

# Western style fast food in china



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In this section, we first apply Five Forces model to investigate all kinds of competition facing western fast food industry in China which contains competition between western fast food enterprises and Chinese fast food enterprises.

The markets of tableware and beverage are both competitive, and the purchasing rate of raw materials is relatively low compared with other materials, therefore these suppliers are poor at capability of pricing. As for other raw materials like chicken and potatoes and so on, since that the prices of agricultural products have been rising in recent years, suppliers of these materials gain more power on pricing.

(2)Competitors: the other western fast food brands in China are McDonald's and so on. All these brands enjoy their own reputation, and are operated in chain. The food and service they offer are of high quality. Particularly, they

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all expect huge potentials in fast food industry in China, so they are willing to invest larger amount money opening more restaurants in China. Therefore the competition between them tends to be more intensive in the future.

(3)Consumers: at present, if one Chinese consumer is willing to buy western fast food it means that he (or she) has already accepted the price. Generally, the bargaining power of one single consumer in western fast food industry is weak. But it does not hold for those group consumers. For now, most western fast food enterprises focus on discrete consumer, and if they want to occupy a fraction of group consumers market,

They should also apply flexible pricing strategies and enhance their bargaining power with consumers.

(4)Substitution: in recent years, more and more Chinese begin to pay attention on diet health, which promotes the development of Chinese fast food. The reasonable price and rich varieties of Chinese fast food has press the expansion of western fast food in China.

(5)Potential entrants: relatively speaking, the entry barriers of western fast food are high. Because these western fast food requires large funds input, great brands reputation, economies of scale and so on. But we should also predict that with capability of investing strengthened and management improved for Chinese enterprises, they probably enter western fast food market and enjoy great success in it.

Through Five Forces mode we can find that western fast food industry in China is still of great profitable potential, and the competition between

western fast food enterprises and Chinese fast food enterprises will intensify, which implies that both of western fast food enterprises and Chinese fast food enterprises should cultivate their own competitiveness

#### **4. 2 Brief introduction about KFC in China**

As one of the most popular western style fast food brands, KFC(Kentucky Fried Chicken) belongs to the world's largest food group -Yum food group . This largest food group includes about 30, 000 KFC Dining-room, pizza hut and TacoBell restaurants which are distributed in more than 100 countries and regions of the world. On November12, 1987, KFC entered into Beijing, which is the capital city of China. After that, more KFC chain restaurants have been established in more cities such as Shanghai, Guangzhou, Hangzhou, Nanjing, Xiamen etc. And even people who live in those small towns can also have the access to western style fast food. Until now, there are about two thousand one hundred KFC chain stores distributed around almost hour hundred and fifty cities except Tibet. KFC has been the largest fast food chain restaurant in China at the greatest speed of expansion([www.kfc.com.cn](http://www.kfc.com.cn)).

#### **4. 3 Core competitiveness of KFC in China**

During over twenty years development in China, KFC has been always and constantly integrated and taken advantage of limited resources and capability in China, and have gradually cultivated its unique abilities during the business operation, which are not easily imitated by its rivals but also could bring it extra profits. Abilities like that are named core competitiveness of KFC by our researchers. This kind of competitiveness can make one or

several business operations are of first rate in the world or of greater advantages over its competitors(Aaker, 1989).

(1) Standardization of management.

The research by KFC on their standardization management is amazing. In order to ensure that people around the whole world can enjoy the food of exactly same taste, KFC investigated in detail into every single processing program to obtain corresponding quantitative standard. There is no doubt that standardization is KFC's core knowledge competitive ability(Stephen, 1992).

(2). Localization.

KFC's franchise mode is quite special, with unique Chinese characteristics. Its "not starting from zero" joining way is acceptable by those Chinese investors. In addition, KFC applied material resources integration into its management. From the very day when it entered into China, KFC has been determined to provide food which is right for Chinese' taste. For now, KFC purchase the raw material fully from local providers.

(3). Great brand power. These days, the internet is highly developed and information is commonly shared by people around the world, which makes it a good way to publicize KFC's brand more easily and efficiently. Based on parent company's terrific and strong brand reputation, KFC in China are as well known by almost each household, even for those who have not been to KFC.

(4). Reasonable Location of restaurant. Same as McDonalds' location, every time, KFC restaurant's location is successful. No wonder that these two famous and popular western style fast food restaurants are usually located besides each other.

#### **4. 4 Competitive strategy of KFC in China**

Enterprises usually choose those strategies which can bring them competitive advantages. According to Porter theory (Porter, 1997), one's competitive advantage is either from less cost than competitors or from obvious differentiations from its rivals. So competitive strategies include the following three types: cost leadership strategy, the differentiation strategy and centralization strategy. If enterprises through their innovative design, technical potential ability or outstanding brand image and so on seek to provide different products, unique services, this strategy is called differentiation strategy which is based on a broader market comparing with centralization strategy (Prahalad, Hamel, 1990). Here, we highlight the differentiation strategy as it is the major and most important strategy not only for KFC but also for other successful western style fast food restaurants such as McDonald's. By its definition, it means that according to their own product positioning, one develops its own new products and establishes its competitive strategies in terms of supplier management strategy, brand strategy, talent strategy and so on.

(1) Product strategy: product localization.

On KFC's menu, there are some main varieties which not only in China, and even around the world are standardized and unified. But, in aspect of

product innovation and uniqueness, KFC spares no effort to meet the different needs of customers in China. Since the mid 1990s, it was determined to build KFC as an influent brand which fulfills Chinese demands. To ensure the execution of this thinking and working direction, In 2000, KFC sincerely invited 40 national food nutrition experts to establish “ the Chinese KFC health consulting committee”(www. kfc. com. cn). In 2004, due to KFC products innovation and localization strategy, it broke the boundaries between the western style fast food and traditional Chinese fast food, resulting in more new consumer market. At present, of more than 30 new products in China’s regional market launched by KFC, at least half of them are of the Chinese characteristic. Some varieties even hit the consumer market since they learned from eight famous Chinese cuisines. For those products aiming at Chinese people , such as fresh vegetarian soup, cold rice, corn salad, old Beijing chicken and etc enjoy a wide popularity among people for its deep Chinese flavor. On summer of 2004, Guangdong province, the traditional old cool tea named WangLaoji, which is a traditional drink brand originated from Guangdong province, formally appeared on KFC’s counter. This is the first time for KFC to introduce completely and directly traditional Chinese product into its food menu rather than indirectly improve these traditional food. Besides the deepening of localization strategies, KFC is now studying on consumers’ preferences within a region, in order to promote the regional localization strategy in the future. It has been over 20 years since KFC entered China. Now, KFC ranks first in fast food industry in China, largely owing to its localization strategy. In the Chinese market, KFC launches 1. 5 new products per month averagely, and the turnover from KFC in China already is the powerful and main support for the headquarters’ profits.

## (2)Target strategies: focusing on families

For fast food industry, the most commonly used method for target market positioning is to divide the consumer market based on demographic factors. Other factors such as region factors, customer psychological factors and customer consumption behavior factors are less taken into account(Emerson, 1990). Of demographic factors, western fast food industry mainly considers age as market positioning variables. KFC's target markets are families, which mainly include consumption of " young people and young parents with their children(Gould, 2002). Dining environment aims at providing family reunion, warm dinner atmosphere. And because of its product diversification and the localization of taste, KFC managed to attract more people of all ages, particularly, with elders included. A few years ago, KFC launched the family meal, which is quite enough for a whole family to eat. In addition, being different from McDonald's publicity and dynamic advertising, or inviting stars to join the advertisement, the feature of the image of KFC is its simplicity and implicative style, the warmth and love.

## (3)Brand image strategy: localization

With more attention is paid to brand image individuation by the enterprises, KFC in China have paid more attention to Chinese consumers' psychology. Not only the information " into life" they would like to spread, but also the concept " change for China to make a new fast food". In each brand image details, KFC is characterized by obvious Chinese culture features. KFC restaurants in China use a new mark and adornment concept. Not only a very smart appearance, all visual elements like dining-room design,



advertising, food packaging, staff uniforms, public goods have been armed with new visual marks. Even the KFC grandpa also changed into traditional Chinese costumes on Chinese traditional festivals. By doing this, KFC publicized its brand and marketing. Since people like to focus on changes or “ fresh things”, while invariable things easily cause visual fatigue, failing stimulating people’ sensory and becoming the focusing centre naturally. Hence, from the strategic height, KFC sent signals of changing to the media as well as consumers. KFC successfully made itself the social attention centre by gathering the public attentions, eventually smoothly spread its brand strategy and tactics to the public. SuJingShi, China regional President of Yum KFC once said: “ Since the entry into China in 1987, KFC has always been able to insist on the concept of Chinese brand building, and devote every effort to make it.” Under this localization concept, the distance between KFC and Chinese customers is continuously getting closer. Building Chinese brand means putting Chinese flavour into its brand building. In this way, it will definitely leave a more obvious trace of localization.

#### (4)Talent strategy: localization.

KFC’s talent localization, not only embodies in grass-roots employees, but more importantly, in the high-level management. From the first store in China until now, KFC’s talent localization strategy have never been changed and even enhanced. KFC cultivate and promote and use local talents, giving full play to their comparative advantages due to their more familiarity with policy environment and local market features. At present, KFC has employed eight general managers from Mainland China’s total managers who are responsible sixteen markets in China respectively. Those senior

management personnel who are directly responsible for the operation of restaurant such as “ operation manager”, “ regional manager” and “ Hall manager” are recruited locally. Those local management personnel can better understand the local demand, master the local consumer psychology and consumption habits, quickly discover local market’ growth point, more accurately grasp the market pulse and timely make strategic adjustment(Caudron, 1991), which helps KFC to win out competing against others. In order to better implement talent localization strategy, KFC creatively put forward the framework with great Chinese characteristics of double departments: the operation department, HR and training department. This framework has a nickname “ two HR departments”. ChenYaqing, the operating training senior manager of Yum China introduced: “ the case that a special independent department is established from human resource training operations department is not common in the world. The importance of the Chinese market determines the necessity to do so.” We can see from this the great determination of talent strategy of KFC.

#### (5)Supplier management strategy: humanization

KFC’s raw materials are all provided by local enterprises, so KFC’s rapid development also stimulates the development of various related raw material supply industries in China. Currently, about 95% of food and packing materials are provided by suppliers in China. Based on principle of common interests, KFC introduces local suppliers brand new management concepts and advanced technologies, and offers them active training programs and generous help especially for those suppliers who are sometimes in difficulty. Through this, KFC has formed strategic partners with

local suppliers in China. Firstly, expanding the scale of the domestic suppliers. KFC took active measures to make its twenty five domestic suppliers who are distributed in the twenty seven cities and regions are now the most outstanding in industry. For example, Zhucheng Foreign Trade Corporation in Shandong province, being in relationship with KFC for more than five years has become the largest county foreign trade corporation. Secondly, localization of overseas suppliers. KFC has been actively encouraging foreign suppliers to enter into China to establish local factories. For the past few years, KFC have succeed in promoting seventeen products' localization which originally have to be imported from overseas suppliers. KFC Continuously integrated suppliers around itself, and established a strategic cooperation partnership with them. The attitude KFC treated with suppliers reflected the humanistic concern and Chinese characters.

## **5. S. W. O. T analysis of Chinese fast food enterprises**

Taking KFC as a typical example of western style fast food enterprises, we have showed the competitiveness and competitive strategies they adopt. To compete successfully against with them, what strategies should our Chinese fast food enterprise adopt? To answer this question, an S. W. O. T analysis may be effective.

And when it comes to analysis on external opportunities and threatens, we could also apply PEST analysis.

### **5. 1 External Opportunities (O)**

#### **5. 1. 1 Economical factors:**

### (1) Economy of China grows at high rate.

Since the policy of Reform and Opening-up in 1978, China's government has constantly taken economic development as the center, persisting in Reform and Opening up. For a recent decade, China's economy increased at an average rate over 10%.(www. stats. gov. cn) Even during the Southeast Asian Financial Crisis in 1998 and financial crisis recently, under the impact of world economic shock , China's economic performance is the best among the world.

### (1)Industry has a huge potential for development.

Although with people's living standards improving, the proportion of the third industry's output to GDP is increasing, but compared with the western developed countries, China is still low in proportion of the third industry to GDP. While the third industry is a good way to increase employment, social wealth as well as people's effective living standard, so there must be a huge potential for development of third industry in China. As part of the third industry, the output of the fast food industry in China has increased at average rate of 16%, even during bad times like the Southeast Asian Financial Crisis, it enjoyed the rate over 16% (www. stats. gov. cn). In fact, the national bureau of statistics in China considered the fast food industry as one of the industries with the greatest economic growth, which revealed that the fast food in China would become a promising industry in the future.

### 5. 1. 2 Political factors:

#### (1)Great policy support.

In order to support China's fast growth, in March of 1997, Foreign Trade Department in China issued "the Chain Stores Operating Norms", later "Development Program of Fast Food Industry in China" in September of 1997, and "The Commercial Franchising Management Measures" (for trial implementation) in November of 1997. All these documents pointed out the guiding principles, development target, the main task, organization in the implementation and measures.

## (2) Political stability

The good investment environment, huge market and abundant tourism resources, attracted a large number of investors and tourists, thus making fast food become an indispensable need for businessmen, tourists and other people who are occupied by outdoor activities.

## (4) China's entering into WTO promotes development of fast food industry.

Firstly, the fast food industry's raw material costs would decline and the quality would be improved. According to the agreements between China and America, China would open part of its grain market after entering into WTO. China would import 30 million tons of grain with high quality, accounting for about 6% of China's whole grain market. These imported grains included one thousand tons of wheat, seven hundred tons of corn, six hundred tons of rice, five hundred tons of soybean meal, four hundred tons of soybean and three hundred and thirty tons of soybean oil, meanwhile some special breeds of certain fruit and meat. Because of the low price and good quality of imported products, this will push domestic enterprises to reduce costs and improve quality.

Secondly, it is helpful to expand the use of foreign capital and improve manufacturing processing equipment's technological level. According the principle of national treatment, foreign investors will be treated as same as Chinese domestic enterprises. Further more, the China's legal policies are becoming more transparent, it is easier for foreign investors to well predict market risk and profit condition. We have great confidence that foreign investors will invest in fast food industry. This can solve domestic capital insufficient contradiction, also can improve food Industry processing technology and management level, to produce scientific and modern Chinese food.

Thirdly, it is advantageous for China's fast food enterprises to compete in the international market. Under the framework of WTO, each members of WTO reduce tariff rate and eliminate barriers, and open services trade market. Our domestic fast food enterprises can enjoy national treatment, which helps to create opportunities for them to walk towards the world. Chinese food, especially the various cuisines, enjoy high reputation and consumer's big welcome. If the traditional crafts with modern scientific technology can be perfectly combined, with good quality and reasonable price, Chinese fast food will be bound to succeed In the international market.

Fourthly, it is helpful to accelerate the strategic reorganization of Chinese fast food enterprises. The large restaurant brand enterprise groups, with the establishment of fair market competition system, the competition among domestic fast food enterprises and between domestic fast food enterprises and foreign ones will tend to be more intense. After that, however, some

large restaurant brand enterprise group, with the appropriate scale and regional across, will be formed.

### 5. 1. 3 Social factors:

Although more young people love to enjoy western style fast food, most of adults still prefer Chinese fast food. It is no doubt that in the future, people will definitely pay more attention on diet health. And since Chinese people are rooted on their profound diet culture, it is not easy for them to shift away from tradition. Moreover, this advantages over western style fast food can be enhanced as long as Chinese fast food enterprises develop suitable strategies to assure the quality, tastes, service as well as to improve the management.

### 5. 1. 4 Technological factors:

In fact, a great of the success of western style fast food should attributed to technological progress which also do good to Chinese fast food enterprises. Owing to more advanced and sophisticated cooking equipments, it costs less time to provide and offer Chinese food. Additionally, the cooking process can be divided into small pieces and each piece can be controlled, which ensures the finest quality of food and make standardization feasible.

## **5. 2 External Threatens (T)**

(1) Fast expansion of western style fast food in China.

In 1987 on November 12, the first KFC restaurant was established in Beijing . about 20years later in 2007, the chain stores of Yum KFC group in China has amounted about two thousand and one hundred. During the period of time ,  
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McDonald's, pizza hut, Japanese, Italian pizza all entered into China In succession, in order to share the huge Chinese consumption . not only did these western style fast food occupied consumption market, they also changed gradually the diet concept of Chinese people.

(2) The competitive advantages of western style fast food enterprises are strengthened.

Based on competition principles of fairness, openness, justification, the foreign enterprises in China usually implement localization strategy to reduce the cost. In China, however, there are many and serious defects in talent incentive mechanism and income distribution system, so the foreign enterprises with good training mechanism, and competitive compensation And scientific personnel management mode, will attract large quantities of outstanding management and professional talents. Until the end of 2000, the total KFC staff in China is 2. 4 million, of them, More than 5, 000 members are restaurants managers or function managers. During the early period time after KFC's entering in to China, the raw materials were fully imported abroad. But nowadays, being fully provided locally, resulting in KFC's operating costs further reduced, the competitive advantages further strengthen.

(3) Competition between industries is intense.

In the past, hotels and restaurants confined their consumption market to people with median or high income level. Because this market has been saturated, now the restaurants shift their attentions to a broader need of the public. Usually, in order to attract more consumers, the restaurants



nowadays provide the food at a very reasonable price. Further more, to satisfy different tastes of different kinds of consumers, more varieties and flavors of food have been developed. More and more restaurants begin to operate their business in a chain and systematic way, which lowers the operation costs quite a lot.

#### (4) A large number of potential entrants

From the perspective of investment capital, the general financing volume is not very high. According to the "Chinese Fast Food Industry Research Report", to invest one fast food store, the minimum investment capital requires 100 thousand Yuan, and the maximum investment capital is 1million Yuan. Usually, the former which need a smaller volume money are Chinese fast food chain enterprises, while the latter which need a larger volume of money tend to be western fast food chain enterprises. Investment above includes training fee and decoration expenses and so on. From the view of technology, the technologic barriers of fast food industry are not very high neither. From the view of the market situation, diet is an important competent of social activities for people and also serves as a main way for intercourse among people. Especially, the long history of thousands of years of the diet culture determines that the consumption market of fast food industry is huge. Factors like high return on investment, stable consumption market make fast food industry the investing hot, with a large number of investors in.

#### (5) Diet culture changing.

Over the world, it is impossible that the food demand structure of one country keep invariant, without being influenced by foreign food culture. This even applies to countries like China, France and Italy which all have a proud diet culture. It is inevitable that new varieties of food and cooking methods from other countries or regions will affect another nation' food demand structure(Shone, Nobuhiro, Kaiser, 2000). The more open of one nation, the easier the food demand structure of itself tends to be affected by foreign food culture. Not only have Western fast Food culture promoted the development of Chinese fast food, but also have cultivated a certain group who have a preference for western fast food(Jussaume, 2001). Since the youth are the target consumption market for KFC, the youth are mostly affected by western fast food culture. They think of eating western style fast food as a new and fashionable life style rather than simply satisfying their appetites.

### **5. 3 Internal Strength (S)**

#### **(1) A large number of varieties**

There are a large number of Chinese fast food varieties such as rice, noodles, dumplings, pancakes and so on, which are characterized by traditional national characteristics. It is rather difficulty for western fast food restaurants to offer such rich varieties of food. The diet culture with the history of five thousand years impresses every Chinese profound influence, which is the greatest advantage over western style fast food.

#### **(2) Flavours of diversification**

Due to China's vast territory and 56 ethnic groups in different regions, consumers in different regions have different diet habits. Even within the same region, the tastes vary across individuals. Although Western style fast food restaurants make some adjustment on tastes in different countries to satisfy the local taste, generally, the tastes of their food have not changed a lot for their slogan " tastes the same over the world".

### (3) Moderate price

China is still a developing country, in 2001, disposable income of urban residents per capita is 6860 Yuan. Price is still the major considering factor when they are planning to consume. The cost of western-style food consumption per capita each time is between 20yuan to 50yuan, which is still on the high side for general consumers. According to the statistical analysis, the average cost of Chinese fast food per capita each time is about 10yuan which is the consumption level that most Chinese people can reach. As a matter of fact, these people are the main consumption of fast food industry.

### (4) Loyal customers

It is the cultural features of food consumption that assures the Chinese fast food enterprises stable and loyal customers. Food consumption is not only a mean which satisfies people' the most basic physiological needs, but also cultural features by which a nation is distinguished from other nations. Whether you are one of the elders who are deeply rooted by prominent feature and traditional culture or of new trend-spotting generation, and whether you are one of the rich who pursuit life quality or of the low-income

receivers who are mainly contented with physiological needs. As long as you are born in China, the diet culture is rather hard to change. Although other cultural features, such as the consumption idea, clothing, lifestyle is actually changing with the further development of Globalization, modernization. The “ Local” feature makes the entry of the foreign enterprise into Chinese market more difficult than the entry into markets like financial market, insurance market, Consulting and other services industry market. Compared with the enterprises into China, Chinese fast food enterprises have a objective advantage namely customer loyalty.

#### **5. 4 Internal Weakness (W)**

(1)The poor sanitary conditions in restaurants and instability of food quality

The sanitary conditions of fast food industry is directly related to the health of customers. They are reflected in three aspects: sanitary conditions of the production of food processing, sanitary conditions of tableware and dinnerware and sanitary conditions of dining restaurant environment. The sanitary situation of most fast food enterprises' in our country health situation is worrying, even if Equipped with the disinfection equipment according relevant regulations, the procedure of disinfection is often omitted when there are not enough dish plates. Chef and Staff are very in cleanliness, especially during summer. Such terrible sanitary conditions discouraged many customers from dining. KFC especially emphasis on internal cleansing, the company set rules about how to check the store's cleanliness. Items like food quality, cooking, cooking time and temperature and so on have to be evaluated by the following assessment: quality, service, health and value . the scores of the four assessments would decide

whether you are eligible to join to apply for new stores. Chinese fast food restaurants are lack of quantitative criteria, because the chef cooks by his or her experience. It is difficult to guarantee quality of uniform standards, and food quality is not showing a great deal of stability, which has a negative effect on the inheritance of the traditional cooking and Chinese fast food' track of modernization. Western-style fast food enterprises use advanced production equipment and technology, and strictly control the food-processing time, temperature, taste, which can prevent the food from the impact of human factors to ensure the quality stability.

### (3) Being Slow to provide food

Summary of the main features of fast food is to provide catering services in the shortest possible time(Jekanowski, Binkley , 2001), thereby saving consumers time. For fast food enterprises, if they can not increase the service speed, it means that they are probably to lose their customers and market. It is estimated that the waiting time of Chinese fast food enterprises customers is a period of 15 minutes for 10, while KFC's is less than two minutes.

### (4) Marketing concepts left behind

Food products include three parts: a core product to meet the appetite; the form of products of a delicious food, excellent environment, clean utensils; extension product of a satisfactory service. Chinese fast food enterprises are in the pursuit of food's " colour, Smell and taste" too much, and ignore the image of the restaurant, service norms, the waiting time, cleanliness of environment and extension of the form of products(Liu, 2003). Therefore the <https://assignbuster.com/western-style-fast-food-in-china/>

overall product does not meet consumers' expectations, resulting in failure in competition with Western-style fast food. The Chinese fast food enterprises are poor at brand awareness, people are more familiar with KFC an