

Kfc and the global fast-food industry in 2003-2004

[Business](#), [Industries](#)



KFC and the Global Fast-Food Industry in 2003-2004 Course: MGT 710 [pic] 1. Executive Summary This paper analyzes the market situation of the major U. S. fast-food firms in Latin America in 2004 from the perspective of the KFC Corporation. By analyzing political, economic, cultural, logistical, and competitive forces, a potential strategy for KFC to successfully establish a strong position in Central and South America is proposed. Through a thorough analysis, it was determined that KFC should establish wholly-owned subsidiaries in Mexico and Brazil to manage operations in Central and South America, respectively.

After a strong position is established in these countries, KFC should then open franchises in Central America, Argentina, Colombia, Venezuela, and Chile. 2. Problem 1. Expanding into Latin America From 1993 to 2002, KFC dominated the chicken segment of the U. S. fast-food market. Their market share, however, decreased by 13. 4% over that 10 year period (Exhibit 4, 553). As the fast-food market matured, firms began to focus on globalization to continue growth. By early 2004, 56% of KFC's restaurants were outside of the U. S. (558).

Their initial focus was on Mexico, Puerto Rico, and the Caribbean, where they established dominance among competitors. Their struggle was in expanding beyond those markets. In their attempt to expand into Central and South America, KFC was met with many challenges. Many Latin American markets had not adopted the fast-food concept and preferred a more leisurely dining experience. The intense competition with major U. S. fast-food chains made it very risky to enter a new market. The geographic distance from the corporate offices made it difficult to control standards and quality.

To continue growth, KFC would have to develop a strategy to overcome these obstacles and expand into these markets. 2. Strengthening position in Central America KFC initially expanded into Mexico, Puerto Rico, and the Caribbean due to geographic proximity and existing political and economic ties to the U. S. They were able to establish dominance in these markets because they had first-mover advantage and the local cultures accepted the fast-food concept. To further expand into Central America, KFC will have to develop a strategy to leverage their strong positions in Mexico and the Caribbean.

They will have to consider factors such as the business model, global integration, national responsiveness, and mitigating risk. 3. Breaking into South America KFC had attempted to enter Brazil, with limited success. Political, economic, and cultural challenges had prevented KFC from gaining a foothold, and subsequently forced them to pull out of the market. Other countries in South America had little competitive presence, but had significant barriers to entry. In addition, the farther away the countries are from the corporate offices, the more expensive and logistically difficult the operation becomes.

To enter these markets, KFC would have to carefully weigh its options to establish a presence and mitigate risk. 3. Analysis 1. Industry analysis 1. Basic economic characteristics Latin America is home to more than 550 million people. It has an aggregate GDP of more than \$4 trillion. Figure 1 shows that Brazil and Mexico have the highest GDP. However, Argentina, Chile, and Costa Rica have the highest GDP per capita. [pic] Figure 1 - Latin

America GDP (Source: http://en.wikipedia.org/wiki/Latin_America) 2.

Competition In general, Central America and Brazil are the markets most penetrated by the large U.

S. fast-food chains. McDonald's is the dominant competitor in Latin America, with 584 stores in Brazil, 261 stores in Mexico, and 203 stores in Argentina. KFC follows with 274 stores in Mexico and 134 stores in the Caribbean. Burger King operates 163 stores in Puerto Rico and 154 stores in Mexico. Wendy's only operates 143 stores in all of Latin America (Exhibit 6, 559). To assess the competitive landscape, Porter's Five Forces model can be used, as shown in Figure 2. For KFC, the highest levels of competitive rivalry are in Central America and Brazil.

Most of South America, with the exception of Brazil, has relatively low penetration. The threat of new entrants is high within any market, as all of the major competitors are vying for the same markets. The threat of substitute products is also generally high, since fast-food chains must compete with established local restaurants that already cater to the local tastes and customs. The bargaining power of customers is medium in more developed countries such as Brazil, Mexico, and Argentina where customers are less price sensitive.

In less developed Latin American countries, however, the bargaining power is high where most customers cannot afford high prices. The bargaining power of suppliers is medium in most countries where there aren't a large amount of imports, but high in countries like Mexico and Brazil. [pic] Figure 2 - Porter's Five Forces (Source: <http://en.wikipedia>.

org/wiki/Porter_5_forces_analysis) 3. Factors driving change As Latin American countries become more developed, they begin to adopt more global brands. As the internet penetrates these markets, users become exposed to global brands.

Cultures begin to change as the world becomes a global market. While they do maintain local tastes and values, people begin to separate from traditions and become more modern. As economies become more developed, people begin to adopt the on-the-go lifestyle that we are accustomed to in the U. S. As countries like the U. S. drive globalization to foreign markets, trade barriers are often removed and countries begin to adopt foreign firms. 4. Relative strength of firms As previously stated, McDonald's has the strongest position with 1, 605 stores in Latin America.

KFC follows with 650 stores, followed by Burger King and Wendy's.

McDonald's is dominant in South America, while KFC controls Central America. 5. Rivals' next moves The most significant acquisition of note is McDonald's purchase of Boston Market in 2000. Boston Market caters to the growing trend for healthy fast-food, as well as the casual, sit-down atmosphere that is popular in Latin America. While Boston Market does not have any presence in Latin America, McDonald's could decide to leverage existing resources to expand there. 6. Critical success factors

All franchise corporations are concerned with standards and consistency between units. While certain factors can differ from one region to the next, a general level of consistency is needed with regards to product quality and taste. It is critical that service and cleanliness are upheld to a high level of

quality. Particularly in Latin American markets, the menus may need to be diversified and incorporate local flavors. With the great distance between Latin American markets and corporate headquarters, effectively executing logistics, distribution, and operations is critical to success.

Effectively managing resources and keeping costs low will also be critical when entering new markets. With the political and economic events that may occur, the firm must be resilient to changes in the economy and trade regulations. Firms should seek to establish relationships with local governments in order to protect their interests abroad.

2. Strategic planning for foreign market entry

1. Identifying company's objective in foreign market entry

The first step in developing KFC's Latin American strategy is to identify the objectives for entering new markets.

Some reasons to enter new markets would be to exploit an untapped market, obtain a competitive advantage, secure essential raw materials and distribution channels, and cutting costs by employing inexpensive labor. Currently, KFC has a large presence in Mexico and the Caribbean. This gives them a launching point to enter nearby markets. The nearby Central American countries have a relatively low presence from the large fast-food firms. The Central American region is home to approximately 40 million people. According to Figure 1, the Central American nations have a GDP of approximately \$173 billion.

This region has a considerably sized market, relatively low penetration, and proximity to KFC's large presence in Mexico, making it ideal for entry. Brazil is the largest and most coveted market in Latin America. Unfortunately,

McDonald's has a large competitive advantage with 584 stores. KFC has failed in the past to enter this market, but the opportunity is still there. Establishing a position in this market would allow KFC to power investments in other South American markets. While they may not be able to dominate the market, it is a strategic location that would act as the locus for all South American operations.

Argentina and Chile have \$445B and \$161B GDP, respectively, making them large attractive markets. They also have the highest GDP per capita in Latin America. While McDonald's has a relatively strong position in these countries, there should still be opportunity for KFC to capitalize on. Other South American countries, such as Paraguay, and Uruguay, have little competitive presence and a relatively low GDP. These countries may not have strategic value to the company.

2. Preliminary country screening After determining the objectives for each country, an analysis of advantages and attractiveness can be performed.

To determine national competitive advantages, Porter's diamond model is used, shown in Figure 3. Mexico, Brazil, Argentina, Colombia, and Chile stand out as the most developed Latin American countries. This indicates that advanced factor endowments such as infrastructure, skilled labor, and technology should be readily available. Demand conditions should also be most favorable in the countries with the highest GDP, as an active economy tends to increase demand for on-the-go meals. The most significant supporting industry is the poultry industry.

According to the USDA, Brazil, Mexico, and Argentina have the largest poultry industries in the region. [pic] Figure 3 - National Competitive Advantage (Source: [http://www. teagasc.](http://www.teagasc.ie/research/reports/foodprocessing/4984/eopr-4984.htm)

[ie/research/reports/foodprocessing/4984/eopr-4984. htm](http://www.teagasc.ie/research/reports/foodprocessing/4984/eopr-4984.htm)) 3. Risks in foreign markets In all Latin American countries, there is a high degree of political risk, due to the propensity of corruption and instability in governments. This is apparent even in the more developed Latin American countries. Many Latin American countries restrict the import of foreign goods, or give preferential treatment to adjacent countries.

In addition, the distance from existing production and distribution channels imposes a great risk to the supply of goods to the more southern countries in the region. One of the main company factors is the shortage of skilled labor and high rate of turnover in Latin American markets. For KFC to succeed in any Latin American market, they will need to increase employee retention through training or benefits. 4. Capabilities, resources, and skills needed to succeed in foreign markets The key success factors were described in Section 3. 1. 6.

It is important to note that the farther away the country is from existing trade channels, the more difficult it will be for KFC to control quality, standards, distribution, and logistics. Also, the less developed nations will be more susceptible to economic and political events that could devastate KFC's interest in the market. 5. Fulfilling key success factors KFC's key strength is their established dominance in Mexico. This position provides many financial

and political benefits due to the NAFTA treaty. It also provides them with a strategic position to enter nearby Central American markets.

They do not have established trade channels in most of South America, so it will be difficult for them to manage operations without a strong presence in at least one market. This is the main reason why Brazil is a key market to enter. Being that KFC is such a large company within an even larger conglomerate of fast-food chains, the firm should be able to withstand political or economic changes and a loss of revenue during the development stage. Overall, KFC fulfills the key success factors in Central America, but will need to establish a position in at least one major South American market in order to expand there. . Entering the target markets In determining how to enter the target markets, the level of global integration vs. national responsiveness should be assessed. Figure 4 shows the various strategies that can be employed given the appropriate level of integration and responsiveness. The markets in Latin America should be similar enough for KFC to keep menus, processes, and standards consistent across all markets. Pricing and advertising may differ depending on the level of economic development and communications infrastructure in each nation.

In addition, KFC would need to implement different business models depending on the proximity, size of the market, and cultural uniqueness. For this reason, KFC should implement a transnational strategy that would keep many aspects consistent, but some aspects unique between various markets. [pic] Figure 4 - Global Integration vs. National Responsiveness 7. Compare and rank targeted countries From the analysis performed, each

Latin American market considered was ranked based on the variables discussed. By comparing GDP, geographic proximity, population, and relative penetration of competitors, Table 1 shows the countries scored and ranked.

Economy	Competition	Proximity	Market size	Presence	Total	Rank
Mexico	12	12	13	12	13	62
Brazil	13	13	7	13	4	50
Caribbean	5	7	11	8	12	43
Puerto Rico	6	11	12	2	11	42
Central America	3	9	10	10	9	41
Colombia	10	5	8	11	6	40
Argentina	11	10	3	10	4	38
Venezuela	7	8	9	6	5	35
Chile	9	6	4	5	8	32
Peru	8	3	5	7	7	30
Ecuador	4	4	6	4	10	28
Paraguay	1	2	2	3	4	12
Uruguay	2	2	1	1	4	10

Table 1 – Results of market analysis 4. Recommendations 1. Markets to enter

From the results of the analysis performed, KFC should operate company-owned units in Mexico, Puerto Rico, and the Caribbean where it already has a strong position. It should then open franchises in Central American markets to mitigate risk until a strong position can be established, at which point KFC should buy back the successful franchises. KFC should develop a wholly-owned subsidiary in Brazil and aggressively establish a strong foothold. This is not only one of the most attractive markets; it is also a critical strategic location to be the headquarters of South American operations.

Once a strong position is established in Brazil, KFC should open franchises or joint-ventures in Colombia, Argentina, Venezuela, and Chile. Given the relatively low scores, KFC should not consider expanding further into Peru, Ecuador, Paraguay, or Uruguay. Although KFC already has operations in Peru and Ecuador, they are not strategically valuable and should be closed or sold

if they are not consistently profitable. 2. Strategy for entry 1. Corporate strategy At the corporate level, KFC should focus on developing wholly-owned subsidiaries to act as the regional headquarters in Mexico and Brazil.

This would allow KFC to centralize control over standards, quality, process, and distribution within those regions. This tiered structure would lessen the burden on KFC's U. S. corporate management and provide more specialized attention to those local markets. To offset regional events that may affect all of Latin America, KFC should also consider entering markets in Europe and Asia. If an economic catastrophe were to hit Brazil, for instance, markets in all nearby countries would be severely impacted as well. The Yum!

Corporation should also consider strategies to expand its other brands into Latin America as well to leverage KFC's success. The multibrand strategy that has been so successful in the U. S. may prove successful in Latin America as well. 2. Business strategy At the business level, KFC should develop aggressive marketing strategies in countries where competitors have a strong presence. In Brazil, for instance, KFC will have to fiercely battle McDonald's to gain market share. In less developed countries, KFC should enter cautiously and focus on mitigating risk.

KFC should leverage their strong global brand and target the younger generation. Through internet marketing, KFC should be able to reach the young, modern generation that has a higher acceptance for the fast-food model. KFC should implement a transnational strategy in Latin America. While quality, service, and products should remain consistent throughout Latin America, KFC should develop unique strategies for marketing, pricing,

and business models in each region. KFC should launch company-owned stores in high growth markets and enter the rest with franchises or joint-ventures until a strong position is established.

In high growth markets, company-owned businesses would allow fixed costs to be spread across multiple restaurants, subsequently allowing for lower prices and increased margins. Franchising would leverage the expertise of local entrepreneurs with understanding of the local customs, language, and marketing strategies. This would help to mitigate the risk of entering unknown markets. 3. Functional strategy Regional franchises should interface with the wholly-owned subsidiaries in Mexico and Brazil. These subsidiaries would control management, distribution, standards, quality assurance, and advertising for their associated franchises.

The Central and South American subsidiaries should focus on developing close ties with the governments in their regions. They should lobby to remove trade barriers between nations in order to streamline distribution. They should also focus on developing ties with the local communities in order to gain acceptance from local culture. KFC should develop specialized marketing campaigns for each region, depending on the similarities in culture. They should focus on targeting the young, career-minded demographic through internet marketing.

Depending on the lifestyle habits of those individuals, they should also target them through appropriate media advertising. 5. Conclusion KFC is one of the dominant players in the global fast-food industry. They have sufficient resources to launch an aggressive strategy into Latin America. By leveraging

their strong position in Mexico, KFC can successfully establish a strong position in Central America. By outsourcing management of Central American firms to a wholly-owned subsidiary in Mexico, KFC will be able to streamline operations and maintain control over franchisees.

Although it will be difficult, establishing a foothold in Brazil is KFC's best strategic option for entering South America. By aggressively marketing the younger demographic, KFC should be able to gain a considerable market share, even though McDonald's maintains the dominant position. Once they have been successful in Brazil and a wholly-owned subsidiary is established, KFC can then begin to expand further into South America. By implementing this general strategy and addressing the factors and risks discussed in the analysis, KFC should be able to gain substantial market share and continue to grow the firm.