

KFC China's recipe for success

---- by Karen Cho ----

If there were just a few things that China has wholly embraced from the West, it would be their love for Kentucky Fried Chicken, or KFC as it is more commonly known. In 1987, the fast-food operator opened its first outlet near Tianamen Square in Beijing. Then came 2,000 other outlets, which sprung up across China within the next 20 years – a phenomenal achievement by any standard.

The improbable success of KFC China can be attributed to a few key ingredients: **context, people, strategy and execution**, so says Warren Liu, a former vice president of business development and a member of Tricon Greater China Executive Committee. Tricon was the predecessor to KFC China's parent company YUM! Brands.



In his book 'KFC in China: Secret Recipe for Success', Liu says it was firstly the context in which KFC entered the China market, that paved the way for its eventual success.

"Strategy is context-dependent; a strategy that works well in a stable and mature market economy would most likely not work well in China, given the diversity of its people, geography, the heritage of a rich and complex culture, and a rapidly and continuously changing business environment since China's economic reforms commenced in 1978," Liu says in his book.

Case in point: when KFC first entered Hong Kong in 1973, it quickly grew to 11 restaurants in the following year. But it misjudged the local market and failed to develop a suitable business model. By 1975, all 11 restaurants were forced to close their shutters. Ten years later, KFC came back with a vengeance, eventually franchising its operations to a company called Birdland, which was backed by a group of local investors.



KFC's rocky experience in Asia served as invaluable and relatively inexpensive lessons in preparation for its 1987 entry into China. At a time when joint ventures were the only viable alternative in the late 1980s and early 1990s, KFC China selected local partners with government connections and effectively leveraged their tangible and intangible local resources. Once JVs were no longer required by Chinese regulations, and sufficient knowledge and resources had been transferred from the local partners, KFC went direct in order to avoid the paralysis that can result from disagreements between partners.

The 'Taiwan Gang'

Another vital ingredient in KFC's secret recipe is its leadership team, specifically its founding leadership team known as the 'Taiwan Gang', mainly because most had hailed from Taiwan and to a lesser extent, other parts of Asia. According to Liu, members of this pioneering team of KFC in China had accumulated at least 10, if not 15 to 20 years of fast-food industry experience prior to landing in China. Though predominantly Western-educated, being ethnic Chinese, they inherently understood China. Many also came with a background from McDonald's.

That factor led to an intuitive knowledge of the market context, which then put KFC China on track to becoming a successful enterprise.

"In order to be successful, especially for foreign companies or non-local companies, a deep understanding and a broad understanding of that market context is critical to success. To the extent that understanding is (even) intuitive. Intuitive – meaning that you don't have to do the

market research, you don't have to have multiple meetings to come to the best solution to a problem or to point to a future strategic direction," Liu told INSEAD Knowledge.

"Those money and time saved are going to add to your probability of success in the long run because in a dynamic and fast-changing market environment, speed becomes a lethal competitive differentiator. The speed with which to come up with the best ideas, to make the optimal decisions, and to execute those decisions once they are made. Over time, speed contributes to the accumulation of a competitive advantage in a fast-paced and rapidly-changing market environment."

Going local

Intuition led to product localisation, which is also a very important part of the success formula. Liu says that KFC China tended to introduce new products more frequently than their competitors in China. Also the fact that KFC has chicken as its core product offering is a very natural advantage that fits this context very well, since most Chinese prefer pork, followed by chicken; whereas beef and mutton lag far behind. So in that light, KFC enjoys a natural product advantage over McDonald's.



That KFC has also done a lot of work to continuously invent and launch new products; products that better fit the Chinese consumer's taste preference, has allowed them to keep the competition at bay. It has got a 2:1 ratio over McDonald's in China, whereas outside China it's the other way around.

Although KFC's original recipe is accepted by most Chinese, KFC China did not stop there. The highly localised menu includes congee or Chinese-style porridge for breakfast; Beijing Chicken Roll (à la Beijing Duck) served with scallion and seafood sauce; Spicy

Diced Chicken resembling a popular Sichuan-style dish. Their latest creation is *you tiao* or Chinese dough fritters.

Yet for all its hits, there are already rising brands that are not the KFCs or the Burger Kings or the McDonald's. Liu says that *Wei Qian La Mian*, also known as Ajisen Ramen, is a Japanese product that has been doing very well in various cities throughout China. So is *Zhen Gongfu* or Real Kung-fu, a Chinese fast food chain which is showing a lot of promise.

The competition has even gone hi-tech. "I recently heard about a robot developed with subsidy from the Chinese government which is capable of preparing dozens of popular Chinese dishes at high speed, and with excellent taste, based on expert knowledge."

Dawn of a new era?

Which probably explains why KFC China has fired its latest salvo. Says Liu: "I think the reason that YUM! Brands is interested in launching and launching aggressively this new brand called East Dawning is for reasons both offensive and defensive in nature ... because (they) wanted to fend off potential local Chinese fast-food competitors."

However, Liu thinks KFC China should reposition East Dawning, and move its market focus and resources to outside China; and within China, continue to focus on KFC, Pizza Hut and Pizza Hut Express. After all, he says, KFC China is the indisputable star of YUM! Brands' worldwide growth engine.

That being said, Liu feels that more attention in the future should be paid to the flavour, quality

and price performance of new products – not frequency of new product introduction, as this can detract consumer focus away from core products offerings.

He also thinks that the company should develop senior local talent within KFC China to take on top national, regional and even international leadership roles in the next few years.

“While the ‘Taiwan Gang’ played its historical mission exceptionally well during the first two decades, it’s time for the baton to be passed on to the local Chinese – not for any altruistic reasons, but simply because the locals understand this market even better than the ‘Taiwan Gang’”, he says in his book.

But past achievements do not guarantee future success. So will the “Local Gang” be as good or even better than the “Taiwan Gang”? That, Liu says, remains to be seen. “It all depends on the evolution of that leadership team and the evolution of China, the market, in the future.

Implementation will be key. And in China, successful implementation requires not only sound, localised products, people, systems and processes, but also the flexibility to change direction according to a new government policy, crisis or opportunity.

“Only the most perceptive and swiftest-moving companies will rise to the top, and stay on top,” Liu says in his book, although having said that, he still has a lot of faith in his former company. “KFC’s leadership position in the Chinese restaurant industry is KFC’s to lose.”