

Business model yum brands

Business



YUM! Inc Internal Analysis| The Strategic Management Process| REPORT
NUMBER| 2| WEEK| 2| CBL GROUP AND SUB-GROUP| I3SHM Group A|

DECLARATION 1. This work is composed by me / by us. 2. This work has not been accepted in any previous application for a degree or diploma, by me / by us or anyone else. 3. The work of which this is a record is done wholly by me / by us. 4. All verbatim extracts have been distinguished by quotation marks and the sources of my information have been specifically acknowledged. Signatures: Date:..... Submitted in Partial Fulfilment for the Requirements of the degree Programme Bachelor of Business Administration

November, 2012 Table of Contents Introduction3 Chapter 1: Business Model, Vision, Mission, Goalsand Strategies3 Concept Definitions3 Yum! Inc Evaluation3 Yum! Inc Correlation Business Strategies and Current Business Model4 Chapter 2: Yum! Inc Financial Analysis6 Chapter 3: Weaknesses and/or Competitive Liabilities8 Chapter 4: Internal Factor Analysis8 Reference List12 Introduction An internal organizational analysis aims to investigate a company`s business model, its mission, vision, goals, resources, competencies and undertaken strategies to compete on the market.

It gives an overview of the organizations strengths, weaknesses, opportunities and consequently threats. By conducting a proper internal analysis a company can identify its competitive advantage over its competitors and use the outcomes to derive new scope of strategies and possibly effectively direct the organization on the long run. There are several major and crucial areas companies audit internally, that is to say

<https://assignbuster.com/business-model-yum-brands/>

organizations value chain, cultural web, business model, capabilities assessment.

After conducting such analysis companies identify possible areas where immediate action is needed for improvement, its threshold capabilities, core competencies by which they gain competitive advantage. Essentially, organizations can decide which resources and activities are of significant importance to the company and must be kept internally and which can be outsourced. Additionally, possible strategies for the future can be established. However, the internal analysis cannot solely be a ground for new strategies, an organization has to conduct an external analysis before forming its final strategies. (Johnson & Scoles, 2008).

Chapter 1: Business Model, Vision, Mission, Goals and Strategies Concept Definitions Before analyzing Yum! Inc, several concepts have to be defined. Firstly, Business Model refers to all products, services and information an organization owns and how they flow between participating parties. Vision refers to what an organization aspires to become in the future. A Mission statement captures the emblematic purpose of an organization to conduct business in line with the values of its stakeholders. Organizational goals are general statements for aims and purposes whereas objectives are narrowed down to quantifiable results.

Finally, organizational strategies are its long-term directions. (Johnson&Scoles, 2008). Yum! Brands, Inc Evaluation Yum! Brands, Inc is a global operator of franchisees and licensees a chain restaurant brands like KFC, Pizza Hut, and Taco Bell. The business model of Yum! Brands, Inc will be analyzed by the use of Canvas Model further in this chapter. According to the <https://assignbuster.com/business-model-yum-brands/>

Annual Report (AR) 2011, the company's Mission Statement is implied under its future-back vision statement: " Be The Defining Global Company that Feeds the World". Moreover, it's Vision Statement is: " Be the Best in The World at Building Great Restaurant Brands".

After a deeper analysis of the company, it has been identified that Yum! Brands, Inc has the following core business related long-term goals: " 1. Build leading brands in China in every significant category; 2. Drive aggressive international expansion and build strong brands everywhere; 3. Dramatically improve U. S. brand positions, consistency in returns; 4. Drive industry leading, long-term shareholder and franchise value. (Yum, Annual Report, 2011). According to the Chief Sustainability Office ' CSO', Roger McClendon, Yum Brands want to establish and align global goals to improve the economy of restaurant.

Yum Brands global enterprise goals for sustainability are: 1. Reduce global energy consumption by 10% by 2015 2. Reduce global water consumption by 10% by 2015 3. Develop 5 LEED certifiable restaurant standards across China, India, United States of America and Yum Restaurants International (YRI) business divisions by 2012 4. Elevate Yum packaging vision into actionable brand goals leveraging Yum packaging guidelines. (Source: www.yum.com/csr/environment) Next to that Yum! Brands, Inc has formed it's values which direct the companies strategic actions, namely: 1. Believe in People; 2. Be Restaurant and Customer Maniacs; 3.

Recognize; 3. Go for Breakthrough 4. Build Know How; 5. Take the Hill Teamwork Yum! Brands, Inc, further referred to as" the company" or " Yum" within this report has taken different strategies to achieve its main long-term

<https://assignbuster.com/business-model-yum-brands/>

goals. The strategies will be outlined in correlation with the business model. Yum! Brands, Inc Correlation Business Strategies and Current Business Model The CEO and Chairman of Yum! Brands, Inc shares the fairly simple business model of Yum. The main focus of the company is reducing company ownership in highly penetrated markets meanwhile increasing exposure in emerging and under-penetrated markets.

Moreover, the largest fast food franchiser continues with its refranchising program in the States, aiming to retain 5% ownership of KFC and Pizza Hut. The business model of Yum! Brands, Inc is analyzed by the Canvas Business Model, (Oosterwalder, 2010) see fig. 1 Fig. 1 Canvass Business Model Yum! Brands, Inc has three main markets from which it generates revenues, namely the USA, China and Yum International Restaurants. Within those markets, the company creates value for various sub markets by diversifying and customizing within the fast food market through different restaurant concepts.

Moreover, the channels through which it reaches those markets are via own channels-direct, namely in-house sales, mobile ordering system for Pizza Hut in the States. This is rather costly activity for the company, however it has a high profit margins. Moreover, in 2011, Yum participated in an Annual World Hunger Relief campaign with the use of Christina Aguilera voice for good in the cause against hunger ([www. fromhungertohope. com](http://www.fromhungertohope.com)). This is an example of the Awareness Channel Phase as explained by Osterwalder, 2011. Christina Aguilera`spersonalityworld recognition and the Campaign`s awareness to create awareness for the Yum! Brands, Inc.

With regard to the customer relationship, the company serves its customers via personal service, self-service. The personal service is based on the fact that customers are being helped via the purchase process on the points of sales. In addition to that, in order to continue successful operations within the quick service restaurant sector, Yum has several key partners, subcontractors- franchisees and licensees through which the company exposes its products. Moreover, the company's main supplier is Unified FoodService Co-op LLC, an American company which offers lowest store-delivered prices for restaurant products (Yum, Annual Report, 2011).

Another key partner of Yum is McLane Company, Inc. distributor for concept-owned restaurants and for many of the franchisee and licensee restaurants. Finally, there is a Syndicated creditor, consisting of 24 banks which offers a financial support for the company- 1. 15 bln USD. International partners such as in Russia with Rostik's KFC are also of significant importance to the company. In order to effectively, deliver its value proposition to customers, namely high product quality, speed service, high quality ingredients, variety of unique products, competitive prices, consistent product quality, the company operates with few key resources.

The company operates an effective distribution system- Yum! Brands, Inc owns their local, regional and also global distribution system. Additionally, the company owns, franchises and licenses, as a consequence, there are financial resources coming in within the company in form of royalty fees and sales. Another, key resource for the company are its restaurant concept Patents and Trademarks etc. KFC, Pizza Hut, Taco Bell etc. Brand Power,

standardized and formalized restaurant operations practices which give the company the ability to offer consistent service.

Finally, the research & development centers and the overall diversified product portfolio are other key company resources. The key activity in which the company engages is sales of food within the quick service restaurants sector by franchising, licensing and owning own properties. This is related to the production of fast food. Finally, the main revenue generating streams are the three main markets from which the company derives its financial resources, the USA, China and the Yum International Restaurants and the offer of dine-in, dine-out, drive through and home delivery food via franchise, license agreements and own properties.

The main strategy of Yum to succeed in the fast food market is by undertaking Cost Driven strategy. By delivering a customized service to the Chinese, American and International market the company targets at the average income market by offering relatively low priced products which fit into the budget of a wide market. Since, it does not necessarily focus on the value-proposition like exclusive products do but rather on cost-saving. Yum achieves this via economies of scale and economies of scope. To conclude, Yum operates with cost-driven cost structure.

This business model can clearly be linked to the undertaken strategies by Yum. One of the company aims to enter emerging under-penetrated markets like China and increase leadership position and strengthen operational model. This has been achieved by the strategy of buying the Chinese Hot Pot concept restaurant Little Sheep Company and developing a tailored local quick service restaurant chain East Dawning. This actions fit into the <https://assignbuster.com/business-model-yum-brands/>

company's value proposition- food diversity, variety of products, speed service, tailored products as they all belong to the quick service restaurant category.

Next to that, the strategy of East Dawning is to strategy is to offer tremendous variety and refresh menu 24% twice/year which also fits to company's value proposition. In addition, the company owns their local, regional and global distribution system and this fits to their long term goal to expand internationally but also with their cost structures and cost-driven strategy. Moreover, the ownership of distribution system gives the company a strong competitive advantage. Finally, these strategies fit into the company's business model by segregating the market and still offering products on competitive prices.

Internationally, the company took the strategy to enter Russian, Indian and African market. : In Russia acquisition of Rostiks- chicken company. Growth in Africa is represented by the opening of 656 stores in SA, entry in Zambia, Ghana, Kenya. In India the company entered the market with 101 restaurants in 2011. In total 900 restaurants were added in 2011 in the International Division. International Division's Operating Profit grew with 12%. These strategies re in line with the business model for generating revenues via three main areas, the USA, China, and International Division.

Moreover, all those strategies to expand are connected to the company's key activity and also value proposition. Next to that, the company aimed at improving brand position in the States. One of the strategies to achive this was transforming Pizza Hut to " Pizza, Pasta and wings". Moreover, Pizz Hut improved it's service by " Heart of the Hut: program which also added value

to the hospitality of the chain. Moreover, the KFC kicked off a nation-wide campaign with value menu - 3.99 USD 2 piece meal, 2 side dishes and biscuit. This has been as a result of investment in operations, make it more contemporary.

Additionally, Taco Bell introduced its - "First Meal" Strategy- launched breakfast in 800 restaurant- opening earlier than before at 9am and introducing theu Launche Doritos Lotos Taco, which became a huge success- famous Nacho Cheese Doritos. The above mentioned strategies, go in line Yum`s business model: value proposition- speed service, product quality; key partners- continue operations with franchisees and licensees; key activities- continue playing on the Quick Service Restaurant Market by the use of company`s key resources- rely on own patented brands, use the standardized operations to offer consistent service.

Another, strategy Yum took in the USA was to increase operation audits in franchise field support which also was in accordance to their business model to offer quality products and consistent service. Another strategy to improve the USA brand position was to reduce company ownership of KFC, Pizza Hut, Taco Bell from 13% to 8% in the domestic market in order to increase franchise fees, reduce operating expenses and capital expenditures- cost-driven company.

Last but not least, the company has decided to reduce Taco Bell Ownership from 23% to 16% over the next 2 years and sold Long John Silver`s A&W All American Restaurants in order to meet it`s last long-term goal, namely Drive Industry Leading, long term Shareholder & Franchise Value and retain 5% ownership of Pizza Hut and KFC. To conclude, according to the Yum Brands <https://assignbuster.com/business-model-yum-brands/>

annual report 2011 (annual report 2011), the success of Yum Brands in executing these strategies has driven the organizations return on invested capital over 22.00% in top with the industry leaders. The organization generated over \$2,000,000,000 dollars cash from the operations in 2011. The company is lucky to have global opportunities to invest in for the future growth. Furthermore, the organization owns and operate the distribution system the restaurants in China. This strategy provides a significant competitive advantage. This way China will have an economy growth and achieve a population of 1,300,000,000. Yum Brands will rapidly adding KFC and Pizza Hut restaurants, this way the organization will test the additional restaurants concepts. The concepts of KFC and Pizza Hut are (for example): ' Pizza Hut - pizza delivery' and East Dawning, which is Chinese food. Yum! Brands, Inc Annual Report, 2011). Chapter 2: Yum! Brands, Inc Financial Analysis In this chapter the financial performances of Yum are being analyzed. Within the first part of this chapter the balance sheet and the income statement are being analyzed. This analysis is being conducted with the help of horizontal and vertical analysis. Within the second part of this chapter the key performance indicators will be analyzed and compared with industry averages.

2.1.1 Income statement

The total revenue of Yum increased from \$10,836 million in 2009 to \$12,626 million in 2011. This is an increase of 16%. 6% of the total revenue is the income from restaurant sales and 14% is the income of franchise fees. The distribution of the revenue is more or less the same as previous years. From this it can be concluded that, although Yum is expanding their franchises, the most important form of revenue still comes from restaurant sales. Although the revenue increased with 16% from 2009 till 2011, also the total

<https://assignbuster.com/business-model-yum-brands/>

costs increased with 16%. The total costs represented 85% of the total revenue. This figure is more or less the same in 2009 and 2010. The largest cost account is the use of food and paper. This account represents 29% of the total revenue.

The food costs in the hospitality industry is on average 33% of the total revenue (Cote, 2006) Yum is doing quite well with managing their food costs. The salaries represent 19% of the total revenue. Considered that on average within the hospitality industry employee wages represent 33% of the total revenue, Yum is managing their employee costs very well. (Yum, 2010) (Yum, 2011) 2. 1. 2 Balance sheet The most noticeable when looking at the horizontal analysis of the balance sheet is the huge increase in the cash and cash equivalent account. The cash increased from \$353 million in 2009 to \$1198 million in 2011.

This is an increase 239. 38% . In 2009 the cash account represented 4. 94% of the total assets, in 2011 this account represented 13. 56% of the total assets. The shareholder equity also increased significantly. The shareholder equity increased with 177%. This can be explained by the fact that Yum sold shares. Additionally, the increase in cash of the company can be explained by the facts that they sold Long John Sylver A&W All American Food Restaurants. Furthermore the short-term borrowings increased significantly. From 2009 till 2010 this account increased with 1140, 68%. However in 2011 this account is reduced slightly.

In 2011 the increase in comparison with 2009 is 542%. In 2009 the short-term borrowings represented 0, 83% of the total liabilities, in 2010 this was 8. 09% and in 2011 3. 62%. This can be explained by their pursuit of growth

strategy- taking over of the Little Sheep Company, opening East Dawning Restaurant in China. The inventory has also increased with 223%. This can be explained by the fact that expansion results in more inventory. The cash and cash equivalents account do not only represent hard cash but it also represents funds which are temporary invested in short-term, high liquidity debt securities.

The cash account increased because of the increase of the shareholders' equity. The shareholder equity increased with 177% because of the issuing new stock. Finally the retained earnings increased significantly. In 2009 this account was \$996 million, in 2011 this was \$2052 Million. That is an increase of 106%. In 2009 the retained earnings represented 13.93% of the total liabilities, in 2010 it was 20.65% and in 2011 the account represented 23.23% of the total liabilities. Yum is saving money which originally was reserved as dividend payments.

Yum is saving their money probably for investments and expansions otherwise the shareholders would not agree by the fact that they are not getting paid all their dividends. (Yum, 2010) (Yum, 2011)

2.2 Ratio analysis

Within this part several ratios of the past 3 years will be calculated and analyzed.

Current ratio The current ratio measures the relation between the current assets and the current liabilities.

Year	Current ratio
2009	0.73
2010	0.94
2011	0.95

Table 1: Current ratio

From the above given figures one can conclude that Yum has a shortage of \$0.05 in 2011. However this does not mean that Yum is financially unhealthy.

In general the current ratio should be around 1. According to Schmidgall, 2006 different parties are interested in different current ratios. Creditors

normally prefer a high current ratio as this insures that they are getting paid. Owners and stockholders generally prefer a lower current ratio. Stockholders are mainly interested in profits and according to them investments in most current assets are less productive than investments in noncurrent assets. (Schmidgall, 2006) (Yum, 2010) (Yum, 2011)

Solvency The solvency ratio measures the relation between total assets and the total liabilities. Year. Solvency ratio. | 2009| 1. 18| 2010| 1. 25| 2011| 1. 28| Table 2: Solvency In 2009 Yum had a solvency ratio of 1, 18. This means that for every dollar of debt they had \$1, 18 of assets. In 2010 they increased their solvency to \$1, 25 and in 2011 it increased to \$1, 28. It can be concluded that Yum is solvent, their assets exceed their debts. (Yum, 2010) (Yum, 2011)

Profitability ' Hospitality enterprises are often evaluated in terms of their ability to generate profits on sales' (Schmidgall, 2006, p. 225) Year| Profit Margin Yum| Profit Margin McDonalds| 2009| 9. 88%| 20%| 2010| 10. 21%| 20. 54%| 2011| 10. 4%| 20. 37%| Table 3: Profit margin In 2011 Yum had a profit margin of 10, 44%. This means that for every dollar of revenue the gain 10, 44 cents of profit. The average profit margin of the whole restaurant industry is around 5%. Compared with the whole restaurant industry yum has a strong profit margin. However when a comparison is being made with a top competitor, yum has a weak profit margin. As can be seen in table 3, McDonalds has almost the double profit margin of yum. Thus from these figures it can be concluded that yum has a weak profit margin compared with their top competitor McDonalds. Yum, 2010) (Yum, 2011) (Yahoofinance, 2012) (Stock analysis)

Return on Assets The ROA ratio measures the profitability of a company's assets. Year| ROA Yum| ROA McDonalds| 2009| 15. 62%| 15, 06%| 2010| 15. 30%| 15, 47%| 2011| 15. <https://assignbuster.com/business-model-yum-brands/>

58%| 16. 68%| Table 4: Return on Assets Within the restaurant industry the average ROA lays around 8%. The ROA of Yum is around 15, 5%. Compared with the total industry yum has a strong ROA. When the ROA of Yum is being compared with the ROA of McDonalds, the conclusion remains the same, Yum has a strong return on assets. Yahoo finance, 2012) (Yum, 2010) (Yum, 2011) (Stock analysis) To conclude it can be said that yum is a financially healthy company. Although the world wide credit crunch Yum is still able to increase their revenues. Comparison of the ratios with industry averages shows that Yum is doing well. Their debts do not exceed their assets. There is still room for an improvement of their profit margin. Compared with the industry average they have a strong profit margin however in comparison with their top competitor their profit margin is quite weak. Chapter 3: Weaknesses and/or Competitive Liabilities 1.

Resources and Capabilities Evaluation 2. Evaluations of Factors Depriving Yum! Inc from Effective market Competition The evaluation of the resources and capabilities, and factors which might be preventing the corporation from competing effectively will be outlined with the help of a SWOT analysis. This technique will be used, because it gives the ability to present the resources and capabilities into strengths, and the factors which might be preventing the corporation from effective competence can be divided into weaknesses. However, since Threats and Opportunities part will be elaborated on in Weekly Report 3 Strengths| Weaknesses| Leading market position built on a portfolio of strong brands with high level of consumer acceptance * Different store concepts catering to a diverse customer base * Strong balance sheet and cash flows even in tough economic and macro environment * Leadership

position in China and other emerging markets * Human Resource Policies- area coaches * Support by syndicated credit facility * Research & Development Centers * Ownership of distribution systems * | * Drop in performance within the domestic market * Lawsuits - Bad Publicity * Heavily dependent on Chinese geographic region * Internal brand competition * Higher loan interest rate than the LIBOR- London Interbank Offered Rate- 0.25-1.25% higher. * Brand Reputation dependent on Franchisees| Strengths With more than 37,000 outlets in 120 countries worldwide, Yum Brands, has earned the title of a leading global quick service restaurant corporation with high level of consumer acceptance and brand recognition. The corporation consist of three main brands, namely - KFC, Pizza Hut and Taco Bell. The big amount of units all over the world is a valuable resource, but this is not enough to guarantee a distinctive capability.

With the effective interception of the sales and marketing functional area, all those restaurants are promoted effectively and with heavy investments in brand promotion, the position of it, in the mind of the customers, has been changed to the point, that Yum Brands is recognized as one of the best global brands with a leading market position within the industry. The promotion effectiveness is present by the fact that KFC is the leader within US chicken QSR segment with 39% market share, which is 2 times higher than the results from its closest competitor on a national level. In addition to that Pizza Hut is also the leader in the US pizza QSR segment, with 15% market share. Last but not least Taco Bell is also the leader in the US Mexican QSR segment, with 50% market share.

The sales and marketing functional area is not the only one responsible for this results. In addition to it the operations management team and all international and regional managers, are contributing to the constant delivery of high quality, which will guarantee customer satisfaction and acceptance. From the fact that Yum Brands' has a leading market position as a second main resource, two main capabilities can be derived as well - the ability of significant bargaining power and the capability to grow financially. Furthermore, the company's strong brand value, facilitates customer recall and allows Yum Brands to penetrate new markets as well as consolidate its presence in the existing ones.

The second strength can be divided into one resource and one capability. The resource is that the brand has three different restaurant concepts and every one of them has a set of unique food products, which can be customized additionally on their own as well. For example KFC, offers fried and non-fried chicken-on-the-bone products, while international outlets offer menus, which include side items, which are in line with the local customer demands. Pizza Hut for example is specializing in the sale of ready-to-eat pizza products, but there are restaurants, which are also offering breadsticks, pasta, salads, sandwiches and pizza souses, which are also suited to the local markets.

Taco Bell is a small exception, since it specializes only in Mexican-style food products, but the diversification comes from the fact that all products like tacos, burritos, gorditas, chalupas, quesadillas, salads, nachos and other related items can be customized on their own. This resource leads to the capability of having the opportunity to provide products, which will attract a

large number of diverse market segments. Not only by differentiation of the products but also by the differentiation of the locations the three different concepts within Yum Brands can develop, operate, franchise and license an international chain of both traditional and non-traditional QSR restaurants.

For example the traditional one's offer dine-in, carryout and often, drive-thru or delivery services, while the non-traditional restaurants are typically licensed outlets that include express units and kiosks with a limited menus and most of the time operate in locations, which are not traditional like malls, airports, gas stations, convenience stores, stadiums, amusement parks and colleges. The diversification of the company products into three different brands, which outlets are also positioned in relation to the profile of the different consumers they serve, Yum Brands is transforming its existing resources into a distinctive capability. Even though there are economic and macro- environmental difficulties in the world, Yum Brands is continuously growing. It's financial performance is outstanding, since the company's outlets have recorded net income of \$1. billion and over \$2 billion in cash from its operations, which is 0.3 billion more in comparison to 2011. In addition to that there is a 14% increase in the Earnings Per Share, and 7% system sales growth. The company maintains its position of industry leader in USA with Return on Invested Capital (ROIC) of more than 20%, and in addition to that the company has also increased its number of restaurants with more than 1,561. This increase with more than 1,000 new restaurants is also continuous happening already 11 years. The stable growth of units gives the corporation a title among the other US competitors as the "number one retail developer of units outside the US".

The capability of delivering constant strong results, which contributes to the plans for growth, provide a significant competitive advantage and distinctive capability, despite the difficult economic situation. Building a leadership position in China and other developing markets, should be considered as a strength, since this will help the corporation to develop even stronger brand image around the world. In addition to that, if the food concepts continue to be popular within the market, this will generate constant profit and ability to grow even further. This strength is also in line with the already mentioned strategy of expansion of the business in emerging and low-penetrated markets. For example over half of the operating profit of the company is generated in China and 72 other emerging countries.

The actual aim of the company is to reach 85% global sales in comparison with only 15% in their local market until 2015. Within China all brands are growing with more than 656 new restaurants. Their policy to have leading brands in every significant category also has led to the acquisition of Little Sheep- a leading casual dining concept in China. Except this developing market, 3 more markets are strategically targeted. In India the managers are implementing all key elements, which drove the enormous success in China. The efforts in the moment are concentrated on building a strong base of restaurants, which will generate significant part of their future profits.

In the moment in India there are more than 220 KFCs and 170 Pizza Hut restaurants and Taco Bell also has just entered the market in to develop the brand into their third international known brand. Russia is also considered to be one of the growing market potentials for Yum Brand. Within this market there is a severe competition with McDonalds, but the company still expects

high profits and return on investment. In order to do that the company started to expand by re-branding Rostiks-KFC to stand alone as KFC, which will lead to more brand recognition and customer retention. The last market, in which Yum, is aiming to become a leader is Africa. This already has started by the building of 656 stores in South Africa during 2011, and the building of outlets also in countries like Zambia, Ghana and Kenya.

The plan is also to enter 7 new countries by the end of 2012, which will cover in total 20 African countries. The resource of having so many outlets worldwide and creating a broad world coverage, will become a capability in future, because the company will be able to generate revenue from markets, which are not penetrated and possess customers with growing buying power. Finally, Yum! Brands, Inc slowly enters the African market by building of 656 stores in South Africa, also entering Zambia, Ghana and Kenya in 2011 and plan to enter 7 new countries in 2012, which sums the plan in total to have restaurants in about 20 African countries by the end of 2012.

Overall, this clearly shows that the company has the capability of successful penetrating new markets by adapting to the local customs, political, social, economic and legal systems. The last strength of Yum is the consolidation within its human resource policies. This policies start with the corporate value - How We Win Together principles including the motto " We love celebrating the achievement of others and have lots of fun doing it! ", is one of the main reasons for their culture to be full of positive energy, teamwork, and fun. This corporate value is also built around a " People Capability First" philosophy, which lays the groundwork for the way they work as a team, together, every day.

Yum invests in their Human Resources and provides training guides have been developed in 11 different languages for over 37, 000 Restaurant General Managers around the globe. (Yum! Brands Inc. , Annual Report, 2011) Moreover, the company assigns area coaches, every six restaurant is operated under the supervision of one coach. This is an evidence for the company`s capability of successfully investing in people and promoting employee development and support. Being financed by Syndicated Credit Facility, which consist of 24 banks (Yum! Brands, Inc Annual Report, 2011) gives the company a strong financial security by not being reliable on single creditor.

Research& Development Centers, are resource which Yum can strategically utilize to develop new products. This is an explicit example of company`s capability to investigate markets and identify customer needs. Finally, the ownership of distribution channels, helps the company to effectively manage its costa by local, regional and global distribution centers, namely developing effective cost structures. Weaknesses In 2009 the restaurant industry in the US showed transaction declines in dinner occasions, because consumers chose to save money and eat at home. This had also a significant impact on both Pizza Hut and KFC concepts of Yum Brands. As a result, their U. S. usiness was clearly under-performing from 2009 till 2011, but the most significant numbers are present in 2011 with store sales decrease of 1% and profit decrease of 12% for all units within the US market. In order to cope with this problem the company is reducing its ownership in this highly-penetrated market and in December 2011, they have completed the sale of Long John Silver's and A&W All American Restaurants. To sum it up the

competitive liability, which is outlined by this weakness, consists of the fact that there is a deficiency of financial resources. Moreover, lawsuits can cause a negative publicity for the company. For example, beef quality lawsuit on Taco Bell projected the restaurant concept-chain in negative limelight. In January 2011.

The lawsuit claimed that Taco Bell food items are made with a substance known as 'taco meat 'filling', rather than beef. The lawsuit also contended that Taco Bell products only contain 36% ground beef, below the prescribed USDA standard of 40% to qualify as meat. An estimated \$3 million to \$4 million were spent for nationwide advertising campaign to fight with the negative publicity from the lawsuit. Moreover, the company heavily relies on the Chinese market, as it is the main revenue generator. In the case of nation-wide catastrophe- decrease in disposable income, change of food related legislations, the company business will be affected negatively.

The internal brand competition can lead to decrease of sales in some brands. Furthermore, compared to the average Yum loans relatively expensive financial resources from banks as the interest rates it pays for its loans are 0.25%-1.25% higher than LIBOR. (Annual Report, 2011) Finally, Yum! Brands, Inc company reputation is heavily reliant on its franchisees and licensees. The damaged brand name definitely should be considered as competitive liability, first because of the deficiency in quality of the products and second because of the lack of important organizational assets, which has led to this situation. Chapter 4: Internal Factor Analysis

Internal Factor Analysis organizes the strengths and weaknesses of a company into factors and analyses how a company is reacting on those

<https://assignbuster.com/business-model-yum-brands/>

factors (Jones, 2010). The weight is assigned to each factor from 1.0 most significant to 0.0 unimportant. Secondly, rating is assigned from 1 to 5, taking into account the management's reaction to each factor. And finally, the weighted score is calculated by multiplying column 2 to column 3.

INTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE	COMMENTS
STRENGTHS	0.02	0.5	0.01	Supported by Syndicated Credit Facility
Secure financing, less dependency on 1 bank	0.02	1	0.02	Strong balance Sheet and Cash Flows
Healthy operations	0.3	0.5	0.15	Research and Development facilities in Shanghai (China division), Dallas (Pizza Hut, YRI), California (Taco Bell), Louisville (KFC)
Advantage of examining markets, developing products	0.2	0.5	0.1	Distribution system ownership
Cost effectiveness	0.5	0.01	0.005	Membership in Unified FoodService Purchasing Co-Po
Cost effectiveness and purchase power	0.01	0.5	0.005	Effective Market Segmentation-
Reach more consumers, spread risks	0.02	0.3	0.006	Restaurant concepts, trademarks patents
Competitive advantage	0.01	0.2	0.002	Strong Global Brand Awareness
Strong recognized brands	0.2	0.5	0.1	Area Coaches work with 6-12 restaurants

Part D: Finances

1. Cost Structures * Reduce large capital investments by franchising and licensing in more mature markets
2. Characteristics of Cost Structures
3. Revenue Streams * Royalty fees based on sales from franchisees and licensees * Company sales * 3 Major markets- the USA- , China and Yum Restaurants International

Conclusion The report has been divided into four components in order to describe Yum! Brands Inc. , internal organizational analysis. Among others the first component identified the vision and mission. Yum! Brand, Inc. strives for "Be the Best in The World at Building Great Restaurant Brands". In addition, the vision of <https://assignbuster.com/business-model-yum-brands/>

Yum! Brands, Inc. can be stated as: “ Be The Defining Global Company that Feeds the World. ” Therefore, offering speed, variety, and convenience and budget prices products is of high value in order to satisfy their customers’ needs. They want to be a company ‘ with a huge heart’, taking the environment into consideration and look for recognition with one system operational excellence as out foundation. Furthermore, this vision reflects to the fact Yum! Brands, Inc. is already a global operator of franchisees and possesses chain restaurants brands like KFC, Pizza Hut, Taco Bell, Little Sheep and East Dawning.

Principally main markets for the brand are in USA, China, Africa, Europe and Asia; here they segment different groups. Effective marketing which Yum! Brands, Inc. uses, contributes to this growth of business. As well as aggressive international expansion supports Yum! Brands Inc. entered the market in Russia and India. With China as focus, Yum! Brand Inc. strives for building strong and leading brands everywhere. The acquisition of Little Sheep, which offers casual dining restaurants to China, generates leading brands in every appropriate category. East Dawnings has been build up to be the first restaurant with a quick food service In China. Second strategy is to aim for international expansion.

In addition, the brand wants to expand the US brand position. Last, the goal to serve the long-term interests of shareholders will be supported b an executive compensation program. However, financially, looking at revenue streams of the brand, the total revenue of Yum! Brands Inc. showed an increase of revenue of 14% in 2011. 86% of the total revenue has been generated by restaurant sales, the remaining part was income of franchise

fees. Though, the total costs increased equally with 16%. Notable is, the fact retained earnings showed quite an increase of 106%. There can be assumed here Yum! Brands Inc. lay aside a lot of cash in order to invest and expand in the future.

All in all, there can be concluded Yum! Brands Inc. is a financially healthy company. Debts do not exceed assets and the company is still capable to increase revenue. They have a strong profit margin, though looking at competition there still lays a challenge. Bibliography Cote, R. (2006). Basic hotel and restaurant accounting: exercises in accounting (6th ed.). Lansing, Mich. : Educational Institute, American Hotel & Lodging Association. Jones, G. R. , & Hill, C. W. (2010). Theory of strategic management: with cases (9th ed.). Mason, Ohio: South-Western Cengage Learning. Schmidgall, R. S. (2006). In Hospitality industry managerial accounting (pp. 201-242).

Lansing: Educational institute American hotel & lodging Association. Stock analysis. (n. d.). McDonalds . Retrieved 11 24, 2012, from Stock analysis: [http://www. stock-analysis-on.](http://www.stock-analysis-on.net/NYSE/Company/McDonalds-Corp/Ratios/Profitability#Net-Profit-Margin)

[net/NYSE/Company/McDonalds-Corp/Ratios/Profitability#Net-Profit-Margin](http://www.stock-analysis-on.net/NYSE/Company/McDonalds-Corp/Ratios/Profitability#Net-Profit-Margin)

Osterwalder, A. , Pigneur, Y. , & Clark, T. (2010). Business model generation: a handbook for visionaries, game changers, and challengers. Hoboken, NJ: Wiley.

Yahoo finance. (2012). McDonald's Corp. Retrieved 11 24, 2012, from Yahoo finance: [http://finance. yahoo. com/q/is? s= MCD&annual](http://finance.yahoo.com/q/is?s=MCD&annual)

Yum. (2010). Annual report 2010. Yum. Retrieved from: [www. yum. com/csr/environment](http://www.yum.com/csr/environment)

Retrieved from: [www. fromhungertofope. com](http://www.fromhungertofope.com)