

# Case 6

# Kentucky Fried Chicken and the Global Fast-Food Industry in 1998



Group 3

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Corporate Team

# Mission Statement

- "The Association of Kentucky Fried Chicken Franchisees, Inc. is united to protect, promote and advance the mutual interests of all member franchisees and the Kentucky Fried Chicken system"



# Company History

- 1952 Harland Sanders traveled across the US to speak with prospective franchisees
- 1960's KFC became the 1<sup>st</sup> fast food chains to go international
- “Colonel Sanders franchised and took over 200 restaurants and home retail outlets across the US
- 1963 the number of franchisees raised from 200 to 300 which reached a profit of \$500 million
- 1964 The Colonel sold the business to Jack Massey and John Brown Jr. for \$2 million with a per year share of a \$40,000 salary which later rose to \$200,000, while the Colonel still had a say in KFC's PR side of the company

# Company History

- 1966 KFC was listed on the New York Stock Exchange
- 1969 KFC signed a joint venture with Japan
- 1971 KFC had 2,450 franchises and 600 company owned that operates in 48 countries
- Negotiations were made to merge with Heublein
- 1977 New openings of KFC slowed down to 20 per year
- 1982 attempts to becoming successful and new buildings were being created. The new slogan “We do Chicken Right” came about

# Company History

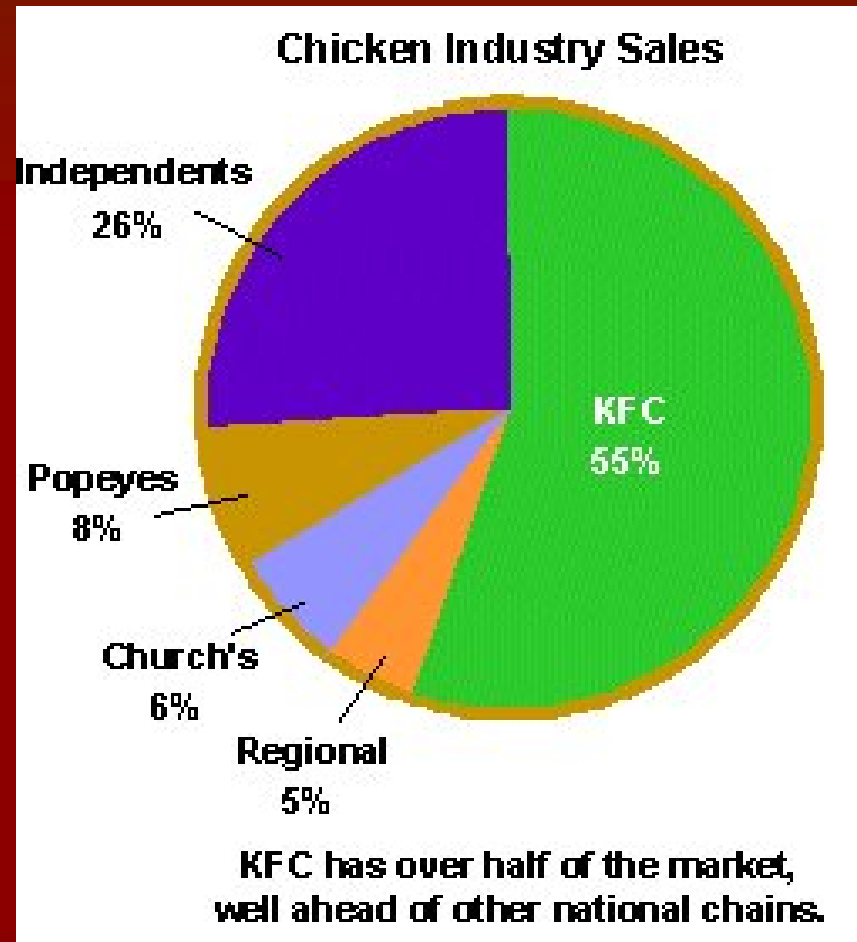
- 1982 RJ Reynold's merged with Heublein
- 1986 RJ Reynold's sold KFC to Pepsi Co for \$841 million making them the leading market share in KFC, Pizza Hut and TacoBell
- 1987 Pepsi Co managers took the place of KFC's managers
- 1990 KFC expanded to Latin America
- 1993 KFC presented the Rotisserie Gold Chick but KFC customers did not like the new addition

# Company History

- 1995 KFC established company owned restaurants in Venezuela and Brazil
- 1996 KFC and Pepsi Cola's contract dispute was still unsolved until 1997 when David Novak-CEO and KFC president ratified a new contract
- 1997 Chicken sales were \$4 billion; Boston Market was the only close competitor
- Pepsi Co is still the subsidiary with 60% of KFC operations produced by franchisees

# Company History

- 1997 Tricon became another subsidiary of KFC
- Today KFC has 13,700 franchises outlets in 100 countries
- The president of KFC- Gregg Dedrick



# KFC's SWOT: Strength

(Internal)

- A subsidiary of Pepsi Co
- 1 out of the top 4 growing segments in US fast-food industry
- Good stability and security with strong loyalty among KFC employees and franchises
- KFC's customers liked KFC chicken regardless of the fact that it was fried



# KFC's SWOT: Weaknesses

(Internal)

- KFC managers were replaced by Pepsi Co managers
- Restructuring led to layoffs throughout KFC organizations
- Pepsi Co placed a lot of pressure on KFC managers
- Poor relationships between KFC franchisees and Pepsi Co

# KFC's SWOT: Weaknesses

(Internal)

- Long distances between headquarters and foreign franchises made it difficult for quality control
- Boston Market created the image of an upscale deli offering healthy, home-style alternatives to fast foods. It has broadened its menu
- Consumer began to demand healthier foods. Greater variety, and better service in a variety of nontraditional locations

# KFC's SWOT: Opportunities

## (External)

- One of the world's largest consumer products companies
- Fewer families had time to prepare food at home
- KFC's early expansion abroad, strong brand name, and managerial experience in international markets gave it a strong competitive advantage

# KFC's SWOT: Threats

## (External)

- The rise of dinner houses during the 1990's
- Time cultural, and language differences increased communication
- Increase of consumer demand
- KFC's most significant problems in the U.S. market were that overcapacity made expansion of freestanding restaurants difficult

# Situation Analysis

## SWOT (External)

External Factors	Opportunities	Threats
Consumer/Social	Always giving back to the community through charities, animal welfare program, and youth scholar programs	Another chicken restaurant entering in the same social scene
Competitive	KFC has its own secret recipe that put itself apart from other competitors	Still not up to par with McDonald's in the fast food industry
Technological	Using the Internet for additional advertising and information on the company	No online ordering
Economic	Using school events to advertise & market	PETA campaign Ky. Fried Cruelty
Legal/Regulatory	Trying to maintain perfect status in Dept. of Health Inspection	Unprecedented franchisee lawsuit settlement

# Situation Analysis

## SWOT (Internal)

Internal Factors	Strength	Weaknesses
Management	Mangers are extensively trained	KFC managers were replaced by Pepsi Co managers
Offering	Famous Bowl and fish Snackers	Limited items offered and provides no delivery service
Marketing	Offers a varieties of coupons both online and through mail	Customer limitation to attract mainly chicken lovers
Personnel	Provides jobs and encourage community diversity	Poor relationship between KFC franchisees and Pepsi Co
Finance	Expanding both domestic and international marketplaces	Decrease costs and layoff employees cause by PepsiCo's take over
Manufacturing	Opening more franchisees in order to increase revenue	Needs to maintain a clean working environment
R&D	Famous Bowl, introduction of fish Snackers to increase varieties	Limited items offered on the menu

# Evaluate the SWOT Analysis

- Working with Pepsi Co strengthens KFC's company while also giving it an advantage over its competitors
- Keeping employees happy decreases the chances of employees quitting, although Pepsi Co is trying to decrease costs by decreasing employees
- KFC's franchisees have the ability to continue to grow, and work on the language and communication barriers to increase KFC's worldwide spread

# PETA vs. KFC



- PETA is an animal rights activist group
  - states “Chickens are probably the most abused animals on the planet”
- PETA is extremely upset with KFC due to the process in which KFC kills there chickens
- PETA wants:
  - To start a program called “Animal Care Standards” which will create guidelines to protect the chickens
  - A controlled-atmosphere killing instead of the electrical stunning and throat slitting
  - Healthier breeding instead of a rapid growth and to stop feeding drugs to the chickens



# PETA vs. KFC

- KFC is strongly committed to food safety provided to their customers
- YUM! brands states that treating the chicken in a humanely manner is what assures the quality of KFC's chickens. These chickens are free from cruelty, abuse and neglect
- YUM! brands works with Animal Welfare Advisory Counsel in order to implement the humane death of the chickens
- YUM! Brand continuously works towards specific performance measures for humane animal treatment

# Situation Analysis

- Fast Food market size world wide: \$325 billion industry
- <http://www.nyse.com/about/listed/lcddata.html?ticker=YUM>



# Leading Fast Food Firms Worldwide, 2004

McDonald's.....	15.4%
KFC.....	3.7
Burger King.....	3.5
Wendy's.....	2.5
Subway.....	2.4
Other.....	72.5

Source: Market Share Reporter 2007

# Top Chicken Restaurants, 2004

KFC.....	36.8%
Chick-fil-A.....	13.0
Popeyes.....	10.2
Church's Chicken.....	5.6
Boston Market.....	4.9
El Pollo Loco.....	3.2
Bojangles.....	3.1
Other.....	23.2

Source: USA TODAY, December 9, 2005 from Market Share Reporter 2007

# Corporate Level Strategies

- Switched from franchise to company owned in their larger markets
- Interest in local community (Neighborhood)
- Combining the two concepts in the same unit
- Changed name
- Introduced different menu items to keep up with local competitors



# Corporate Level Strategies

- Switched to highly performance based management strategies
- More responsibility assigned to franchisees and marketing managers
- Pay closely aligned with customer service and restaurant performance



# Business Level Strategy

- Horizontal differential through different style options
- Closed unprofitable restaurants
- Strive to fill the needs of local markets by hiring locally and offering menu items that reflect the culture
- Reestablish and maintain an emphasis on clean and updated restaurants paying close attention to service while maintaining product consistency
- Cutting out marginal products



# Structure and Control Systems

- Horizontal differential through different style options
- Managers rotated based performance and experience
- Promoted quickly
- “You may have performed well last year, but if don’t perform well this year, you’re gone and there are 100 ambitious guys with Ivy League MBA’S at PepsiCo who would love to take your position” – PepsiCo Manager (pg63)
- Went from laid back culture to highly competitive performance based



# Future Studies

- Stock increases over the year: growth potential
- It's popularity increased: China & Japan



# Recommendations

- In addition to offering new products, chains lowered prices, improved customer service, co-branded with other fast-food chains, and established restaurants in nontraditional locations. (i.e. Wal-Mart)
- Continue to expand globally

# Lesson Learned

- It's important to focus on global marketing
- Change of an organization's culture can be very effective or harmful
- Emphasis on maintaining restaurant environment
- Maintain a public image

# Questions or Feedback?

- Clarifications needed?
- Questions?
- Comments?

**Thank You**

**This conclude the presentation...**

Kentucky Fried Chicken's Website: [www.kfc.com](http://www.kfc.com)