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TOWARDS AN ASSESSMENT OF GLOBALIZATION AND LOCALIZATION OF WESTERN EAST-FOOD CHAINS IN CHINA: THE CASE OF KFC

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ABSTRACT: *This paper addresses the specific topic of globalization and localization of western fast-food chains in China with focus on the case of KFC (Kentucky Fried Chicken). A review of the relevant academic literature is carried-out and succinct research questions are addressed. The aim is to evaluate how KFC, a leading western fast-food chain, conquered the Chinese market by adapting its strategy under the concept of localization. KFC's strategic planning in China is presented and a Porter's Five Forces and a SWOT analysis are conducted. Results show that KFC's strategy in China (Yum! Brands) exhibits strong localization by infusing a Western brand with Chinese characteristics, its rapid expansion, the development of a logistics network, training of employees in service and focusing on ownership rather than franchising.*

KEYWORDS: Business Globalization, Localization, Western brands, Chinese market, Fast-food industry

INTRODUCTION

The term globalization refers to the global economic, financial, trade and communication integration, which is based on interconnectedness and free movement of capital, goods and services across national frontiers (Business Dictionary). According to Krugman, Obstfeld, & Melitz (2012), international trade in goods and services has expanded steadily over the past six decades thanks to declines in shipping and communication costs, globally negotiated reductions in government trade barriers, the widespread outsourcing of production activities, and a greater awareness of foreign cultures and products. Globalization has thus become a key idea for business theory and practice (Smith & Doyle, 2002) and foreign fast food chains exercise influence on people's diet, consumption preferences and lifestyle choices (Zhang, Weiping, Lei, Ye, & Guo, 2014).

Ritzer (1993) argues that globalization has brought on homogenization of consumer culture, as a result of the ubiquity of global products and brands and the associated promotion of consumerism. Others suggest that localization, which involves modifications of a firm's standard mode of operation, is the new weapon of globalization. According to Zhang et al. (2014), the term 'glocalization' was firstly introduced by Robertson (1995) to reflect the heterogeneous reception, appropriation and response to even the most standardized global products. But glocalization is by no means a simple process of subsuming foreign culture". Thus the economic and social realities of different markets demands that transnational fast food services need to take local consumers' perspectives into consideration.

The above concepts will be taken into account in order to analyze the impact of a vast fast-food restaurant on China, the case of KFC, which has its very own special characteristics but adapts perfectly to globalization. Since emerging markets are the growth engine for the majority of Western companies nowadays, they also present a great opportunity for entrepreneurs in these countries to "build the future". What is more, from an intellectual point of view, emerging markets provide a useful lab for scholars because everything we know about management

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needs to be reexamined in a new context (Lagace, 2010). The Chinese fast-food industry has been selected because it is one of the fastest growing markets in the country and one of the of the fastest growing fast-food markets in the world (Anderson & He, 1999, Wu & Deng, 2002).

Kentucky Fried Chicken (KFC) Corporation, based in Louisville, Kentucky in the United States, is the largest fast-food chicken operator, developer, and franchiser in the world. It was founded by Harland Sanders, an entrepreneur who began selling fried chicken during the Great Depression. Having identified the potential of the franchising concept, he opened the first "Kentucky Fried Chicken" franchise in Utah in 1952. KFC popularized chicken in the fast food industry, diversifying the market by challenging the established dominance of the hamburger. Harland branded himself as "Colonel Sanders" and became a prominent figure of American cultural history. In 1964 he sold the company to a group of investors and throughout the 1970's and 1980's KFC went through a series of changes in corporate ownership until PepsiCo bought the company in 1986. KFC was one of the first fast food chains to expand internationally and in 1987 KFC became the first Western restaurant chain to open in China. The chain has since expanded rapidly in China, which is now the company's single largest market. Currently there are more than 18.000 KFC outlets in 115 countries and territories around the world (KFC Wikipedia, KFC Corporation-Company Profile, Information, Business Description, History, Background Information on KFC Corporation, Reference for Business).

This paper tackles the contemporary business issue of globalization and management in a global environment. The special topic of this research is globalization and localization of western fast-food chains with focus on the case of KFC (Kentucky Fried Chicken) fast-food chain in China. A review of the relevant academic literature is carried-out and succinct research questions that derive from the literature overview are addressed. The paper's aim is to evaluate how KFC, a leading western fast-food chain, conquered the Chinese market and how relevant scholarly research applies to this case. All information is collected upon secondary research.

LITERATURE REVIEW

As borders engender and coincide with important discontinuities stemming from government policies, geography and societal differences, information discontinuities which coincide with national boundaries create search and deliberation problems for trading and manufacturing firms. These issues, also, account for the alleged "home bias" of multinational firms. Foreign Direct Investment (FDI) is the key tool by which multinationals bridge cross-border discontinuities (Subramanian & Lawrence, 1999). China is endowed with large quantities of workers whose real wage productivity is high. Also, it has large supplies of basic resources. Thus it can attract FDI which is market orientated, cost orientated and input orientated (Buckley, 2007).

Transnational practices are present in the everyday life since the globalization of manufacturing and foreign participation in the services sector. Western fast food chains epitomize transnational practices in several ways. For example, the chains aside from economic gains and profitability, influence nutritional habits, consumer preferences and lifestyle choices. Ritzer (1003), Wasko, Phillips and Meehan (2001) state that there is a McDonaldization or homogenization of food consumption across the world as a result of transnational practices (Zhang et. al., 2014). The term McDonaldization has been used to indicate the increasing dominance of the core principles embodied by the fast food restaurant in virtually every sector of society" (Gabriel, 2001).

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Zhang, et. al. (2014) stress that globalization, which has been intensified since the 1970's, entails a global network of production systems and supply chains, certain of which have rapidly proliferated around the world; A noticeable example of this vast proliferation is the surprising expansion of fast food franchises. They continue that while multinational firms (such as fast food chains) are an economic phenomenon, reflected in their investment patterns, sourcing patterns, and employment structures, they have immediate and direct impact on culture. The fast food chains entail standardization of food products and services and also represent a cultural message (in the case of McDonald's for example, the American way of life).

In this context, except from globalization of production, one can support that globalization of consumption has also accelerated. The so-called "globalization of tastes" provokes nationalistic protectionist sentiments and needs a balance of strategies within transnational enterprises between "local" and "global" pressures on the firm (Buckley, 2007).

China's vast market and rapid development present very important potentials for transnational firms, products, and services. Western consumer goods and brands have conquered Chinese cities. KFC, the first major American fast food chain to open in China (in 1987 and about 5-min walk from the Tian'anmen Square in Beijing), is now ubiquitous to urban consumers. So are McDonald's, Pizza Hut, and many others (Zhang et. al., 2014). Wholly owned subsidiaries were not allowed in China before 1986. As Boli & Lechner (2001) explained that *"while global popular culture contains products and symbols that penetrate most local markets, its accompanying ideology of economic freedom and consumer choice encourages varied uses and interpretations of standardized consumption patterns"*. Thus, in a city pressed for space, the fast-food restaurant can become a gathering spot for young people or a favored locale for birthday parties. Therefore, by adapting marketing strategies to local attitudes, a western fast-food chain in China may lose its foreign aura, blending, for instance, into Hong Kong's diverse, cosmopolitan culinary scene, whereas in Beijing McDonald's American origins can be attractive to upwardly mobile Chinese as a symbol of participation in global society. The power of multinational corporations to foster acceptance of their products and logos is undeniable. However, recent research suggests that they must take into account the distinctive tastes of potentially fickle consumers. As Boli and Lechner (2001) found, "Popular culture increasingly creates global tastes, but it also creates critical consumers who keep this culture from becoming entirely uniform".

Globalization has, therefore, fostered a dynamic of localization. Foreign fast food chains, much like multinational manufacturers, have engaged in a process of localization in China, which process involves locational (re)configuration to capture consumers. This process entails frequent interactions, responding to consumers' varying levels of acceptance and resistance (Zhang, et. al., 2014).

Given that the global and the local are seen as phenomena in a complex, pluralistic and dialectic relationship, "[g]localization (…) suggests that the global and the local are mutually constitutive: the so-called global is a collage of local practices, behaviors and tastes, while the so-called local is increasingly constructed within the scripts drafted by global forces" (Robertson, 1995).

Concerning transnational companies, the desire for flexibility discourages vertical integration. So it is better to subcontract production and to franchise sales instead (Buckley, 2007).

Strategic decisions of transnational firms had always to do with a tension between the pressures to globalize and the need to stay local and to serve individual customers. Buckley (2007) summarizes this tension in the phrase "*the cost advantages of standardization vs. the revenue advantages of adaptation*" and explains that the advantages of global operations are cost-based, as they maximize economies of scale and reduce duplication, thus achieving efficiency, whereas the advantages of localization are revenue-based, as they allow differentiation to reach all customer niches and achieve responsiveness. According to this rationale, the concept of globalization lies between the increased international integration of economic activities and the raising importance of locational reconfiguration to capture consumers in emerging markets.

After all, studies (Veeck & Burns, 2005) show that *"the adoption of time-saving processed food items by contemporary Chinese consumers is influenced by increased income and increased demands on time. A number of other important influences, however, are equally important, including loyalty to a long tradition of buying fresh food, the need to be "in control," and a desire to maintain identity and traditional family relationships"*. Thus, there is an interplay of factors that motivates consumers to resist or embrace new consumption choices.

Finally, as far as the Chinese market is concerned, western transnational firms can be successful in China, if they are able to understand the Chinese consumer attitudes and they examine how Chinese consumption behavior may change as China integrates into the global economy and faces increased exposure to industrialized countries, cultures, and products (Curtis, Mccluskey, & Wahl, 2007). Western fast food chain brands have a competitive advantage of having superior core advantages. However, local brands have the advantage of offering foods suitable to local taste (Schuiling & Kapferer, 2004). KFC has a fast food mode that combines traditional Chinese diet (noodle or dumpling) with the modern fast food facilities.

The common questions that derive from the above literature review, and will be addressed regarding globalization and localization of western fast food chains in China, are the following:

- How can globalization interact with localization (*glocalization*) concerning managerial strategy particularly in the fast-food services industry? How is this dealth by KFC in China?
- How did KFC conquer the Chinese market and what are the implications regarding global management adaptation to local standards?

The research is based on published academic studies, journals and articles. Also, a Porter's Five Forces and a SWOT analysis are conducted.

FINDINGS

KFC's strategic Planning in China

Transnational western firms wishing to enter and expand in China face a critical question regarding to what an extent they should adapt or redesign (*localize*) their products and services to meet the needs and preferences of Chinese customers. KFC is operated by Yum! Brands, the world's largest fast food restaurant company in terms of outlets with more than 39,000 restaurants around the world in over 125 countries and global sales of over $12bn. During the last decade, the Yum! Brands company has relied upon international expansion as the main driver of revenue and profit growth. China in particular has proved to be a significant source

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of growth. For example, KFC has opened an average of one new outlet per day in China and currently it counts more than 4,800 outlets (Table 1).

KFC has achieved this high rate of growth by adopting the concept of *localization***.** The KFC model in China was redesigned to meet local needs. More precisely, it generally ignored the traditional model of KFC outlets in the US and other western economies, that of a franchise operation with a limited menu, low prices and an emphasis on customers taking-out their food and drinks- and developed a strategy that seemed to offer some important sources of competitive advantage (Riley, 2013):

- It **localized the product**, reinventing the menu, adding lots of choice and varying the menu by region within China.
- It moved quickly to establish **scale** in China. It identified 16 key cities as the base from which they could expand rapidly.
- It created its **own distribution system** to ensure that it could rely on supplies reaching the expanding store network.
- An emphasis was put on extensive **staff and management training** covering everything from food preparation to customer service and logistics.
- It **owned rather than franchised** the outlets in China (a break from the traditional model KFC has used in developed economies). This gave them greater control over those outlets which became an important source of information about local/regional customer needs.

Table 1: Worldwide System Restaurants

	2014	2013	2012	2011	2010	4yr Compound Annual Growth Rate
Year-end						
KFC Division	14,197	13,904	13,612	13,450	13,418	1%
Pizza Hut Division	13,602	13,333	13,060	12,725	12,583	2%
Taco Bell Division	6,199	6,048	5,977	5,942	5,894	1%
China						
KFC	4,828	4,563	4,260	3,701	3,244	10%
Pizza Hut	1,572	1,264	987	764	642	25%

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Little Sheep	291	389	451	–	–	NA
East Dawning	24	27	28	28	20	5%
Total China Division	6,715	6,243	5,726	4,493	3,906	15%

Source: Yum. Restaurant Counts, http://www.yum.com/investors/restcounts.asp, accessed 11-08-2015

More precisely, about **product localization:**

- Each KFC outlet was much larger than those in the US (typically twice the size) to allow for bigger kitchens and to provide space for customers. KFC made a special effort to welcome extended families and groups.
- A much wider choice was also offered on the KFC menu in China – typically 50+ items compared with about 30 in the US. Product innovation was also more active, with up to 50 new products added each year (some of them temporary specials). This contrasts with the US where just a few new products are introduced each year.
- Spice levels were also varied by region within China. In the early days KFC customers in Shanghai complained that the dishes were too hot whereas diners in Sichuan considered the menu too bland. So recipes were adapted to local tastes.
- Congee, a rice porridge that can feature pork, pickles, mushrooms and preserved egg, is the best-selling item at KFC China in the mornings. This is perhaps the best example of localization from the KFC growth story.

The result of KFC localization is that KFC outlets in China are much larger, more complex restaurants than the typical fast-food chains. On average each outlet employs 60 people including hostesses who greet customers and organize pastimes for younger children (Exhibits 1 & 2).

Exhibit 1: Cross cultural web interface design. A. US website

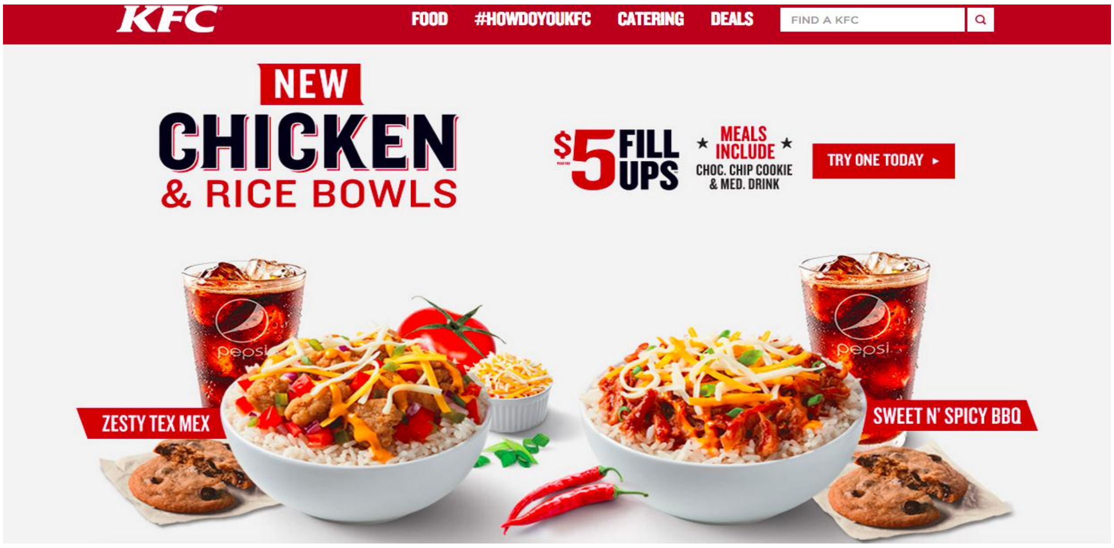

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Exhibit 2: Cross cultural web interface design. B. Chinese website*

* The bar on the top of Chinese version website has: Balance Diet; Ordering Online; App Download; Company Responsibility; Join Us; News Center; Everyday Exercising; Children's Land; Franchise; Contact Us. The bar on the top of US site has ones only about food.

Source: https://blogs.commons.georgetown.edu/cctp-748-spring2015/author/xy55/

As far as **geographic expansion** is concerned:

As KFC faced aggressive competition from McDonalds in China's largest cities, it opted to expand in smaller cities and build a genuinely national business with outlets all over China. It used an initial presence in 16 locations to act as a base from which it could accelerate the outlet opening program. And eventually the time needed from initial site selection to opening was also shorter, about 4-6 months compared with 9-12 months in the US.

Concerning KFC's **own distribution system:**

To support the rapidly-growing network of outlets, KFC established its own distribution business in 1997. It started building warehouses and operating a fleet of trucks. The reasons why KFC opted for this choice were first, because China lacked an existing logistics network into which KFC could tap. Second, it was necessary for KFC to be able to offer a complex menu and introduce new products quickly. Third, it gave KFC greater control over food safety although it wasn't immune to problems that arose with contaminated foodstuffs in the supply chain.

About **staff training and ownership of outlets:**

Given that in order to maintain its annual expansion KFC needs annually at least 1,000 new managers and 30,000 new staff members, workforce planning was made even more challenging because of the strategy of opening wholly-owned rather than franchise outlets. In fast-food markets franchising is generally the traditional method of expanding as it reduces investment

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costs, lowers risk and enables quicker geographic expansion. It, also, places the responsibility for staff recruitment onto the franchisee. However, in China the restaurant operations and menu were more complex and KFC considered that there weren't enough experienced, entrepreneurial candidates able to take the risk of investing in a KFC franchise in China. Thus, they could manage all aspects of the growth strategy and day-to-day operations.

Another study by Bell & Shelman (2011) summarizes KFC China's five competitive advantages as following:

1. Infusing a Western brand with Chinese characteristics
2. Expanding rapidly
3. Developing a logistics network
4. Training employees in service
5. Focusing on ownership rather than franchising

There is no doubt that Yum! Brands strategy in China was successful. Despite some problems over allegations about KFC's supply chain in 2011 and 2012 in relation to high levels of antibiotics that were found in samples of KFC chicken and the reduced demand for chicken-based products following an outbreak of avian flu in China, which resulted in a negative impact on KFC sales in China in 2013, the business remained committed to a continued outlet-opening program of more than one store per day (Riley, 2013).

Porter's Five Forces analysis

Porter's Five Forces analysis stresses the importance of a competitive strategy in a constantly changing competitive environment.

- **Rivalry among existing competitors:** The pressure from existing rivals is moderate in that the size of the market allows room for existing competitions to operate without significantly affecting KFC. KFC currently dominates the Chinese fast food market. This creates a strong competitive position of KFC.

- **Threat of new entrants:** New entrants' threats are moderate. A lengthy amount of time is usually required to set up operations in China. KFC disposes of huge capital and is adaptive, thanks to its localization strategy, what reduces the threat of new entrants.

- **Bargaining power of suppliers:** Supplier power is fairly low. Chicken, the main product used is not rare. As such, there are plenty of local suppliers. It is important though to maintain high quality standards. Most suppliers however will not have the ability to price their goods beyond the market price.

- **Bargaining power of customers:** Bargaining power is low. Even if there are also local fast food chains, regular restaurants, cafes and local street food stands, KFC stays close to the market price. Also one of the biggest advantages that KFC has over McDonald's, for example, in China is that it was willing to localize its products to make them more familiar to the Chinese customers. This adaptation has earned KFC a larger market share and boosted its successful growth. Also, the size of the market is so large that individual buyers have little impact on competition.

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- **Threat of substitute products and services:** Threat for substitute products and services is low. Chicken is a more popular meal than hamburgers in most Asian countries. KFC offers an American style experience that is different from most other food establishments (Central Asia/China and Fast Food. International Strategy Junto).

From the above Porter's Five Forces analysis, it was found that the market position of KFC in China, despite, or even maybe because of, the challenges it faces from competing companies and local particularities is very strong and this is what makes it proactive and very successful. Eventually, the overall increase in the industry globalization and the adaptive process of localization has increased the strength of these competitive forces.

SWOT Analysis

The following SWOT analysis assists to determine the likely market's risks and rewards. Sources are derived from various secondary data (KFC's localization Strategies in China; Timeline, 2004, Central Asia/China and Fast Food. International Strategy Junto).

Strengths:

- KFC disposes of important financial backing.
- In terms of the potential of market, chicken is already familiar in China, much cheaper and more widely available than beef. Chicken has long been regarded as a kind of nutritious food which is especially good for patients, elderly and children. An increase in health conscious consumers also raises the consumption of chicken.
- KFC encourages worker productivity.
- KFC ensures standard levels of quality, service and cleanliness at all of its outlets. This develops a positive image of US fast food chains as famous, air-conditioned, and hygienic.
- Moreover, KFC has adapted its advertising campaign to suit local preferences.

Weaknesses: The weaknesses on KFC's road to China include:

- While the Chinese government provides much more support for technology enterprises, KFC is a service provider dealing with food products.
- High expansion costs for new restaurants.
- Trouble getting a constant supply of quality chickens from local suppliers.
- Human resources management is difficult to conduct in China. There is scarcity of Chinese-speaking managers. There are, also, possible conflicts between KFC-appointed managers and local employees.

Opportunities:

- The growing economy in China. With an average growth rate of 8 percent in GDP, an enormous buying force based on a population of 1.3 billion, the scarcity of US brand restaurants (only one restaurant for every 5 million people) made China a vast, promising market for transnational food industries.

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- The Chinese government has welcomed investment by western investors. Since the poultry industry is one of the top priorities of China's agricultural modernization plans, KFC, gained support.

Threats:

- Expanding into China encompasses uncertainty. Opportunities and risks vary widely from one city to another as the criteria for the suitability of locations remain unspecified.
- Complex legal system
- Problems with source and distribution
- Inadequate infrastructure
- Lack of local management expertise
- Moreover, KFC's QSC (quality, service and cleanliness) is opposed to Chinese limited exposure to quality products.
- Competition is increasing from other fast food enterprises: US brands and international firms.

CONCLUSIONS

While global popular culture products and symbols have penetrated most local markets, the ideology of economic freedom and consumer choice encourages varied uses and interpretations of standardized consumption patterns. Thus, by adapting marketing to local attitudes, KFC, the biggest western fast-food chain in China fosters acceptance of their products and logos by taking in the same time into account the distinctive tastes of the Chinese consumers.

As studies show, western transnational firms can be successful in China, if they are able to understand the Chinese consumer attitudes and they examine how Chinese consumption behavior may change as China integrates into the global economy and faces increased exposure to industrialized countries, cultures, and products (Curtis, Mccluskey, & Wahl, 2007). Western fast food chain brands have a competitive advantage of having superior core advantages. KFC has a fast food mode that combines traditional Chinese diet (noodle or dumpling) with the modern fast food facilities.

KFC's strategy in China can be summarized to its strong localization by infusing a Western brand with Chinese characteristics, its rapid expansion, the development of a logistics network, training of employees in service and focusing on ownership rather than franchising.

Yum! Brands Company's strategy in China has been very successful. The market position of KFC in China, despite, or even maybe because of, the challenges it faces from competing companies and local cultural particularities is very strong and this is what makes it proactive and very successful. Eventually the overall increase in the industry globalization and the adaptive process of localization has increased the strength of these competitive forces. Finally

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KFC's strategy in China has many strengths and great opportunities and low to moderate weaknesses and threats.

In conclusion, localization, which involves modifications of a firm's standard mode of operation, is indeed the strong weapon of globalization and this process is ostensibly successfully dealt by KFC in China.

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