Kfc and the global fast-food industry

Business, Company

KENTUCKY FRIED CHICKEN AND THE GLOBAL FAST-FOOD INDUSTRY

Background of the Study During the 1960s and 1970s, Kentucky Fried Chicken Corporation (KFC) pursued an aggressive strategy of restaurant expansion, quickly establishing itself as one of the first fast-food restaurant chains in the US. KFC was also one of the first U. S. -food restaurant chains to expand overseas. By 1990, restaurants located outside of the U. S. were generating over 50 percent of KFC's total profits. By the end of 1993, KFC was operating in over 63 foreign countries and was one of the three largest fast-food restaurant chains operating outside of the United States. Japan Australia and the United Kingdom accounted for the greatest share of KFC's international expansion during the 1970s and 1980s. However, as KFC entered the 1990's, a number of other international markets offered significant opportunities for growth. China, with a population of over one billion, and Europe, with a population roughly equal to the U. S., offered such opportunities. Latin America also offered a unique opportunity because of the size of its markets, its common language and culture, and its geographical proximity to the United States. By 1994, KFC was operating successful subsidiaries in Mexico and Puerto Rico. A third subsidiary was established in Venezuela in 1993. The majority of KFC's restaurants in Mexico and Puerto Rico were company-owned. However, KFC had established 21 new franchises in Mexico by the end of 1993, following enactment of Mexico's new franchise law in 1990. KFC anticipated that much of its future growth in Mexico would be through franchises rather than company-owned restaurants. KFC was only one of many U. S. fast-food, retail and hotel chains to begin franchising in Mexico following the new franchise law. In addition to Mexico, KFC was operating franchises in 42 other countries throughout the Caribbean, and Central and South America by mid-1994. Executive Summary Fast-food franchising was still in its infancy in 1952 when Harland Sanders began his travels across the United States to speak with prospective franchises about his “ Colonel Sanders Recipe Kentucky Fried Chicken. " By 1960, “ Colonel" Sanders had granted KFC franchises to over 200 take-home retail outlets and restaurants across the United States. He had also succeeded in establishing a number of franchise in Canada. By 1963, the number of KFC franchises had risen to over 300 and revenues had reached $500 million. By 1964, at the age of 74, the Colonel had tired of running the day-to-day operations of his business and was eager to concentrate on public relation issues. Therefore, he sought out potential buyers, eventually deciding to sell the business to two Louisville businessmen — Jack Massey and John Young Brown Jr. — for $2 million. The Colonel stayed as a public relations man and goodwill ambassadors for the company. During the next five years, Massey and Brown concentrated on growing KFC’s franchise system across the United States. In 1966, they took KFC public and the company was linked on the New York Stock Exchange. By the late 1960s, a strong foothold had been established in the United States, and Massey and Brown turned their attention to international markets. In 1996 they took KFC public and the company was listed on the New York Stock Exchange. By 1971, KFC had 2, 450 franchises and 600 company-owned restaurants worldwide, and was operating in 48 countries. In 1971, KFC entered negotiations with Heublein Inc. to discuss a possible merger. Several months later, Heublein acquired KFC. Heublein was in the business of producing, vodka, mixed cocktails, dry gin, cordials, beer and other alcoholic beverages. Because of his limited experience in the restaurant business, conflicts quickly erupted and new restaurant openings had slowed to about twenty per year. In 1977, Heublein sent a new management team to redirect KFC's strategy. A " back-to-the-basics" strategy was immediately implemented. By 1982, KFC had succeeded in establishing a successful strategic focus and was again aggressively building new units. In 1982, R. J. Reynolds Industries, Inc.(RJR) merged Heublein into a wholly owned subsidiary. The merger with Heublein represented part of RJR's overall corporate strategy of diversifying into unrelated businesses, including energy, transportation, food, and restaurants. In 1985, RJR acquired Nabisco Corporation for $4. 9billion. Nabisco sold a variety of well-known cookies, crackers, cereals, confectioners, snacks and other grocery products. The merger with Nabisco represented a decision by RJR to concentrate its diversification efforts on the consumer foods industry. It subsequently divested many of its nonconsumer food businesses. RJR sold KFC to PepsiCo. Inc. one year later. PepsiCo's strategy of diversifying into three distinct but related markets — soft drinks, snack foods, and fast-food restaurants — created one of the world's largest consumer products companies and a portfolio of some of the world's most recognizable brands. Between 1990 and 1996, PepsiCo grew at an annual rate of 10 percent, surpassing $31 billion in sales in 1996. However, PepsiCo's sale growth masked troubles in its fast-food business. Declining margins in the fast-food chains reflected increasing maturity in the U. S. fast-food industry, more intense competition among U. S. fast-food competitors, and the aging of KFC and Pizza Hut's restaurant base. As a result, PepsiCo's restaurant chains absorbed nearly one-half of PepsiCo's annual capital spending during the 1990s. However, they generated less than one-third of PepsiCo's cash flows. Therefore, cash was diverted from PepsiCo's soft drink and snack food businesses to its restaurant businesses. KFC continued to dominate the chicken segment, with 1997 sales of $4 billion. Its nearest competitor, Boston Market, was second with sales of $1. 2 billion. KFC operated 5, 120 restaurants in the United States in 1998, eight fewer restaurants than in 1993. Rather than building new restaurants in the already saturated U. S. market, KFC focused on closing unprofitable restaurants, upgrading existing restaurants with new exterior signage, and improving product quality. The strategy paid off. Despite KFC's continued dominance within the chicken segment, it has lost market share to Boston market. In 1993, KFC introduced its own rotisserie chicken, called " Rotisserie Gold, " to combat Boston Market. Lower growth in the U. S. fast-food market intensified competition for market share among restaurant chains and led to consolidation, primarily through mergers and acquisitions, during the mid-1990's. The effect of these and other recent mergers and acquisition on the industry was powerful. The top ten restaurant companies controlled almost 60 percent of fast-food sales in the United States. The relatively low growth rate in sales in KFC's domestic restaurants during the 1992-1997 period was largely the result of KFC's decision in 1993 to begin selling company-owned restaurants to franchisees. While company-owned restaurants were relatively easier to control compared to franchisees, they also required higher levels of investment. This means that levels of cash were diverted from PepsiCo's soft drink and snack food businesses into its restaurant businesses. KFC faced a variety of issues in Mexico and Latin America in 1998, few restaurants had been opened in South America. However, KFC was now aggressively building new restaurants in the region. KFC halted openings of franchised restaurants in Mexico and all restaurants opened since 1995 were company-owned. KFC was more aggressively building restaurants in South America, which remained largely unpenetrated by KFC through 1995. Of greatest importance was Brazil, where McDonald’s had already established strong market share position. Brazil was Latin America’s largest economy and a largely untapped market for KFC. The danger in ignoring Mexico was that a conservative investment strategy could jeopardize its market share lead over McDonald’s in a large market where KFC long enjoyed enormous popularity. I. Viewpoint: Points of View: MHM Student Statement of the Problem How would KFC maintain a market leadership in the global fast-food industry? Objectives: 1. To familiarize with the history of KFC and how it was managed since it started; 2. To determine the market standing of KFC and how will the company compete with other fast-food chains segments; 3. To understand the techniques and strategies used by KFC and other fast-food chains; 4. To know how fast-food chains are competing in the local US market and the international market; 5. To determine the performance of other competing fast-food chains and how they evolve in the market; 6. To determine how strong the competitive environment KFC faced in the international market; and 7. To know the marketing strategy of KFC and its effectiveness in the market. Areas of Consideration: (SWOT ANALYSIS) A. Internal Environment: Function Areas | Strengths | Weaknesses | ADMINISTRATIVE MANAGEMENT 1. Conflicts in

Corporate Culture * Changes in management that restructured KFC's organization * High performance, high accountability and highly driven culture of PepsiCo. 2. Labor Instability * Employee loyalty when different management handled KFC * Turnover rate and Employee productivity ratings that tend to be affected when PepsiCo. handled the management * Reorganization in 1989 in US operations to eliminate overhead cost and operating costs | XX | XXX | 3. Franchising and company-owned restaurants * With 5, 117 restaurants outside US, 68% franchises and 22% company-owned * Low growth rate in sales experienced when KFC begin selling company-owned restaurants to franchisees but it also lowered the amount of cash tied up in fixed assets (during 1992-1997) | X | X | 4. Sales and Marketing * Sales in 1997 is $8. 0 billion (2. 6% growth from 1996)Product and Distribution ideas * Offering chicken sandwich * Creation of Rotisserie Chicken * Introducing Oriental Wings, Popcorn Chicken and Honey BBQ Chicken * Neighborhood Program — special menu offerings to appeal exclusively to the Black community * Three- pronged distribution strategy: Focused on building restaurants in non-traditional outlets, Experimented on home delivery, and Restaurant co-branding (primarily with Taco Bell) | XXXXXX | | B. External Environment External Factors | Opportunities | Threats | COMPETITIVE FORCES 1. Competitors in fast-food chain segments (in US) * McDonalds — the world's number one fast-food chain * Pizza Hut and Taco Bell- Tricon Global sister companies * Chicken Chain segment competitors: Popeye's Famous Fries Chicken and Church's Chicken, Chick-Fil A, Bojangle's, El Rollo Loco, Grandy's, Kenny Rogers Roasters, Mrs. Winner's, Pudgie's, and Boston Chicken * Sandwich Chains, Pizza Chains, Family

Restaurants, Dinner Houses, and Steak RestaurantsIndustry Consolidation and Mergers and Acquisitions * brought a powerful effect where the top ten restaurant companies controlled almost 60% of fast-food sales in US * Grand Metropolitan acquisition of Pilsburry's Burger King; Hardee's acquisition of Roy Rogers that destroyed the customer loyalty KFC long enjoyed; Imasco Ltd. sold Hardee's to CKE Restaurants Inc; Boston Chicken acquired Harry's Farmers Market; AFC Enterprises acquired Chespeake Bagel Bakery of McLean | XXXXX | XX | 2. Trends in the fast-food industry * Consumer demand for healthier menu, greater variety and better service in non-traditional locations such as grocery, restaurants, airports and outdoor eventsDemographic and societal changes * Rise in single person households (from 17-25% of all US household) that increased number of individuals choosing to eat out rather than eat at home * Rising immigration since 1990 dramatically altered the ethnic makeup of US population | XX | X | 3. International Operations * 79 countries to serve (63 by the end of 1993) * United States as major market where Kentucky is, the birthplace of KFC * 50% of restaurants is outside US mainly in Asia and Latin America through franchising (5, 117- 68% franchised; 22% company-owned) * Differences in time, language and culture among countries where KFC operated | XXXX | | 4. Market position of KFC * World's largest chicken restaurant chain and third largest fast-food chain * KC's declined market share from 72. 1% (1988) to a fall of 16. 3 points to 55. 8% * BCG Matrix * Experienced CASH COW (low growth, high market share)when it focused on managing company-owned restaurants * Had been to a QUESTION MARK stage when Boston started to penetrate the market(low growth, low market share) | X | XX | Alternative

Courses of Action * Refocusing on Quality-Focused Strategic Plan * Competitive Market Penetration Strategy * Applying to International Quality Award Programs SWOT Analysis of ACAs Refocusing on Quality-Focused Strategic Plan STRENGHTS | WEAKNESSES | 1. Increase awareness of company's compliance to its mission, vision, and objectives | 1. Process is time consuming | 2. Evaluation of quality standards to meet quality objectives | 2. Cost-intensive | 3. Implementation strategy will be changed far more better | 3. Requires more people that entails high labor cost | 4. Corrective actions lead to product development | 4. Quality control personnel necessitate high labor cost | 5. Build stronger team of staff and employees | 5. Requires painstaking market research and development | 6. Increases productivity, effectiveness and efficiency of employees | | 7. Increased sales and profit | | 8. Expansion of company-owned and franchise restaurants | | 9. Standardization of menu will maintain product quality | | 10. Developed awareness of consumer preferences to address demographic changes | | Competitive Market Penetration Strategy STRENGHTS | WEAKNESSES | 1. Market will be properly defined | 1. Cost-intensive mainly on advertising cost | 2. Allows the company to explore creative ideas | 2. Requires time and effort | 3. Product design innovation and development | 3. Cultural differences of the international market | 4. Expansion of restaurants | 4. Low profit margins | 5. Utilization of technology that makes distribution faster | | 6. Patronizing of consumers due to lower prices | | 7. Cost leadership due to high productivity and high capital utilization | | Applying in the International Quality Award Programs STRENGHTS | WEAKNESSES | 1. Evaluation of company's performance mainly in leadership and products | 1. Cost-intensive

| 2. Recognition will lead to consumer loyalty and acceptance | 2. Process time is lengthy | 3. Competitive advantage and improved business performance | 3. Requires intensive evaluation | 4. Improvement opportunities will address company's weaknesses | | 5. Developed brand image that will be a focus for many consumers | | 6. Fulfilled quality system requirements that develops improvement | | 7. Confidence achieved by consumers and stakeholders in achievement of quality | | VI. Recommendation Based on the analysis, we can conclude that Refocusing on Quality-Focused Strategic Plan and Applying in the International Quality Award Programs will sustain KFC in the fast-food market, being the third, and first in chicken segment. These actions will allow KFC to establish a market standing that will continue what they provided to consumers all around the world. The strategic plan implemented by KFC will be checked and aligned with quality excellence. Proper action will be undertaken to improve business performance. Together with the assessment of International Quality Award Programs like ISO 9000, the criteria for performance excellence will not only sustain KFC's leadership but will also improve its competitive strategies for the best business results. Management issues should be resolved and with the aid of a Total Quality principled Strategic Plan where senior managers will be able to address major conflicts on labor and employee turnover. Employee training and productivity report review should be checked in as much as their motivation should be consistently analyzed to determine factors to affect their performance. It is important to consider that human resource is a great factor to measure quality. Application in ISO 9000 provides a set of basic practices for initiating a quality system, and is an

excellent starting point for companies with no formal quality assurance program like KFC. It provides detailed guidance on process and product control. Thus, for KFC in the early stages of developing a quality program, the standards enforce the discipline of control that is necessary before they can seriously pursue continuous improvement. Malcolm Baldrige Award, being a prestigious quality award giving body would bring KFC a market position that would not only be patronized by consumers but will bring more expansion opportunities and a venue for competitive advantage among all the fast-food chains globally. Being a known brand worldwide, to attain an award with Baldrige will strengthen KFC's brand and continuously improve the brand image of the company for sustaining its position in the market. The strategic plan to be focused by KFC will mainly concern to its marketing and distribution strategies, international franchising and company owned restaurants management strategies, and its human resource empowering strategies. KFC should also make sure to update its revenue management and use of technologically advanced process and product control system to constantly improve its product and adapt to the changing demographics and society lifestyles. The marketing approach introduced by KFC like the Neighborhood Program can be further developed to be applied not only in some areas of US but to its international market if vivid market research will be done. Expansion into domestic market that will focus on properly defined distribution outlets like airports and groceries should undergo proper analysis of target market to suit its product and maintain its " Finger Lickin' Good" image. Detailed approach to implement a standardized menu with a customized approach to address cultural differences among international fast-food chain competitors should be materialized. However, analysis of the market and review of consumer preferences should be recurrently evaluated to match the standardization and customization of recipes and menu for all KFC restaurants. Even though, KFC seems to have an emotional attachment to their original recipe that made their success, they definitely need to move on and develop new products that customers want in order to increase their financial performance and value. We have seen that Boston and Popeye's are stealing customers away from KFC because they understood what customers wanted and started offering healthier items. KFC should certainly do the same and enhance their menu. They need to stay close to their mission (provide customers with quality food, excellent service and restaurant cleanliness) and make sure to know how to achieve their long-term objectives. Keep innovating and coming up with new items regularly. Even though, they come up with similar products, customers are most likely going to try them. KFC also have to follow the trend and go hand in hand with customers to satisfy their changing needs, as in the current healthier food trend. They also want to keep an excellent image by treating employees fairly and keeping a good control over franchises to make sure they follow the company's procedures. Concerning investing internationally, extremely attractive countries that can provide above-average returns are regions that have chicken as traditional dish such as Asia and Latin America. Those regions should certainly be prioritized while developing an international expansion. While they start attacking those new markets, they should keep in mind to focus locally even though they go international in order to overcome certain barriers such as language, law and a good understanding of needs. Targeting new countries usually work better if you adapt to the local market. Concerning the American market, they should always keep an eye at competitors and see if possible mergers or acquisitions could be made. McDonald's has been faster than KFC in acquiring other fast-food chains which could have really helped KFC regain its loss market share and reduce competition. They also have to keep working on their low-cost/differentiation strategy by better taking advantage of their competitive forces such as economies of scales, bargaining power, image/brand worldwide recognition. They also need to keep an eye and be aware of new technology in order to improve their productivity and be able to compete more efficiently because even though they may have a competitive advantage now, they can be sure that they will eventually be challenged. They have to stick to their mission; quality food, excellent service, restaurant cleanliness; keep control over franchises; and come up with new items regularly and be aware of new technology to stay efficient and competitive. VII. Program Implementation The implementation of ACA's with its timeline. PROGRAMS | YEAR | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | Short Range | Long Range | ISO 9000: 2000 | Preliminary application and submission of Organizational Profile | | | | | | | | | | | | Assessment of company's performance | | | | | | | | | | | | Attaining Certification | | | | | | | | | | | Malcolm Baldridge National Quality Award | Application and submission of Organizational Profile | | | | | | | | | | | | Evaluation of Company's Approaches | | | | | | | | | | | | Deployment of Approaches | | | | | | | | | | | | Evaluation of Results | | | | | | | | | | | Quality FocusedStrategic Plan | Formulation of Strategic Management Team to Initiate Review | | | | | | | | | | | | Evaluate and improve prior year strategic plan process | | | | | | | | | | | | Business Analysis: * Company Capabilities * Partner Capabilities * Market conditions * Stakeholders Requirements * Risks * Competition | | | | | | | | | | | | Strategy Implementation | | | | | | | | | | | | Strategy Review and Analysis on: * customer satisfaction * product service performance * market * competitive comparisons * supplier performance * employee performance, and * cost and financial performance | | | | | | | | | | | | Formulation of Changes and Improvement | | | | | | | | | | | | | | |