

# Kfc and mcdonalds: western country and china



**ASSIGN  
BUSTER**

This chapter describes the background of the two typical western fast food companies in china, which are KFC and McDonald. It also provides research questions along with the purpose of the thesis and corresponding primary and secondary research methodologies. In addition, there is a brief introduction of the theoretical Frameworks used thoroughly within the thesis.

## Background

The KFC and McDonalds are the two major entities operating in Chinese market in western fast food industry. McDonalds is one of the famous brands of restaurant in the world, owning more than 30000 outlets in 120 countries, generating US\$ 24. 075 billion revenue in 2010 while KFC has more than 10000 stores in 80 countries with the US\$ 520. 3 million revenue in 2007 (en. wikipedia. org). Howbeit, McDonalds trails behind its competitor KFC in china, although in other countries, such as USA, UK, the business of McDonalds is more successful than that of KFC. McDonald was founded by Ray Kroc in 1955 in the United States. On October 8, 1990, the first McDonald's restaurant in China opened in Shenzhen. On April 1992, Wangfujing outlet in Beijing was opened, which was the world's largest area of McDonald's restaurants. At the same day, the total income was over a million RMB. At present, McDonalds only has approximate 200 outlets. In addition, the numbers of McDonald's delivery service outlets are more than 480. There are more than 1, 000 dessert stations, more than 280 wheat coffee shops, and more than 1, 000 24 hour restaurants. In 2012, McDonalds in Shanghai, Beijing, Guangzhou, Shenzhen, Tianjin, will open online order services to expand its business scale in E-business market. For KFC, since 1987, when its first outlet opened in Beijing, china, 24 years passed. During

these years, KFC china always dedicates to create ' new fast-food' concept for China Market and has been trying to explore the most attentive service to Chinese consumers (Bell and Shelman, 2011. P3). Till 2012, KFC China has opened 3200 outlets in more than 650 cities and town. It is the largest and fastest growing fast chain company. In China, KFC plays a much more dominate role than that of McDonalds. In July 1987 the first KFC outlet opened in Beijing which is regarded as the first step into Chinese fast food industry. Since then, KFC has achieved the leading position in fast food industry in china, which has already formed its unique cooking style, especially tailoring to the tastes of specific regions within China.

Research questions and aim

The specific objectives that are researched in this thesis are:

Comparing difference market strategy KFC and McDonald used to improve their market position in Chinese fast food market.

The analysis of cross-cultural management strategy adopted in KFC and McDonald

The challenges that KFC and McDonald will encounter in China in the future.

Our aim is to research and analyze about the key factors for foreign fast food companies running successful business in China. We want to find out what changes western fast food companies should make in order to achieve the sustainable growth.

- Contribution: From the result of this case-study the organization will be able to identify the root cause of their successful business and also reveal their potential weak point. By using our result, they can improve their further overall business strategy.

### Research methodologies

To achieve the target of doing deep analysis between KFC and McDonald's business strategy, the primary methodology chosen is a mixed-method approach (Bryman, 2004). The qualitative research method will be introduced into this case study. By doing so, a series of random selected questions will form a questionnaire. The answer of each of the questions will determine each consumer's attitude toward each well designed topic relating to their reaction to various business strategy adopted by KFC and McDonald. The secondary research methodology is applied to gather the evidence from other aspects and sources (Bryman and Bell, 2007, P28). One part of these materials include KFC and McDonald's annual report, revenue report that will reflect and reveal their financial positions in the Chinese market so as to determine whether their current business strategy generate a positive impact based on the reaction from the consumers. What's more, the press and journals published in China, for example, China Daily, 21 century, will also be considered for the reference. For those collect data, a statistics analytic method will be carried to conclude what aspects KFC and McDonald should improve to increase their marketing margin in Chinese Market from consumer's perspective.

## Disposition

Chapter 2: Introduce the Theoretical Frameworks, which are composed of cross-culture and 4P marketing strategy. The discussion is divided into two parts. At first, the components of culture which could form the key elements of cross culture strategy such as the different values, languages and customer behaviors will be chosen and they are combined with the analysis of 4P marketing strategy to illustrate how cross-culture strategy interacts with 4P marketing strategy and vice-versus. Secondly, illustrate 4P marketing strategy individually. In addition, we present different views of the relationship between society structure and consumer behavior such as service quality, customer expectations, perceived service quality and the relationship between customer expectations, perceptions and satisfaction in different countries. Finally we describe 4P marketing strategy that is used for analyzing the result and its relationship with cross-culture strategy.

Chapter 3: This chapter describes the methods that were used for making the survey. The questionnaire structure as well as the method for choosing the sample of sources to support the evidence is also described

Chapter 4: The empirical material is presented. The analysis is based on the 4P Marketing strategy. Product Strategy, Price Strategy, Place Strategy and Promotion Strategy are discussed together with the example of KFC and McDonald. In addition, cross culture analysis is combined with 4P analysis in order to support the results that KFC and McDonald as western fast food company are performing well in Chinese market.

Chapter 5: In this chapter we present conclusions for KFC and McDonald respectively. Then we compare the disadvantage and advantage of western fast food companies with traditional Chinese food restaurant and then provide recommendations for western fast food companies to improve. In addition, we outline what aspects could be enhanced in the further research and the limitation of our studies.

### **Literature review (Theoretical framework):**

The theoretical framework of this study is based on a number of relevant theories that are discussed in this part. The model which authors constructed in this study integrates cross-culture and 4P marketing strategy.

### **Cross-Culture Management**

The process of cross-cultural management, in general, is divided into two steps. Cultural analysis and evaluation are considered as the first step. For the second step, culture then is regarded as a resource that could be controlled through the effective integration in management level. In the study of cross-cultural management, how to analyze the culture is the key that could directly and effectively reflects the current achievement of cultural management within the enterprise. Hofstede's model is generally accepted as the most comprehensive framework of national cultures values which comprise the difference in performance of the managers and employees on the four dimensions of national culture: power distance, individualism vs. collectivism, uncertainty avoid index, masculine vs. feminine as the reference model to analyze the cultural differences. In addition, Kluckhohn and Strodtbeck's values orientations theory proposes that cultures differ in terms of how they approach the six basic dimension

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

which are relationship to nature, time orientation, views of human nature, activity orientation, Relationships among People and Views of Personal Space. Furthermore, there are some other cultural measurement theories, such as the Denison's model, which is a relatively newer and more detailed model, is used in order to understand the organizational culture of the Karun Oil & Gas Production company. According to this model, organizational culture has four dimensions: involvement, consistency, adaptability and mission. Moreover, Kim S. Cameron and Robert E. Quinn's competing values theory develops a series organizational culture assessment scale (Organizational Culture Assessment Instrument, OCAI) aiming to assess organization's current views and expectations through a questionnaire usually take 5-10 to complete.

### **Culture Difference between western country and China:**

The purpose of the cross-cultural management is to create a not only accepted by the host country employees, but also conducive to the development of corporate culture in multinational company. Cross-cultural management is the core measure to resolve cross-cultural conflicts due to globalization. The culture is a double-edged sword. On one hand, cultural confliction will inevitable happen within the corporation and the original corporate culture will face the challenge. On other hand, it will bring opportunities which can take full advantage of the international market and competition, therefore enhancing corporation's competitive advantage.

With regard to the cultural comparison between Chinese and western business management, hofstede's four-dimensional framework model is adopted. The four dimensions are power distance, individualism vs.

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

collectivism, uncertainty avoid index and masculine vs. feminine. Based on Hofstede's analysis of the surveys from 53 countries or regions, the following table illustrates the major difference:

Table 2-1 Comparison result of hofstede's four-dimensional framework

Country

Power distance

Individualism

Masculine

Uncertainty avoid

USA

Low

High

High

Low

China

High

Low

Low



High

Power distance:

Power distance is the most typical feature of the national and cultural differences. The meaning of empowerment in each country is not exactly the same, thus there are also significant differences. Cross-cultural management consulting firm ITLM latest research results show that power distance indicators, China and the United States score is 80 and 40 (the world average is 55) at rank 5 and 40 among the 56 countries respectively. Such significant difference indicates that the staffs relatively paying more attention to pursuit power within Chinese company. In Chinese business management, the higher position the more power and the more positive the employees' performance have. Comparing to the United States, individual's abilities, and actual performance is considered in the first place.

Individualism / collectivism.

In Hofstede's study, individualism index is used to measure society's tendency with regard to individualism and collectivism. Individuals in countries with a high level of the index value personal freedom and status, such as the United States, while individuals in countries with a low level of the index value harmony and conformity, such as China and Japan.

According to Hofstede's study of 53 countries or regions, with regard to the individualism, the United States ranked first, while Hong Kong ranked 36, Taiwan was ranked 43 with score 91, 25, 17 respectively. From the score, it is obvious that there is a large discrepancy between individual's attitude to

individualism and collectivism in different countries. As a matter of fact, the culture of the United States and China is highly different in various areas including values orientation, the habits and thoughts. In China, people consider more about and pay more attention to the spirit of solidarity and collective strength while in the United States, the Americans emphasize the importance of freedom meaning that everyone needs control their own destiny, desire and ability of individuals should not be subject to the government, church or other organizations and individuals restrictions and interference, which is a core concept in American culture.

“Bread is everything” is regarded as the most comprehensive conclusion of Chinese diet culture while the other countries may not follow the same rule. Different regions have different eating habits, even in the same country. Therefore, it is understandable that different countries have their own eating habits which are caused by regional, national and ethnic, cultural differences between countries.

Western food has a rational diet concept, regardless of the colour of the food, flavour and shape balanced diet, nutrition must be ensured. The food is always viewed from the aspect of nutrition therefore does not have excessive pursuit of the taste. However, Chinese has an emotional diet concept always believing diet as a significant part of life, which cannot be ignored.

First, Chinese tries all the way to pursuit the taste of the food by combining the flavour during the cooking, the flavour after heating and the flavour of the ingredients, as well as the flavour of spices altogether. Secondly, the way

of dining is the most obvious difference between the Chinese and Western food culture meanwhile it demonstrates how Chinese culture influences the diet. In dinner party, Chinese people usually shares dishes on the table. Hosts greet and encourage everyone to work together to eliminate all dishes and also every guest will strongly desire to become the first one who pays the final bill. All of above acts emphasize " cooperation". Westerners believe the eating habits are varied by person thus each guest orders their own meals and there is no need for the host to consider the tastes and preferences of others and when party finishes, each guests pay what have been ordered from menu by themselves. In summary, the major differences between Chinese and Western cultures cannot be ignored and should be seriously taken into consideration in international enterprises when implementing the business strategy in global market.

### 1. Cultural innovation strategies

Cultural innovation strategy provides effective ways and various channels for the parent company to integrate the local culture of the foreign subsidiary branch into its main stream corporate culture in order to promote mutual understanding, adaptation as the basis for the management of the foreign branch. During the process of cultural integration, localization strategy is a guide for cultural innovation, which does not only retain the parent company's original corporate culture characteristics and also is able to adapt to the local cultural environment. Western Fast Food Company, for instance, the integration process for Chinese culture in KFC experiences three stages, which are product culture, brand culture, and corporate culture.

## Product culture:

KFC China has always been following the high quality standard required by its parent company, such as quantization process, the cooking process including the tools that are used for combining the raw materials as well as the cooking temperature and cooking time through quantified production process to ensure product quality. Furthermore, Because of the correct understanding of the Chinese culture, KFC is able to reasonably develop localized products suitable for Chinese tastes, accepted by Chinese people to a large extent. KFC China devotes to the product development, including the taste expansion in existing product and also new product innovation. In order to change the impression, which are limited products and monotonous taste, Chinese people towards to western food; it specially develops spicy flavour suitable for north China market and also introduces new products for whole china market, such as soup and Chinese-style breakfast.

## Brand Culture

Brand culture refers to a specific brand name or mark, or a combination of these two elements. It represents the emotional cognitive, cultural traditions and image of the personality that are conducive to consumers to identify and distinguish the particular sellers of products or services.

### 1. Create a standardized Brand image

KFC launches the “ CHAMPS” champion plan that is standardized services in the global market, successful initiatives to create a brand strategy. Its specific contents include: C-cleanliness (to keep clean and beautiful

restaurant); H-Hospitality (sincere and friendly reception); A-Accuracy (to ensure the accuracy of supply); M-Maintenance (maintain excellent equipment); P-product Quality (adhere to the high quality and stable products); S-SPEED (pay attention to the fast and quick service). Such plan has been conscientiously implemented in every restaurant in the world, and all KFC All employees must strictly enforce the uniform standard.

## 2. Build brand affinity.

KFC's slogan of " In China, as China becomes and KFC integrates " family "," love " emotional world into product advertisement as its unique characteristics to create a new image of the brand to adapt to the emotional culture in the Chinese diet culture, thus to some extent, it improves Chinese impression on the " fast" meal, then gradually, KFC restaurants are also be considered as the place where family or friends' party usually takes place.

## 3. High degree of social responsibility

KFC is enthusiastic in public welfare and actively assist the vulnerable groups, in particular, devotes to Chinese children and young people's education. According to the statistics, it shows that in nearly 10 years, KFC's direct and indirect contribution to the public welfare has reached more than 6500 million. Kendall China Youth Development Foundation in September 2002 set up a total of 38 million Chinese Yuan program " China KFC dawn Fund" aiming to provide long-term funding for poor college students with good academic performance in school. Currently, the fund has been implemented in 42 colleges and universities across the country, nearly 860 students have received assistance. The " China KFC dawn Fund" is one of the

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

largest foundation program since the implementation of the " Hope Project" to aid the poor college student by China Youth Development Foundation. KFC's social activities does not only establish a good brand image, but also exerts a subtle influence on their own potential consumers and employees. What KFC does match an old Chinese saying goes: Never forget a generous act and grasp every opportunity to return the hospitality that you've received.

Corporate culture:

KFC China realizes that Human Resource is the most significant strategic resources and the importance of the establishment of " people-oriented" corporate culture.

1. The human resource localization:

KFC China make efforts to train promote local staff because they are familiar with national policies and have a depth understanding of the local competitive environment and market characteristics. Of all 16 market segments in KFC China, 8 local leadership teams with extensive industry experience are formed in order to make the correct judgments within the shortest time. At the same time, it can also reduce the communication barriers between cultural differences.

2. Staff training

Annually, KFC china makes investment covering various areas in order to strengthen employees' expertise and support employees' personality development from the restaurant waiter, restaurant manager to top

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

corporate management personnel. Furthermore, Management staff conducts a series of management training while for the junior staff, the training will last three hours on every 2 weeks include on-the-job training and examination. When there is new product to be launched, all junior staffs are required to participate a relative short period training in order to raise the profession quality of staff to adapt to the change of existing products. In addition, the aim of training restaurant managers is to make sure them be familiar with all the operational processes in the local restaurant, from the introduction of products, inventory management, personnel management, crisis management, and quality control and labour costs, although the training process could potentially increase their variable cost.

## **Marketing Strategy**

Jerome McCarthy, professor at the University of Michigan, for the first time, introduces the 4P theory in his book "basic marketing", including product (Product), price (Price), distribution (Place) and promotion (Promotion) four elements. Within the theory, product factors is the combination of performance, quality, colours, varieties, specifications, models, trademarks, packaging, services and other small factors. Price factors are composed of cost, price, price discounts, payment terms, and credit terms. Distribution factors includes the choice of marketing channel structure, mode of transport, storage location, wholesalers and brokers, as well as the retailer's selection and control. Promotional factors contains advertising, personal selling, sales promotion, public relations. Thus, 4P marketing mix theory instructs how companies should do, as what Philip Kotler has mentioned is "if the company is to produce the appropriate product, set the appropriate

price, the use of appropriate distribution channels, and paved the appropriate promotional activities, the company will be successful". The marketing mix can be adjusted on a frequent basis, to meet the changing needs of the target group, and the other dynamics of the marketing environment. They are as follows: product, price, place, and promotion.

Product is a tangible object, or an intangible service, that is mass-produced or manufactured on a large scale, with a specific volume of units. Intangible products are often service-based.

Price is the amount a customer pays for the product. The business may increase or decrease the price of a product if other stores have the same product.

Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the Internet.

Promotion represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements – advertising, public relations, word of mouth and point of sale. Advertising covers any communication that is paid for, from cinema commercials, radio and Internet adverts through print media and billboards. Public relations are the communications that are not directly paid for and include press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. Word-of-mouth is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically



engaged to create word-of-mouth momentum. Sales staff often plays an important role in word-of-mouth and Public Relations.

## **Cross-culture and Choice of 4Ps**

When a firm enters into a new market, especially a foreign market, which strategies should be chosen is very important to managers. Focusing on this, Doole and Lowe discussed about the standardization and adaptation in their study. They mentioned that firms adopt a combination of standardization and adaptation of the various elements of the marketing management programs and processes by globalizing some elements and localizing others, and they thought the cultural factors are the balance between standardization and adaptation. Culture differences can be seen as the usage factors and legal factors. In their opinion, marketing objectives and strategies are more readily standardized than operational marketing decisions. Therefore, when firms enter into a new market which has a different cultural context, the market managers must think over the alternative strategies, such as the global strategy, multi-domestic strategies and so on. In this study authors suggest to choose the 4P marketing strategy model help to analyze the effect of cross-culture.

Mooij considered that the managers of transnational corporations should provide appropriate products according to the local consumer values and buying behaviors of a certain market. The product strategy owing to cultural factors, usage factors and legal factors. Hall described some countries' culture is high-context culture. He meant that in this kind of country, most of the information is shared by members of a society. In this kind of country, people often do the same things as others did, especially as

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

those around them. For instance, to most families in China, members share the similar values with each other. In other words, China is a society with relatively high collectivism, and where people have a high sense of identity to the traditional culture and food. Moreover, according to Doole and Lowe, pricing decisions in international markets can be very complex. Many factors can influence the pricing strategy in different markets, including internal and external factors. From the level of company and product, factors such as corporate and marketing objectives, firm and product positioning, product range, life cycle, substitute, product differentiation and unique selling propositions, cost structure, manufacturing, experience effect and economics of scales will influence the pricing decision of a company. Market factors like consumers' perceptions, expectations and ability to pay, need for product adaptation and market servicing, market structure, distribution channels, discounting pressures, market growth, competition objectives, strategies and strength can also affect the pricing strategy of a company. According to the Hofstede's culture dimension model, China ranked in a relatively high position in power distance. From the perspective of cross-culture, therefore, many people in China consider the relationship between the prices of consumer places and the personal appearance seriously. Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the Internet. Similarly, place strategy can be influenced by both internal factors and external factors. For instance, internal ones like company size and product positioning are main factors influencing the place strategy. In addition, social-cultural factors such as local law and government policy, religion, language, customer buying behavior also affect this strategy

obviously in different ways. When it comes to the promotion strategy, decisions in international markets are even more complicated than the pricing decisions, because promotion represents all of the communications that a marketer may use in the marketplace. It often includes several distinct elements, such as advertising, public relations, word of mouth and point of sale. Promotion activities play a role of introducing the product and service, motivating and leading the demand of the customers and also facilitating the products and services easily sold. When implementing the promotion strategy, the marketing managers of a transnational corporation should take many factors into consideration. Language, adaptation ability of customers, values, life style and attitudes, different kinds of customs and other culture factors of a certain nation are all very important which will influence different promotion activities.

### **Methodology:**

This chapter consists of an introduction to the research approaches and strategies we chose and how to collect valuable data and analysis data to find the answer to research questions. The reliability and validity of our collected data also discussed below.

### **Research Approach**

We have chosen to use both quantitative and qualitative research method. Bryman and Bell (2005) describes that a quantitative method means that data is collected with the aim to try theories. The difference between making a qualitative or quantitative study is that the qualitative study goes to the heart of the problem and has an inductive approach. The quantitative research design reaches a broader part of the problem and has a more

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

deductive approach. Quantitative research focuses on measurement, causality, generalization and replication. Quantitative research is rather a lot of interpretation. With regard to qualitative approach, it is able to get a deeper understanding of how different cultures influence the marketing strategy in multinational companies. Using a qualitative methodology will let the researcher have the opportunity to be flexible in the research, and to get a clear and broad view about the cultural aspect (Jacobsen, 2002). The methodology will also develop the research, test the theories and explain the researched phenomenon in a new way (Bryman, 2006).

### **Data collection:**

When collecting the data, the researchers often used primary and secondary data to gather the empirical finding. Primary data is information that especially has been collected for a specific purpose from a primary source. According to the research purpose, data about marketing strategies in Chinese market need to be collected. Thus, the primary data in this paper has been gathered through the phone interviews and the employees for the questionnaire survey which was carried out in Beijing KFC branch. The following requirements were made clear to the subjects:

Participants would be expected to read each statement carefully before ticking the choices

Participants would be expected to tick the choices as realistically as possible according to what they would actually do in their real daily lives

Secondary data is the data or information that has already been recorded and collected by others for other purposes (Cooper et al., 2005, p. 315).

<https://assignbuster.com/kfc-and-mcdonalds-western-country-and-china/>

Secondary data is often of good quality, and it can therefore be useful for another purpose than the primary reason. We can collect secondary data from the course books, article, newspaper papers, Internet Website and other publications.

### **Interviews and Questionnaires:**

It is widely recommended to use interviews to collect information for evidence as a source (Cooper et al., 2005, p. 378). We utilize two types of methods to collect the primary data. The first is survey research in which we use a questionnaire with an emphasis on fixed response categories and systematic sampling and loading procedures combined with statistical methods and quantitative measures (Ghauri, 2002, p. 100). The second type is unstructured interviews in which the informant is given almost full liberty to discuss reactions, opinions and behavior on a particular issue. After some answers we decided to give the question about “ how” and “ why” to continue the dialogue. The questions and answers are often unstructured and are not systematically design beforehand (Ghauri, 2002, p. 100-101).

We decided to do the interviews by telephone with the Beijing KFC’s Training manager and Finance manager. We also e-mailed the questionnaires to the managers for them to deliver them to the employees to answer. The telephone interview was tape recorded because audiotapes can provide a more accurate rendition of the interview. The manager’s questionnaire includes 31 questions that were made with information and theories from the marketing and cross-culture area. The questionnaire of employees includes 22 questionnaires according the theoretical framework provided by

Hofstede's cultural dimensions theory and marketing mix 4P theory introduced by McCarthy.

To find out the appropriate interviewees, we sent E-mail to KFC Beijing Br