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

■ Founder
  ■ Colonel Harland Sanders

■ Beginning Developments

■ Change of Ownership
  ■ Harland Sanders
  ■ Jack Massey
  ■ John Young Brown Jr.
History

- Company Benchmarks
  - NYSE
  - Globalization

- Mergers
  - Heublein
  - R.J. Reynolds Industries, Inc.
  - Pepsi Co, Inc.
Major Fast-Food Segments

- Six Major business segments
  - Sandwich Chains
  - Dinner Houses
  - Grilled Buffet Chains
  - Family Restaurants
  - Pizza Chains
  - Chicken Chains
KFC’s Culture

- Colonel Sanders’s laid back management approach
  - Job stability and security
  - Strong loyalty among employees
  - Friendly, relaxed atmosphere
  - Franchise friendly
  - Little day-to-day interference from management
PepsiCo, Inc. Management

- Acquired KFC for $841 million in 1986
  - Pizza Hut, Taco Bell, KFC
- New franchise contract
- Reduced staff
- Replaced KFC managers with their own
PepsiCo, Inc. Management

- Based on performance
  - High performance, accountability, and drive
  - Created unstable future for management

- Franchise Contract
  - Take over weak franchises
  - Relocate restaurants
  - Make changes to existing restaurants
    - KFC franchise association sued PepsiCo
Refranchising Strategy

- Relatively slow growth rate 1992-1997
  - Due to selling company-owned restaurants BACK to franchisees
- Company-owned
  - Easier to control
  - Higher levels of investment with low returns
- 1993 PepsiCo concerned with Coca Cola’s returns
Tricon Global Restaurants, Inc.

- 90’s U.S. fast-food industry becoming saturated
  - Restaurant chains absorbed ½ of PepsiCo’s annual capital
    - Generated only 1/3 of PepsiCo’s cash flow
- 1997 PepsiCo developed Tricon Global Restaurants
  - Packaged goods company
International Operations

Went international in the late 1960s
- Very beneficial when the U.S. market became saturated
  - Latin America
  - Asia
  - Australia
  - Europe

Franchising
- Local language, culture, customs, local law, financial markets, and marketing characteristics
International Operations

- Stronger emphasis on company-owned restaurants in larger markets
  - Japan, China, Mexico
- Spread fixed costs across a number of restaurants
  - Purchasing, recruiting, training, financing, and advertising
Marketing

Through out the 1980s the Original Recipe Chicken’s popularity limited KFC’s overall new-product development
- Original, Extra Crispy, Tender Roast
- 1991 Changed logo to KFC
- 1993 Neighborhood Program
  - Targeted the African American appeal
  - Hispanic-oriented restaurants
Marketing

Three-pronged Distribution Approach

- Nontraditional outlets
  - Airports, malls, universities, hospitals
- Home Delivery
- Co-branding
  - 2/3 KFC’s business is dinner
  - Taco Bell primarily lunch crowd
SWOT Analysis

■ Strengths
  ■ KFC’s secret recipe
  ■ Name recognition and reputation
  ■ International expansion and expansion through franchising
  ■ Co-Branding
  ■ Neighborhood Program
SWOT Analysis...

- Weaknesses
  - Many sales of KFC
  - Limited menu offerings
  - Inability to quickly bring new products to market
  - PepsiCo’s poor relationship with franchises
  - Failure to penetrate in some foreign markets
SWOT Analysis…

- Opportunities
  - The Mexican market
  - Peso devaluation
  - “Dual branding”
  - New franchise laws in Mexico
  - Australian opportunity
  - New distribution channels
SWOT Analysis…

- **Threats**
  - Saturation of the U.S. market
  - Increasing competition and rising sales of substitute products
  - Changing preferences of consumers
  - Obstacles associated with expansion in Mexico
  - Recent set backs
Yum! Brands and KFC Today

- Created October 7, 1997 as Tricon Global Restaurants spun off of PepsiCo.
- Largest fast-food industry based on # of restaurants
- Co-branding
- About Yum! And it franchising
Recommendations

- Continue to expand internationally
- “Dual branding”
- Offer a healthier selection of items
- **Stock**
  - Hold
Sources

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- [http://www.yumfranchises.com/about_yum.asp](http://www.yumfranchises.com/about_yum.asp)