KFC had established 2,450 franchises and 600 company-owned restaurants in 48 countries.

Heublein, Inc.

In 1971, KFC entered into negotiations with Heublein, Inc. to discuss a possible merger. The decision to pursue a merger was partially driven by Brown's desire to pursue other interests that included a political career (Brown was elected Governor of Kentucky in 1977). Several months later, Heublein acquired KFC. Heublein was in the business of producing vodka, mixed cocktails, dry gin, cordials, beer, and other alcoholic beverages; however, it had little experience in the restaurant business. Conflicts quickly erupted between Colonel Sanders and Heublein management. In particular, Colonel Sanders became increasingly distraught over quality control issues and restaurant cleanliness. By 1977, new restaurant openings had slowed to only twenty a year, few restaurants were being remodeled, and service quality had declined. To combat these problems, Heublein sent in a new management team to redirect KFC's strategy. A "back-to-the-basics" strategy was implemented and new restaurant construction was halted until existing restaurants could be upgraded and operating problems eliminated. A program for remodeling existing restaurants was implemented, an emphasis was placed on cleanliness and service, marginal products were eliminated, and product consistency was reestablished. This strategy enabled KFC to gain better control of its operations and it was soon again aggressively building new restaurants.

R.J. Reynolds Industries, Inc.

In 1982, R.J. Reynolds Industries, Inc. (RJR) acquired Heublein and merged it into a wholly owned subsidiary. The acquisition of Heublein was part of RJR's corporate strategy of diversifying into unrelated businesses such as energy, transportation, food, and restaurants to reduce its dependence on the tobacco industry. Tobacco had driven RJR's sales since its founding in North Carolina in 1875; however, sales of cigarettes and tobacco products, while profitable, were declining because of reduced consumption in the United States. Reduced consumption was primarily the result of an increased awareness among Americans of the negative health consequences of smoking.

RJR, however, had little more experience in the restaurant business than did Heublein when it acquired KFC eleven years earlier. In contrast to Heublein, which tried to actively manage KFC using its own managers, RJR allowed KFC to operate autonomously. RJR believed that KFC's executives were better qualified to operate the business than its own managers; therefore, KFC's top management team was left largely intact. By doing so, RJR avoided many of the operating problems that plagued Heublein during its ownership of KFC.

In 1985, RJR acquired Nabisco Corporation for $4.9 billion. The acquisition of Nabisco was an attempt to redefine RJR as a world leader in the consumer foods industry. Nabisco sold a variety of well-known cookies, crackers, and other grocery products, including Oreo cookies, Ritz crackers, Planters peanuts, Lifesavers, and Milk-Bone dog biscuits. RJR subsequently divested many of its non-consumer food businesses. It sold KFC to PepsiCo, Inc. one year later.

PepsiCo, INC.

Corporate Strategy

PepsiCo, Inc. was formed in 1965 with the merger of the Pepsi-Cola Co. and Frito-Lay Inc. The merger created one of the largest consumer products companies in the United States. Pepsi-Cola's traditional business was the sale of soft drink concentrates to licensed independent and company-owned bottlers that manufactured, sold, and distributed Pepsi-Cola soft drinks. Pepsi-Cola's best known trademarks were Pepsi-Cola, Diet Pepsi, and Mountain Dew. Frito-Lay manufactured and sold a variety of leading snack foods that included Lay's Potato Chips, Doritos Tortilla Chips, Tostitos Tortilla Chips, and Ruffles Potato Chips. Soon after the merger, PepsiCo initiated an aggressive acquisition program, buying a number of companies in areas unrelated to its major businesses such as North American Van Lines, Wilson Sporting Goods, and Lee Way Motor Freight. However, PepsiCo lacked the management skills required to operate these businesses and performance failed to live up to expectations. In 1984, chairman and chief executive officer Don Kendall restructured PepsiCo's operations. Businesses that did not support PepsiCo's consumer product orientation (including North American Van Lines, Wilson Sporting Goods, and Lee Way Motor Freight) were divested. PepsiCo's foreign bottling operations were then sold to local business people who better understood their country's culture and business practices. Last, PepsiCo was organized into three divisions: soft drinks, snack foods, and restaurants.

Restaurant Business and Acquisition of KFC

PepsiCo believed that the restaurant business complemented its consumer product orientation. The marketing of fast-food followed many of the same patterns as the marketing of soft drinks and snack foods. Pepsi-Cola soft drinks and fast-food products could be marketed together in the same television and radio segments,