

Analysis of kfc

Business



**ASSIGN
BUSTER**

KFC's early entrance into the fast-food industry in 1954 allowed KFC to develop strong brand name recognition and a strong foothold in the industry. The Colonel is KFC's original owner and a very recognizable figure, both in the U. S. and internationally, in their new logo.

In fact, in the fourth annual LogoValue Survey, done by The Schecter Group, the KFC logo was the only one which significantly enhance the brand's image (Logos add... I). 3. PepsiCo's success with the management of fast food chains. PepsiCo acquired Pizza Hut in 1977, and Taco Bell in 1978.

PepsiCo used many of the same promotional strategies that it has used to market soft drinks and snack food. By the time PepsiCo bought KFC in 1986, the company already dominated two of the four largest and fastest-growing segments of the fast food industry (Wright, p. 424-426). 4.

Traditional employee loyalty. " KFC's culture was built largely on Colonel Sanders' laid back approach to management" (Wright, p. 433). Before the acquisition of KFC by PepsiCo, employees at KFC enjoyed good benefits, a pension, and could receive help with other non-income needs.

This kind of " personal" human resources management makes for a loyal workforce (Wright, p. 434).

5. Improving operating efficiencies by reducing overhead and other operating costs can directly affect operating profit. Due to the strong competition in the US, the fast-food chains are reluctant to raise prices to increase profit. Many of the chains are turning to operating efficiencies to increase profit. For many companies, operating efficiencies are achieved through improvements

in customer service, cleaner restaurants, faster and friendlier service, and continued high-quality products.

Weaknesses Weaknesses are also found internally like strengths.

Weaknesses, however, can limit a company's potential. The weaknesses for KFC are identified as follows: 1 . The many sales of KFC lead to a confusing corporate direction. Between 1971 and 1986, KFC was sold three times. The first two sales, to Heublein, Inc and to R. J.

Reynolds, left the company largely autonomous. It wasn't until the sale to PepsiCo in 1986 that changes in top management started to take place. These changes happened almost immediately after the sale (Wright, p. 421-426). 2. KFC has a long time to market with new products.

Because of the nature of the chicken segment of the fast food industry, innovation was never a primary strategy for KFC. However, during the late 1980's, other fast food chains, such as McDonald's, began to offer chicken as a menu option. During this its own chicken sandwich. This delay significantly increased the cost of developing consumer awareness for the KFC sandwich. 3. Conflicting cultures of KFC and Pepsi co.

While KFC's culture was largely based on the Colonel's laid back approach to management, while PepsiCo's culture is more of a " fast track" attitude.

Employees do not have the same level of Job security that they enjoyed before the PepsiCo acquisition (Wright, p. 433-434). 4. Turnover in top management. PepsiCo bought KFC in 1986.

By the summer of 1990 PepsiCo's own management had replaced all of the top KFC managers. However, by 1995 most of this new PepsiCo management had either left the company or been moved to a different division. In addition, Kyle Craig, who was named president of KFC's US operations in 1990, left in 1994 to join Boston Market (Wright, p. 434). 5. Recent contractual disputes with franchisees in the United States.

This is also an example of the conflicting cultures of KFC and PepsiCo. KFC's franchisees had been used to little interference from corporate offices. In 1989, the CEO announced new contract changes – the first in thirteen years. The new contract gave PepsiCo management greater power to take over weak franchises, to relocate restaurants, and to make changes in existing restaurants" (Wright, p. 434). The franchisees protested these changes and the relationship between the corporate KFC and the franchisees in the United States have been strained ever since this announcement (Wright, p.

34). Opportunities Opportunities represent external finding which can enhance a company's performance. Opportunities that KFC can take advantage of are as follows: 1 . The Mexican market, which offers a large customer base, lesser competition, and close proximity to the US. The growth in the fast-food industry is limited due to the aggressive pace of the growth in the 70's and 80's.

As a result, the market is saturated and " the cost of finding prime locations is rising. " With the higher cost of the initial investment, the new restaurants are pressured to increase per-restaurant sales.

Many companies are realizing that in order for them to grow they need to pursue foreign market. One of the potentially profitable markets is Mexico. Mexico has over 91 million people and growing.

This give companies a huge customer base to work with. Also, the companies are able to take advantage of the close proximity to the US. The transportation cost to Mexico compared to other countries is very minimal. Despite the advantages, US companies in general have not expanded much in the Mexican market compared to European or Asian market. Therefore, the companies can expect lesser competition when expanding in Mexico. .

Peso devaluation has made it less expensive for US to buy assets in Mexico. US companies are able to invest less money in buying assets in Mexico due to favorable exchange rate. This opportunity gives the companies a reduced risk in investing in Mexico. Also, the companies that are already in Mexico are able to import raw materials at a favorable rate by converting dollars into peso. 3. “ Dual branding” helps to appeal to the wider customer base and also provide higher profit.

This strategy helps to “ improve economies of scale within its restaurant operations. For many companies that own more than one fast-food chain, “ dual branding” is an ideal way to expand quickly and increase profit. The companies no longer need to wait for the store to be built or fast-food store, the companies are able to expand quickly and for less money. The ompanies are also capitalizing on the increased customer base due to the increased menu offering. Increased profit is another benefit of “ dual branding.

” The companies are enjoying higher profit due to the low cost in expanding and the reduced advertising dollar spent by advertising the two chains together. . New franchise laws in Mexico give fast food chains the opportunity to expand their restaurant bases. In January 1990, Mexico passed a law that favored franchise expansion. The law provided for the protection of technology transferred into Mexico.

The law also allowed royalties. Before 1990, there was no protection for patents, information, and technology transferred to the Mexican franchise. Also, before the new law royalties were not allowed. This resulted in higher number of the company owned fast-food chains rather than the franchises in Mexico.

However, with the new law, the companies are given an opportunity to benefit from selling franchises. The fast-food chains are now able to expand to other regions of Mexico by selling franchises to individuals rather than keep building company owned stores in centralized locations to keep the operation simple and effective.

5. Australian opportunity Growth in international profits were highest in Australia, which is now KFC’s largest international market. 6. New distribution channels offer a significant growth opportunity.

Especially in the last few years, consumers are demanding fast food in non-traditional locations, such as shopping malls, universities, hospitals, and other high-traffic areas. Consumers are demanding greater convenience when purchasing.

The locations listed above are some of the most popular non-traditional locations that could be exploited by a fast-food chain. The fast-food chains are recording high sales in those areas due to high-traffic. Consequently, the companies are constantly looking and testing for new high-traffic locations to expand.

Threats Threats to a company are those business characteristics that endanger the company's position within its industry as well as jeopardize its profits. The threats that KFC faced with include the following: 1.

Saturation of the US market. According to the National Restaurant Association (NRA), food-service sales in 1995 will hit \$289.7 billion for the U. S. restaurant industry. The NRA estimates the sales in the fast-food segment of the food industry will grow 7.

% to approximately \$93 billion in the United States in 1995, up from \$87 million in 1994.

Although the restaurant industry has outpaced the overall economy in recent years, there are indications that the U. S. market is slowly becoming saturated. 2. Increasing competition and rising sales of substitute products.

Faced by slowed sales growth in the fast-food industry, other segments of the industry have turned to new menu offerings. McDonald's introduced its McChicken sandwich in the US market in 1989. Jack in the Box has introduced chicken and teriyaki with rice. Domino's has introduced chicken wings to its menu. Pizza Hut has tried marinated, rotisserie-cooked chicken. .

Changing preferences of consumers. During the 1980s, consumers began to demand healthier foods and KFC was faced with a limited menu consisting mainly of fried foods. In order to reduce KFC's image 1991. In 1992, KFC introduced Oriental Wings, Popcorn Chicken, and Honey BBQ Chicken as alternatives to its Original Recipe fried chicken. In 1993, KFC rolled out its Rotisserie Chicken and began to promote its lunch and dinner buffet. 4.

Obstacles associated with expansion in Mexico. One of KFC's primary concerns is the stability of Mexico's labor markets.

Labor is relatively plentiful and cheap in Mexico, though much of the work force is still relatively unskilled. While KFC benefits from lower labor costs, labor unrest, low job retention, absenteeism, and punctuality continue to be significant problems. Though absenteeism is on the decline due to job security fears, it is still high, at approximately eight to fourteen percent of the labor force. Turnover also continues to be a problem.

Turnover of production line personnel is currently running at five percent per month. Therefore, employee screening and internal training continue to be important issues for foreign firms investing in Mexico.

Another area of concern for KFC has been the increased political turmoil in Mexico during the last several years. For example, on January 1, 1994, the day NAFTA went into effect, rebels (descendants of the Mayans) rebelled in the southern Mexican province of Chiapas on the Guatemalan border. Around 150 people were killed.

The peso crisis of 1995 and resulting recession in Mexico left KFC managers with a great deal of uncertainty regarding Mexico's economic and political future. KFC's approach to investment in Mexico is to approach it conservatively, until greater economic and political stability is achieved.