

# **Case 6: Kentucky Fried Chicken and the Global Fast-Food Industry in 1998**

Group 3

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Management 445 Section 1

February 23, 2007

Whitt 108

MWF 2PM ~ 2:50PM

Case number 6, entitled Kentucky Fried Chicken and the Global Fast-Food Industry in 1998, talks about Kentucky Fried Chicken's or KFC's overall history and company's up and downs. The history of KFC came about due to a very innovative and driven man named Harland Sanders, the creator of KFC in 1952. In order for Harland Sanders to gain prospective franchisees he traveled across the United States to find the potential buyers. In the 1960's KFC became the first fast food chain to go international. "Colonel Sanders" began to franchise and took over two hundred restaurants and home retail outlets across the US. In 1963, the number of KFC franchises rose from 200 to 300 franchises that created a profit of \$500 million. In 1964 the Colonel sold the business to Jack Massey and John Brown Jr. for \$2 million with a per year share salary of \$40,000 and as the times changed this salary later rose to \$200,000. The Colonel still had a say in KFC's public relations aspect of the company.

In 1966, KFC was listed on the New York Stock Exchange and is still to this day found on the New York Stock exchange under the ticker symbol and branded company named YUM!. In 1969, KFC signed a joint venture with Japan, which helped in the expansion of KFC internationally. By 1971, KFC had 2,450 franchises and 600 company owned. KFC began operating in forty-eight countries and formed a merger with Heublein. Heublein was a company that produced alcoholic beverages

and cocktail mixers. Heublein did not have much experience in the restaurant business, so they left KFC manager's in charge of restaurant management.

In 1977, the opening of new KFC operations slowed down to twenty franchisees per year. In 1982, the new slogan "We do Chicken Right" came about. This slogan was created in an attempt to make KFC successful. New buildings were being created in order to show off KFC's new image to lure customers and prospective buyers back into the Kentucky Fried Chicken Corporation. Along with the new slogan, RJ Reynold's merged with Heublein. RJ Reynold's was a larger industry that could help KFC's success, but RJ Reynold's quickly sold their portion of KFC to Pepsi Co. for \$841 million, making them the leading market share in KFC, Pizza Hut, and Taco Bell, all of which will soon be known as Tricon. Now that Pepsi Co. became the primary owner of KFC in 1987, the company managers took over the responsibilities that KFC's managers had in the past.

In the early '90s, KFC expanded to Latin America while in 1993; it presented the Rotisserie Gold Chicken in attempts to gain more health conscience consumers. However, KFC customers were not fond of the new addition, and the rotisserie chicken was quickly removed. During the mid-1990's, KFC established company-owned restaurants in Venezuela and Brazil. While in 1996, KFC's and Pepsi Cola's contract dispute was still unresolved. It was not until 1997, when David

Novak-CEO and KFC president ratified a new contract, that this problem was resolved. The new contract was able to give KFC a better competitive advantage with a sale of \$4 billion dollars in chicken with the closest competitor being Boston Market with sales of over \$3,900, holding 57.1% of the stock shares. While Boston Market trailed with \$1,167 and only 17.1% of the stock shares, KFC was still ahead.

In recent polls, KFC now controls 36.8% of the chicken restaurants while Boston Market dropped to 4.9%. Chick-fil-a has now gained an upper hand and operates 13% of the market. In 1997, Pepsi Co. and Tricon became subsidiaries of KFC. Today, KFC has 13,700 franchises outlets in 100 countries with the closest competitors being Chick-fil-a and Popeye's Chicken. The current president of KFC is Gregg Dedrick.

The figure below gives a quick overview of the current events through a SWOT analysis, which depicts the environment that KFC finds itself currently. The SWOT analysis is an example of the different strengths, weaknesses, opportunities, and threats in which the company is facing or may face.

Figure 1. SWOT Analysis KFC (Internal factors)

<b>Internal Factors</b>	<b>Strength</b>	<b>Weaknesses</b>
Management	Mangers are extensively trained	KFC managers were replaced by Pepsi Co managers
Offering	New creations like Famous Bowl fish Snackers, and offering buffets	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

<b>External Factors</b>	<b>Opportunities</b>	<b>Threats</b>
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

Figure 1 shows both the internal and external factors that affect the market in which KFC operates. Some of KFC's internal advantages are that it is a subsidiary of Pepsi Co. which complement each other very well. Being one of the top four

growing segments in the U.S. fast-food industry, its good stability and security with strong loyalty among its employees and franchises were caused due to Colonel Sander's effort to meet employees' benefits and pension. These strengths from within the company itself helps to keep KFC on the upward path to challenging its competitors.

One external opportunity that the company takes on fully is that it has always given back to the community through youth scholar programs and animal welfare programs. Along with giving back, KFC offers different varieties of food choices to different cultures in other parts of the world. KFC's early expansionary initiative, strong brand name and managerial experience in international markets gave it a powerful competitive advantage. This part of KFC's core philosophy for business shows that it takes pride in giving back to the community.

Although KFC strives to promote its strengths and opportunities of the market, like every other company, it has its share of negative characteristics. For instance, some internal characteristics that pose problems are the loss of some business from the People for the Ethical Treatment of Animals, also known as PETA, law suit, which will be discussed in more detail later on. Furthermore, another weakness would be the long distances between headquarters and foreign franchises, making it difficult for quality control of individual restaurants. KFC managers were replaced by Pepsi

Co's managers when the two companies merged together; this reconstruction led to layoffs throughout KFC organizations. This also caused the poor relationships between the two companies.

One of the many external threats in which KFC faced is the overcapacity in the U.S., which made expansion of freestanding restaurants difficult. The increase of consumer demand is also a threat to the company. Consumers began to increase their demands by wanting healthier foods and greater varieties, which increased pressure on fast-food chains. Chaos also rose in KFC from Mexico's labor issue, in which they think they have high working standards. Even though the company had setbacks, KFC has shown its strength in the innovation of new franchising ideas to the global population.

From evaluating the SWOT analysis, it shows that KFC is currently in good shape and appear they will only get stronger with their success in foreign markets. Of all the different threats other than KFC's direct competitors, ethical issues could be the most harmful. KFC has always strived to maintain a good brand image through charitable work and maintaining a clean, top-notch quality atmosphere in restaurants. The most detrimental threat to that image for many consumers could be brought on by the campaigns that PETA launched against KFC in January of 2003. It stated cruelty done to the chickens in KFC's restaurants. Included in the statements are accusations

that growth hormones are used instead of healthier breeding methods, painful debeaking, live scalping, and beheading of chickens by hand. PETA has been pushing for a KFC animal-welfare program, which stated that it is mandatory to examine all farmers for quality control of the chicken and cease buying from those that fail the audit. Similar campaigns have been taken against McDonalds, Wendy's, and Burger King, resulting in each to adapt a control system that helps monitors and prevent the cruelty of animals. KFC is still in a battle with PETA today, claiming in its defense that they do have quality measures in place. For example, they adopted comprehensive welfare performance standards, and tried to keep an eye on all their providers to ensure that they are not buying abused and mistreated chickens. Additionally YUM! Brand meets with the Animal Welfare Advisory Counsel to implement the humane death of its chickens. Although some statements for and against may not effect KFC, others do. The negative publicity and celebrity backing against KFC that PETA has generated can be a huge threat to KFC and its potential growth in the future. If KFC continues to be the center of attention in PETA's campaign it would affect their market share and risk losing customers that will never go back to eating at KFC.

A strong position is maintained in KFC's market even when there are threats and other shortcomings. They are still coming up with innovative and unique advertising



campaigns along with new menu items. For example, KFC launched a new television ad for its boneless variety bucket that includes a mosquito ring tone hidden within the ad on April 11, 2007. If you are able to guess where the noise is located in the ad through on their website you could win a ten dollar gift certificate. Combine this example along with new menu items show the ability of KFC to overcome threats and continue to dominant in the chicken market. Currently the most profitable markets are located in China and Japan where it established themselves as one of the most popular restaurants and the experienced in the market. With a substantial number of international restaurants located outside of the USA, their ability to adapt to the different cultures gives them potential opportunity for expansion. While being an underdog to of McDonalds globally, they are still recognized as a strong competitor in many markets.

After meticulously inspecting KFC's situational analysis, their future growth is guaranteed. Furthermore, if KFC is able to handle potential threats and continue their global market plans, even they can take over McDonalds. As a group, investing in KFC's stock can yield a considerable profit but at the same time risk could occur if ones put a great deal in to a company.

After Pepsi-Co purchased KFC, numerous changes occurred at the corporate level. One change was Kentucky Fried Chicken's name; it went from Kentucky Fried

Chicken to KFC. The reasoning behind this name change was to give KFC a new image. KFC did not want the public to see them as only a fried chicken restaurant. The transition was effortless since the change was not as drastic. KFC also pooled together with other restaurants in hopes of appealing to a broader market. In the 1990's the buffet became an up and coming favorite with KFC consumers. In order to diminish KFC's fear of losing customers, they started offering different side items on the buffet.

KFC not only had to compete with their number one competitor, Boston Market they also were competing with the buffet style dining environment that these two restaurants provided in the 1990's. In order to keep that competitive advantage with Boston Market KFC introduced the rotisserie style chicken, but due to low sales, it was removed from the menu. The next corporate level strategy that KFC implemented was a neighborhood program. The neighborhood program offered different variety of foods that appealed directly to the various ethnic backgrounds. As a part of the neighborhood program KFC also required employees to wear culturally inspired uniforms. For example in the African America cultural, the food would be desirable to the African American culture while the employees of KFC would wear culturally appropriate uniforms. The neighborhood program increased sales dramatically in the different ethnic communities. Once KFC saw, the drastic changes in the African

American community KFC then attempted to cater to the Hispanic culture in Miami, Fl.

Due to these strategical changes, that KFC made such as the name and menu changes the major and dominant change was PepsiCo's neighborhood programs, directly focusing their attention to cultural diversity.

As for the managerial aspects of KFC, Colonel Sanders provided his employees a work environment with a more laid-back atmosphere with little interference from the upper management. Once PepsiCo purchased KFC, PepsiCo brought in their own managers to take place of KFC's previous managers. These new managers were used to PepsiCo's business strategies instead of KFC's. Employees that were still employed by PepsiCo had to adjust from Colonel Sanders business ethics to PepsiCo's.

PepsiCo was a performance-based atmosphere, which was completely the opposite of KFC. These changes created a decrease in employees due to the cost cutting that PepsiCo was implementing. These changes led to an increase in company roll over and a decrease in employee loyalty to the company. Employees were in fear of losing their jobs if performance did not meet up to par with PepsiCo's requirements.

A business level strategy that KFC utilized effectively was, once a decrease in profit occurred the restaurant was closed down. A horizontal differential was implemented thru style options. KFC wanted to meet the needs of local markets, they

not only introduce neighborhood programs but they also hired locally. KFC also helped the cut out marginal products. KFC put massive emphasis on having sanitary and updated restaurants. They also knew if their products were not reliable, customers would find other chicken providers. KFC paid close attention to service and dedicated time to maintaining the reliability of their product provided to their customers.

PepsiCo rotated employees regularly based on their performance and experience. Promotions were made quickly which put more emphasis on employee responsibility, with expectations nothing higher than perfect. PepsiCo's manager stated "You may have performed well last year, but if you 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" (Mattson 63). This just goes to show PepsiCo's dedication to perfecting performance in the overall KFC franchisees.

Over the past years, KFC'S stock has grown nationwide. KFC is extremely popular in China and Japan. In fact, they are so well liked that during the Christmas holiday, customers had to call in advance to order KFC. KFC has gone thru several changes since their opening. They have offered diverse products in order to appeal to public demand and to stand out amongst competitors. KFC has lowered prices, improved customer service, united with other fast food restaurants and established new restaurants in non-traditional places such as Wal-Mart.

Since the first day of operations, KFC has learned countless lessons. KFC realized the importance of focusing on the global market due to KFC popularity in Asia. The purchase of KFC by PepsiCo taught them that a change in an organizations management could be both effective and/or harmful to employees. In the beginning, KFC learned that it was dismal for PepsiCo to come in, lay off KFC managers, and replace them with PepsiCo managers. This caused an increase employee turn-over and decreased employee loyalty. KFC also learned that maintaining a restaurants environment is prudent to maintaining their public image. KFC learned early on how to adapt to changes and to adjust in order to supply the requests of the public, which makes KFC a powerful presence in the fast food industry.