the outlet's target groups and its customers' service requirements are collected. On the threat of substitution, questions posted include information on similar service offered by other ISP. For the threat of new entrants, information on the preparation on the possibility of new competitors was gathered. In terms of the existing rivalry, information regarding the activities of the outlet's current competitors' was gathered. In addition to the existing five forces, information regarding government policy and initiatives was also collected.

4.0 FINDINGS AND DISCUSSIONS

The study was conducted on one of the well-known fast food outlets. It is one of the ten branches within the state. According to the manager, out of all the branches, only four of them provide free WiFi facility to their customers, and the selected outlet is one of them. The outlet is located within a vicinity of an institution of higher learning in a developed state of Peninsular Malaysia. Being so, there are a lot of undergraduates as well as postgraduate students living within and nearby this area. In addition, there are also a number of residential areas. This outlet receives a lot of customers during lunch time (12.00 noon – 1.00 pm) and dinner (8.00 – 9.00 pm).

Interview sessions were conducted with managers or owners of the selected outlet. Interviews with the manager or owners seek to identify the strength of Porters' model with references to the current business strategy adopted. On the other hand, interviews with customers were performed to cross check the responses of the managers or owners.

According to branch manager, the food outlet headquarter will conduct survey prior to implementing free WiFi in any branch. Being located within a vicinity of an institution of higher learning, the branch's customers are primarily dominated by students. They set free WiFi as one of the main criteria when selecting food outlet. The manager mentioned that the customers normally spend a few hours in the outlet to complete their assignments, online information search as well as connecting to others through application like Face

book, MSN or Skype. Since the implementation of free WiFi in this branch starting middle of 2008, the revenue of this branch had increased by 50.0%. They are also able to capture certain market from business. For example, sales representative that uses the free WiFi facility to link to their customers. These show that nowadays it is a trend among the users especially students, professional and businessmen to hook themselves on the Internet. This is in line with the concept of anywhere, anytime workplace. It seems that they do not want to waste their valuable time by doing their work while having meal.

As for the supplier side, according to the manager, the outlet has two options of ISPs. Normally the ISP is changed quarterly. This depends on which of the ISPs is able to provide the service at a lowest cost. To reduce on the cost incurred, the management always chooses the lowest package. When asked regarding its possibility to change to other ISP, he mentioned that their head quarter will make the final call but very high chances that if package is right, they will go for it. Although down time for current internet service is very minimal, they are facing problems of customers complained of slow connectivity especially at night time when most of the students gathered to work on their assignments and for discussions. These indicate that the suppliers will always willing to provide the services as long as there are demands from customers. Moreover, they can use the outlet as a platform to promote their products and services.

Pertaining to the threat of new entrants, the manager is also concern about the possibility of the outlet's revenue being impacted if there were new food outlet that provides free WiFi operates within the vicinity. He quoted that when their main rival started to implement free WiFi in early 2009, their business revenue dropped around 10.0%. Their business further dropped to 15.0% when another outlet began to implement free WiFi around June 2009. It is clearly that the food outlet is also targeting same group of customers. By introducing the same business strategy, the outlet is able to grasp certain portion of the market that it originally captured. This indicate that the food outlet management needs to be not only aware of the possibility of IT being adopted as a competitive strategy by their rivalries, but also to constantly update their knowledge on the potential of emerging technologies that could benefit their business. In addition, they also need to update the existing services particularly the WiFi. They should also use these as strategic weapons to deal with the threat of new entrants in the industry.

Talking about corporate role in supporting government policy, the manager said that he were aware of two projects on broadband initiated by the government. Upon checking on the initiative of free WiFi of the state, none of food outlets' branch existed in the list. He cited that it is their company policy to review any application or proposal from any party before decided to embark on supporting any activities. Thus far, the outlets had not been requested to participate in the program, but he reiterated that they will support any initiative for the betterment of community if given the chance. However, this depends on the suitability of the proposal presented to them. This provides evidence that the government initiative and policy on IT play an important role in supporting the business successful.

5.0 CONCLUSION AND RECOMMENDATIONS

Based on the findings, it is concluded that free WiFi can be used as a competitive advantage tool for food outlet to be adopted. The reason is that all the five forces for the Porter's model are showing positive signs. Primarily, the main factors that influence the food outlet to provide free WiFi are customer needs, revenue and cost. One of the primary needs for their target customers is WiFi. With the low maintenance cost for providing free WiFi, the food outlets able to absorb the cost, but giving higher revenue to their business. Monthly charges of RM100+ for WiFi subscription is substantially minor to the business compared to the potential revenue that can be generated. Hence, it is recommended that the management of food outlets should consider using IT-based facilities as an innovative way to attract their customers, and thus gain more profit. The government of Malaysia should also take advantage this strategy to evaluate her broadband initiatives particularly during the introductory stage. The strategy is also important to attract the target market especially among youngsters, professional and businessmen who have laptops but with no internet connection at home. WiFi in food outlets is a new combination of business model that provide extra convenient for those who want to go online while having meal. They are not only online for business matters but a new social network such as Facebook, Twitter, and MySpace really hook them to the Internet. Indirectly, this new trend will create a new base customer to the food outlet both existing and potential customers. Therefore, this imposes a big challenge for the management to not only provide quality food but also good internet connection. Most importantly, to stay competitive especially in confronting existing rivals and new entrants in the industries, the management should consider the

potential of emerging technologies as strategic weapons.

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