

# Yum china: strategic expansion plans essay



**ASSIGN  
BUSTER**

## 1. 0 Problem Designation

Yum! Trade names ( Yum! ) . parent company of several eating house ironss. including Kentucky Fried Chicken ( KFC ) . Pizza Hut and Taco Bell entered China market with its first KFC mercantile establishment in 1987. Since so. Yum! under the leading of Sam Su. has been highly successful. Alternatively of being seen as a Western trade name. Sam's determination was to do the concatenation a " part of China" . Providing to the Chinese market. the image and offerings are localized and are highly different from mercantile establishments overseas. winning Yum! the Black Marias of Chinese consumers. Yum! China's gross have now exceeded that of USA. Yum! has decided on an aggressive enlargement program in China. Therefore the range of this undertaking will embrace the followers: Objectives•To addition market portion by spread outing into new geographic markets Issues

- Handling the image of QSR being associated with fleshiness
- High lease costs
- Labour restraints restricting enlargement programs
- Changing ingestion behaviors
- Positioning schemes across assorted metropolis grades
- Response to competition from international QSRs

## 2. 0 SWOT Analysis

2. 1 Strengths - The ground why Yum! China has been so successful in spread outing in the Chinese market is due to its competent direction squad. CEO Sam Su recruited an experient squad locally based which could talk Mandarin. The strong corporate civilization besides managed to pull and retain extremely motivated persons which led to the continued success of the organisation. Because the direction squad were given much control. due

to PepsiCo non cognizing much about the fast nutrient concern. they could do determinations rapidly and independently. They were extremely antiphonal to the altering demands of different parts and besides analysed and negotiated for great existent estate trades upon which to construct their eating houses. Yum! China fundamentally had a squad which clearly understood the niceties of the different geographical markets. and knew per se what clients wanted. They developed a flatter larning organisation and developed their staff to do determinations and to talk up and portion thoughts with direction. Another major factor lending to the success is their extraordinary supply concatenation.

Yum! China is said to hold a first category supply concatenation. merely 2nd behind the Chinese Army. The logistical operations is able to manage the complexness of over 50 points on KFC's bill of fare. making deep into inland China while invariably presenting extremely customized fluctuations ( 84 - 100 new merchandises a twelvemonth ) to accommodate the local gustatory sensation roof of the mouths. The company besides had developed of import " Guan Xi" with the locals. back uping the domestic market by purchasing Chinese merchandises. working with Chinese husbandmans and authorities organisations. Because of the backwards integrating and cognition transportation. Yum! China is able to keep model wellness and hygiene criterions which are lauded as the benchmark for all nutrient companies in the state. Overall. Yum! China trade names such as KFC and Pizza Hut enjoys strong trade name equity. and harmonizing to the A. C Nielsen study. is the planetary trade name most recognized in China. KFC systematically outscored ferocious challengers McDonalds on every property on gustatory

sensation. bill of fare assortment and invention for 4 old ages running ( Exhibit 12 ) .

As KFC continues to spread out into the rural parts of China. people welcome the company and experience that “ the metropolis is coming to their town” . Finally. the low cost of factor inputs has enabled Yum! China to spread out exponentially. By vertically incorporating local providers into the supply concatenation they are able to beginning for cheaper. more dependable merchandises. They are besides able to quickly construct up new mercantile establishments at US \$ 0. 6 Million within a affair of months. These factors have enabled Yum! China’s to bask runing borders of 21+ % as compared to 14 % in the USA ( Exhibit 10 ) .

2. 2 Failings - COO Mark Chu admitted that its enlargement capablenesss are bottlenecked by its employee capablenesss. Despite holding the capacity to spread out 1. 000 mercantile establishments a twelvemonth. the company does non hold the human resources to fit the aspirations. It takes clip to develop capable staff that fit the corporate doctrine so that Yum! ’s trade names can keep high service excellence and standardisation across its mercantile establishments.

Furthermore each eating house is significantly bigger as compared to other planetary mercantile establishments. which means they need about 60 staff per mercantile establishment to pull off the crowd. whereas USA shops merely require 35 staff ( Exhibit 10 ) . This is a job because in the service industry. employee turnover rates can be high. Additionally. many Chinese parents are unwilling to let their “ little emperors” to take up service occupations.

2. 3 Opportunities - There is no denying that China is the fastest turning economic system in the modern universe. and industry experts predict that Yum! China's gross will duplicate the USA market. Although still really much a underdeveloped state. there is a rise in richness among the in-between category. and the Numberss are increasing. In add-on to that. of all time since the markets opened dramatically in 1992. there is an increasing grasp for all things western. Yum! China's nucleus trade names being positioned as " western" brands as a consequence benefited from the " westernphile" attitudes of many Chinese ; the locals are willing to seek out and see western nutrient and dining experience. The economic roar in in China has besides led to developments in communications. engineering and transit.

These promotions have opened the chance for Yum! China to spread out its logistical operations further into rural China and engage clients via modern selling channels. 2. 4 Threats - The gap of the domestic markets has besides welcomed competition from internationally renowned trade names such as McDonalds. Subway and Starbucks. These companies are immense participants with unbelievable fiscal resources. Yum! will now hold to supervise competitory actions in order to support its market portion in China. The inflow of foreign trade names has besides led to additions in rental and factor costs due to competition for resources and will weaken net income borders.

A cardinal menace to the fast nutrient industry is an addition in negative associations with western debris nutrient lending to China's fleshiness job. 22. 8 % of PRC grownups were overweight while 7. 1 % were diagnosed as clinically corpulent. Worryingly. tierce of the world's fat childs are from

China. Being the strongest participant in the fast nutrient industry, Yum! will hence hold to take necessary strategic actions to turn to this really existent societal job. Last, there has been a coevals displacement in the cardinal kids section. Yum! 's selling current schemes targeted at kids might no longer appeal to the new coevals.

### 3. 0 Yum! China's Strategic Decisions

#### 3. 1. 1 Expansion rollout programs

Even with the news of new international QSR trade names opening in China, Yum! trade names do not necessitate to be excessively concerned about their market portion because they are the dominant participant in the industry in a market topographic point that can suit new entrants. Yet, this does not intend that Yum! China should rest on its awards. Hence, the enlargement scheme for Yum! would be to capture new geographic markets in front of rivals to bask the first mover advantage by leveraging on its strong trade name equity and superior logistics web. Alternatively of following the traditional franchise theoretical account, 90 % of Yum! 's shops in China are company owned. The squad believes that Yum! should go on with this scheme due to its success due to their regionally localized bill of fare and the easiness of which top direction can do determinations quickly and implement alterations in the bill of fare. This gives them operational flexibility to provide to altering gustatory sensations.

#### 3. 1. 2 Expansion programs – Human Resources

The rate at which Yum! China can spread out their trade names is straight tied to the ability to get sufficient work force to adult male the shops. To do up the big measures of human resources required to run. KFC has taken to engaging college pupils. KFC has been successful in pulling and developing new members with their preparation eating house construct and in 2010 managed to pull 30. 000 new staff to run their 500+ new eating houses. Since Yum! 's shops are labour intensive. we believe that the increasing competition for human resource from esteemed sectors hinders Yum! 's enlargement programs. Yum! needs to augment their preparation schemes to keep a ample work force and go on opening new mercantile establishments at the rate they are traveling now.

### 3. 2 Undertaking the Percept of QSR associated Obesity

A menace that China as a state is confronting is the turning job of fleshiness amongst both the grownup and kids. Although the current perceptual experience of fast nutrient ironss in China ( KFC in peculiar ) is non associated with the societal menace of fleshiness. Yum! China has taken preemptive steps to advance healthy eating. They have introduced healthier methods of cooking. added vegetable dishes and informing their consumers that a balanced diet is important. They have besides eliminated super-sized repasts and minimized price reductions on jazz bands. They besides sponsor athleticss events for young persons and work together with the authorities to advance nutrition runs. We believe that Yum! has done good in set uping that they are serious about back uping healthy feeding in China. In order for Yum! to farther expand. it is imperative that they enhance this run to keep their positive image in the head of consumers.

### 3. 3. 1 Brand Positioning – City Tiers

Being a foreign company trying to come in the China market, it is imperative for Yum! to place itself as a portion of the local Chinese community and to do the trade name extremely relevant to consumers in different parts of China. As such, Yum! has to strategically place itself to be integrating both the best constructs from U. S. fast-food theoretical account ( operational efficiency and quality service ) while besides custom-making their trade name to accommodate Chinese consumers' demands. At this point in time, the offerings and monetary values of each KFC mercantile establishment are mostly similar across the state with fluctuations in spice degree depending on each area's consumers' preferences. We believe that more can be done to leverage on intra-country differences ( e. g. different ingestion wants of Chinese consumers in assorted metropolises ) by positioning its trade name consequently for different grades.

### 3. 3. 2 Brand Positioning – Target Audience

KFC has traditionally emphasised on a household construct therefore far in China. An arising issue is that the old cohorts of kids exposed to these selling plans are now adolescents. As such, we propose that KFC should orient their schemes to both retain and better run into the demands of the new cohorts of kids in China. Besides, we believe that the household construct can be extended to a societal bonding construct that promotes group dining. Apart from the “ Family Pack” dwelling one pair of poulet, Yum! chiefly offers single repast jazz band. Therefore, Yum! can spread out on its assortment of merchandise offerings to provide to more market groups.



## 4. 0 Recommendations

### 4. 1. 1 Proposed Expansion Strategy for Yum! China

In the short term, Yum! will concentrate in the lower tiered metropoliss around the logistic nodes. This scheme would be cost efficient whilst enabling rapid enlargement and capacity maximization. Once the logistics are to the full utilised, the long term aim will so be to make new logistics centres farther inland in order to cut down transit lead times and hence, spread out more sharply to widen its influence ( from East to West ) towards inner-China. Because markets in these geographic parts are underserved ( Exhibit 7 ) . Yum! can rapidly set up a foothold in front of rivals. Fewer rivals besides mean rental disbursals will be lower.

Furthermore this is in line with authorities policies to distribute development towards cardinal and western China. From Exhibit 6a, a simple extrapolation was done to calculate the figure of shops opening. Along with current resource restraints, such as engaging capablenesss, the squad believes that 530 mercantile establishments should be opened in 2011. Majority of the new mercantile establishments will be KFC, because KFC is good known even in rural China. Its bill of fare better caters to the mass market as compared to Pizza Hut which is more for the flush market section. The dislocation of shop mercantile establishments to be opened in 2011 is shown below in Figure 2a.

The proposed rollout of KFC shops by metropolis grade is shown in figure 3. The rollout program is projected based on 2009's informations, and the elaborate calculation is shown in appendix A. The principle behind the

projection is that with the one-year population growing of 0.48%. KFC should at least maintain and if possible, seek to cut down its figure of people per shop by opening up more subdivisions. We set a mark figure of people per shop for each tier metropolis in 2011, and calculate the figure of shops by utilizing entire population to split mark figure of people per shop.

Furthermore, 101 KFC shops will be opened up in tier 1 & A ; 2 metropoliss, and 337 in tier 3 to 6 metropoliss. The ratio of figure of shops in lower grade metropoliss in proportion to entire figure of shops ( 53 % in jutting 2011 ) is larger compared with old old ages ( 49 % in twelvemonth 2009 ) .

This is in line with our scheme to travel into lower grade metropoliss, with both an addition in absolute figure and per centum of entire figure of shops. The staying 92 mercantile establishments will be opened under Pizza Hut and other of Yum! 's subordinates. In order to turn to the menaces of higher leases and being overlooked by more esteemed trade names, Yum! China should come in into binding understandings with belongings developers such as Yanlord or Capital Malls to guarantee that its trade names will be guaranteed floor infinite in new promenades. This co-branding scheme will take to synergisms for both companies because they have strong trade name equity. By positioning Yum! trade names as the ground tackle renter, belongings developers would profit through higher homo traffic flow.

Besides, it solves Yum! 's trouble of happening new existent estate to locate its mercantile establishments and basking a lower rental cost. Such a win-win scheme is extremely good to both parties.

4. 1. 2 Proposed Augmentation of HR Strategies ( Internal Marketing ) With our determination to travel Yum! inland, we potentially face the job of human

capital migration. It is a fact that many aspire to work in Tier 1 metropoliss. go forthing lower grade metropoliss less fertile of human capital. Therefore. Yum! should place and foster 'star' parttime college pupils to function at lower grade metropoliss. Bing in a Western-style company whilst still being rooted in traditional Chinese values will appeal to many and Yum! must clearly show this image to all new hires. The chance to pull off a eating house if they perform good is an effectual signifier of internal selling and provides everyone with a really attractive occupation chance. We besides propose a little alteration to the preparation system. As a service supplier. it is important for Yum! to hold standardized service public presentation criterions in all of their eating houses state broad.

As Yum! trains RGMs in their Tier 1 or 2 eating houses. before the official publicity to a full RGM. their last assignment would be to head their ain eating house in a new eating house in-land. With the turning enlargement tendency. it is important that we have talented staff to head new eating houses. Incentives should be provided by Yum! . such as full costs of populating subsidized and extra allowances to promote the move to inland and lower grade metropoliss. This serves three intents: 1. Talented and dedicated RGMs will be able to instill and develop the same civilization in new eating houses 2. Maintain service processs and criterions at the high degree they are presently at 3. Offer an attractive occupation chance to occupation searchers

Yum! should make the contrary every bit good. Offer workers who originate from lower grade metropoliss chances to work in Tier 1 and 2 metropoliss if

they convert to full-time staff and perform good. 4. 2 Further betterments to reinforce healthy image

Ad Campaign - To heighten KFC's branding attempts in covering with fleshiness in China. Yum! should establish a series of marketing plans ( both postings and Television advertisements ) to educate the populace on their healthier bill of fare. This includes bringing forth telecasting advertisements that leverage on its healthy and extended bill of fare to advance KFC as the healthier pick. This will distinguish themselves from other fast nutrient brands that are closely following tested-and-tried theoretical accounts of QSR. As wellness consciousness additions. KFC may go their preferable fast nutrient concatenation. Educational Kitchen Tours - To play a more active function. Yum! could originate an " Open Kitchen Concept" . by setting up guided Tours for consumers to derive penetrations on site installations and nutrient readying process of KFC.

Through this, a greater and better feeling of KFC will be forged by prosecuting consumers. Consequently, this would bring forth positive word of oral cavity consequence for KFC conveying healthier nutrient picks to the Chinese. Sponsor e-sports tournaments - In face of the rise of digital gambling. Yum! should tap on the digital savvy young persons. Furthermore, these persons may confront higher hazard of fleshiness. We propose that in add-on to physical athletic tournaments that Yum! is already hosting, Yum! could either patron or form e-sports tournaments, where gamers run into and watch rivals play unrecorded. Yum! can educate this group of consumers on the importance of a balanced diet, increase their outreach to the young person market every bit good as addition exposure and prominence in this industry.

<https://assignbuster.com/yum-china-strategic-expansion-plans-essay/>

#### 4. 3. 1 Brand Positioning - City Tiers

In the higher grade metropoliss ( i. e. Tier 1 and 2 metropoliss ) with more flush consumers. KFC is patronized by people often to run into their day-to-day ingestion demands and such purchase merely constitutes a little part of their income. Besides, there are more replacements available. Based on these facts, it can be gleaned that the consumers in these parts tend to be more monetary value rubber band. As such, Yum! can place itself as a functional trade name by viing chiefly based on monetary value factors. Yum! can lure these clients by supplying them with price reductions and publicities like bundle sets with smaller helping and wider scope of assorted merchandises. In 2008, Yum! has reorganized its logistics operations to bask more cost decreases. As such, Yum! can be more price-competitive by reassigning its cost nest eggs in signifier of lower monetary values charged to these consumers.

Besides, Yum! has to hasten the rate of debut of new merchandises ( e. g. through their new merchandise development plan ) to cut down client defect rate since consumers have a wider assortment of merchandises and different eating houses to take from every repast. For the lower grade metropoliss ( i. e. Tier 3, 4, 5 and 6 metropoliss ) where consumers are less flush, KFC is patronized by clients on occasion on particular events. Since there is a lower frequency of ingestion in these metropoliss, frequenters tend to be less monetary value rubber band. In these parts, Yum! can place itself as an aspirational trade name by tapping on the emotional entreaty of consumers. This can be done through establishing promotional bundles during particular occasions ( e. g. Fathers' twenty-four hours and Valentine's Day [ non

<https://assignbuster.com/yum-china-strategic-expansion-plans-essay/>

thorough ] ) . Additionally, they should seek the indorsement of aspirational characters like celebrated sportswomans ( e. g. Yao Ming ) and international artistes ( e. g. Jolin Tsai ) to farther heighten their entreaty.

#### 4. 3. 2. 1 Brand Positioning - Target Audience ( Teenagers )

To farther develop and make out to the adolescent client section, specific section selling schemes can be utilised. This can be achieved through societal media platforms such as Weibo and Renren, which are actively used among adolescents in China. Sponsoring e-sports as mentioned above will enable Yum! to vibrate with China's young persons. Complimentary Wifi and power sockets can be implemented in KFC shops to pull pupil clients every bit good, who view KFC mercantile establishments as a topographic point to analyze. However, this complimentary service should be clip based e. g. free first 30 mins of Wifi. Subsequently, a purchase is necessary in order to go on accessing the Wifi service. This recognises the importance of keeping high turnover of clients with the nature of the fast nutrient construct of KFC.

Following, KFC can appeal to the new coevals of kids by integrating synergistic gambling computing machine Stations on top of the traditional resort area construct. This would be more appealing towards the new coevals of childs who tend to be more engineering understanding and less interested in costume mascots and physical playthings traditionally incorporated with KFC's traditional household focal point selling plans. 4. 3. 2. 2 Widening the Family and Communal Dining Concept - Bundling Our group recommends the incorporation of enhanced group repast bundling options within the merchandise offering to supply more assortments and

picks for clients. This would let Yum! to make out to more client sections. Furthermore, this can be achieved easy without the demand to make new merchandises and stock list.

An of import thing to observe is that the set aims can be achieved easy without confronting issues sing R & A ; D costs. This is besides executable under current supply concatenation restraints. This roll uping scheme should be differentiated between the higher and lower Tier markets every bit good described above ; In the higher grades, packages can be designed to pass on more value for money e. g. Buddy Meals ( for two ) as it is chiefly perceived as a functional trade name. In the lower grades, bundling can be designed to be linked to specific occasions e. g. Valentine's twenty-four hours bundle repasts with sweet. Father's Day jazz bands ( Set repasts should include a balanced repast for a household ) in response to the more aspirational trade name perceptual experience of KFC in these markets.

Refer to Figure 4 for a sample household jazz band repast. Last, with respects to the current focal point on single jazz band repasts, KFC can see following the KFC " Box" construct available here in the Singapore market which consists of a higher assortment, normally 4 or more types of chief nutrient points in a smaller part which may be extremely appealing to Chinese consumers who prefer higher assortment of nutrient ingredients in their repast. Mention to Figure 4 for a sample Box repast.

## 5. 0 Time Horizon of Implementation

Figure 5 shows the timeline that some of our recommendations will follow. Our wellness related advertizements will necessitate clip to develop. Posters  
<https://assignbuster.com/yum-china-strategic-expansion-plans-essay/>

require comparatively less clip and will co-occur with the first Particular Occasion Combo offering. This will reassure discerning consumers that the nutrient served is healthy. Health related advertisement is pulsed to forestall Yum! from looking excessively preachy and maximising impact of the advertizements at selected times. Development of packages requires no R & A ; D but to promote ingestion. packages will be introduced bit by bit. foremost as Particular Occasion packages. and will finally come in the bill of fare as regular merchandises.

Educational Kitchen Tours will necessitate to be developed every bit good. A elaborate programme and scheduling chart should be developed to guarantee minimum restaurant down-time. Sign-ups for the circuit will open 2 months before the first circuit and can be booked up to 6 months in progress. Restaurant Tours will be held monthly at each eating house. If that is impracticable. focal point should be placed on tier 1 and 2 eating houses. where consumers are much more wellness witting.

#### 6. 0 Performance Indexs and Success measuring of Proposed Market KFC

- Sustain current mean entire turnover per KFC shop ( \$ 1. 4m )
- Achieve \$ 1. 4m turnover/year norm for all new KFC Stores ( i. e. Target monthly turnover per shop of \$ 116. 7 thousand per month )
- Expect Growth in mean turnover of current KFC shop

A practical figure was used to set for consistent public presentation amidst aggressive enlargement. We besides acknowledged that new shops may meet low gross revenues during initial launch. before sufficient demand is generated to accomplish an optimal degree of turnover. Last. shops are



scheduled to be unfastened throughout the twelvemonth. and non all shops will hold an operating period of 1 twelvemonth in 2011. TierRevenue ( \$ m )  
Incremental net income per grade

Figure 7 shows the entire gross and net income we hope to accomplish with our rollout scheme. Using the 2011 projected figure of entire shops. and utilizing the 90 % company owned against a 10 % franchisee ratio to find the figure of franchisee shops. Net incomes for franchisees were calculated utilizing 6 % of turnover. and for company shops. a 20 % eating house border was used to come to the above anticipations. See Appendix B for elaborate computations. Success of wellness run and bundling options

After one twelvemonth of wellness publicities. another variable will be added to the Customer Survey ( Exhibit 12 ) sing cardinal properties of KFC: good health of KFC nutrient. A mark of 60 % will be sufficient to find the effectivity of the first year's selling attempts. We besides target to keep a 62 % invention and bill of fare assortment option in the study.

## 7. 0 Decision

The squad believes that Yum! has done inordinately good in the complex Chinese environment. Hence. the takeaway message is “ not to repair what isn't broken” . We besides believe that Yum! is strategically geared for future enlargement. However. in order to make so. they need to turn to the issues mentioned above. The squad has recommended several solutions. and one time implemented. the hereafter of Yum! looks delightful!