

# Example of the attractiveness of china as a market for fast food franchises case ...

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In China, “fast food” simply means “quick meal.” The American fast-food giants introduced the fast-food industry in the Chinese market during the 1980s and 1990s. Kentucky Fried Chicken (KFC) introduced the concept of modern fast-food in China in April 1987 when it established China's first fast food restaurant in Beijing (Research Report on China Fast Food Industry, 2011-2012). Since then, the Chinese fast-food industry has witnessed rapid growth characterized by competitive pattern of high-grade versus low-grade, modern versus traditional styles, and Western versus Chinese styles. Today, the fast food industry has become one of the most attractive industries in china. Fast food restaurants have become a normal part of urban life and are a flourishing and attractive business opportunity (Access Asia, 2001).

China is a very attractive market for fast food franchises. With a population of over 1.3 billion and increased consumer spending due to booming economy, the fast food industry is a success story. The growth in the economy has resulted into a growing Chinese consumer class with more spending nowadays (D’Altorio, 2011). However, they have less and more less time to cook at home. Demanding jobs, long travels due to heavy traffics, smaller families, and delayed marriage age, make it difficult for the average Chinese to prepare their own meals (Waldmeir, 2011). This creates a perfect recipe for fast food chains (Waldmeir, 2011; D’Altorio, 2011). Besides, there is a growing appetite for convenient and quick meals. The food service industry in China has been recording impressive growth since 2003 and still has great potentials to grow. Being only half the size of that of the U. S; the China’s food service industry has plenty of room to grow (D’Altorio, 2011). The fast-food revenue in China is estimated to increase by 14.5% annually

to US\$147. 0 billion in 2016 (PR Web, 2012).

The main obstacle in China is the cultural difference. Foreign companies need to be familiar with the local culture in order to succeed in this market. With the vast growth opportunities in China, I would certainly invest in China if I were managing Wendy's.

## **The approaches of McDonald's and KFC in China**

The approaches of both KFC and McDonald's in Chinese operations were very important due to their needs to rapidly expand and the infancy of the market. Both the companies had to source their raw materials for making the meals, and had to transport them from the distribution centers to the stores in efficient manners to ensure quality and adequate supplies.

KFC China's approach was based on a deep understanding of the differences between developing and established markets and the willingness to radically change the U. S. business approach. The company localized its offerings in an effort to please its local consumers. It stretched the brand to enable consumers see it as part of the local community by offering wide variety of foods and traditional dishes that are attractive to the Chinese customers.

McDonald's, on the other hand, had a standardized menu with some local adaptation.

While McDonald's focused on the largest cities, KFC expanded rapidly into the smaller cities and built a national business with countrywide outlets. This has made KFC brand gain popularity with mall developers. KFC established its presence in 16 locations where it could grow and develop while

McDonald's in four locations. By 1999, KFC was opening several restaurants a year. Currently, there are KFC outlets in some 700 Chinese cities. KFC is so

far the China's largest restaurant company with over 250, 000 employees and approximately 40% market share. McDonald's, on the other hand, has about one-third as many outlets and about 16% market share (Bell and Shelman, 2011).

The Supply chain approach of both the companies was quite different. KFC adopted a localized approach with local alliances. It established a joint venture with Beijing Animal Production Company to enable it access better product supply. KFC uses the local food ingredients and its products are all purchased locally. In contrast, McDonald's adopted a globalized approach with its global partners, who arrived in China just to keep on supplying the firm. KFC's approach has enabled it source the products cheaply through local procurement. McDonald's has also been able to maintain long-term relationships with its global partners thus able to enjoy the benefits of reduced prices.

The logistics networks of the companies took different approaches. KFC established its distribution arm in 1997 with its own warehouses and fleet of trucks. The distribution network was greatly localized and relied on well-connected supply chains. Instead of outsourcing the supply of products to third parties, KFC worked closely with its local partners. McDonald's, on the contrary, decided not to adopt the local network. Instead, the company's global logistics partner, Havi Food, handled the logistics in China.

In the food service industry, excellent customer service is a key recipe. Both the companies have promoted excellent customer service in China. To achieve this, it's important to have a workforce that understands and strives to satisfy the vast needs of the people (Bell and Shelman, 2011). KFC prides

itself as being a learning organization. The company's new employees work together, side-by-side, with the experienced employees in the established outlets. Once trained, the new employees move to new locations. The new recruits are trained the basic people skills and teamwork. McDonald's has followed the footsteps of KFC; however, the training program at KFC functions exceptionally well, producing a continual stream of new and excellent managers. KFC's pay has also attracted more talented managers and employees (Bell and Shelman, 2011).

McDonald's has been focusing on franchising its outlets. KFC, however, focuses on ownership instead of franchising. Franchising works well for restaurants with relatively simple operations, such as limited menu of easily prepared products: the case of McDonald's. For KFC, the China's model was very complex and rapidly evolving. It therefore meant that the company had to own the restaurants to allow for close control of all the aspects of operation and to monitor the results and success of the new products.

### **The strengths and weaknesses of the McDonald's model and the KFC model**

The approaches of both the companies have their strengths and weaknesses; however, KFC's model has proved to be unbeatable.

The extended menu of KFC requires more complex food preparation and more workforces. To meet all the expenses and still make profit, KFC cannot offer cheap prices. Its prices are far much above the local restaurants and other fast-food chains that offer standardized menu. This makes it unattractive among the low income populace. The standardized menu of McDonald's is less complex and easy to prepare, thus, slightly cheap. While

McDonald's lowers its prices occasionally, KFC has no such intentions. The localized approach of KFC has enabled it obtain products at cheaper costs since it procures them locally. Buying locally also strengthens the company's relationship with the government of China. However, the company needs to engage in lengthy negotiations with its new suppliers in order to get cheap, quality products. In addition, the company may not be able to manage the contracts and the agreements with the local suppliers effectively, resulting in low quality products. McDonald's approach, on the other hand, is beneficial in maintaining long-term relationships with its global partners. This has resulted in better deals which include obtaining quality products at cheaper costs. The weakness of this model is the over reliance on the foreign partners. The company is not able to localize its menu since most of its equipments and raw materials are imported.

Franchising reduces the risks and investment costs, and enables rapid expansion. Owning the restaurants is costly and risky; however, it allows the company to control its operations and monitor the results. This permits centralized purchasing, which in turn, reduces the costs and maximizes the company's outlet profits.

## **Lessons**

This case presents two entry strategies in international markets: the adaptation strategy and the standardization strategy. For great success in the emerging markets, adaptation strategy works best. The company needs to align its products and operations with the specific needs and cultures of that particular region.

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