

KFC



How the South will be won

Assignment Nr 1

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Prelude

KFC(Kentucky Fried Chicken) was established by Harland Sandler in corporation with Pete Harman 1952 as a franchise. His unique recipe of deep fried chicken grew out to be a great success. On December 16 1980 (Colonel) Harland Sandler dies of leukemia. Fortunately his legacy of Kentucky Fried Chicken restaurants went on to expand in many countries over the world. Today, KFC operates in more than 80 different countries around the world, including a big US market, a presence in the European market and a big expanding Asian market. Although this looks very promising, KFC is struggling with one particular market that is yet quite attractive; South America.

The South American issues& advantages

With the 548, 5 Million counting population, South America comprises a very lucrative market. **Why is KFC not taking its chance?** There are several reasons:

- ✓ Lack of control; the distance between headquarters in Louisville, Kentucky and the Latin American region is quite big to successfully control restaurant quality and solve problems effectively.
- ✓ The substantial differences in markets; Apart from the fact that Latin America differs greatly from North America, it also differs greatly in political and economic situations within the 20 countries which it comprises.
- ✓ The widespread inequality in income, poverty, political instability, and the historical mistrust for foreign operations.

Although this seems overwhelming at first glance, thorough research on the side of the company and flexibility can master these issues.

This region, though not seen at first glance, also has its great advantages. For example:

- ✓ Low trade-barriers due to the NAFTA and Mercosur trade agreements.
- ✓ The economy is emerging, especially in Mexico, due to government legislation to privatize former government companies, upgrade infrastructure, modernize the tax system& labor laws, and improving the international competitiveness in general.
- ✓ Mexico still has lower wages, which can give opportunities in producing the goods needed. Mexico can also function as a 'bridge' between the North American company base and the South American market.

Current situation of KFC

Despite the reasonably strong position in Mexico, KFC is hesitant to expand into the deeper regions of Latin America. KFC also has limited resources and cash flow to aggressively expand in all countries simultaneously. Since there is no large restaurant base in this region, except for Mexico, and a country subsidiary is only possible in Mexico.

Proposed Strategies & Objectives for Latin America

- ✓ To gradually expand into Latin America using Mexico as the base for Latin American operations.

This could be a successful strategy, because of the fact that KFC already has a strong customer base in Mexico, with many restaurant locations. This could mean that a subsidiary could be found, which could also actively help to control & adapt the further expansion into the more Southern regions.

- ✓ To build a competitive advantage by increased adaptation to the local Latin American needs.

Income distribution is still highly unequal in Latin America. On average 40% of the population is below the poverty line. The average income is around \$4000 a year. Consequently, this means that prices must be adapted to match the average consumer purchase power. Else, people would rather eat at home or go to a local diner to get food for half the price that they would pay at the KFC restaurant.

To competitively expand into Latin America, using Mexico as a base, and adapt to the Latin American local needs.

By combining the above mentioned strategies, we get a more efficient strategy for this region. By having a stable base to start from (a subsidiary in Mexico and perhaps a special Latin American division located there), it will generate solid ground to start competing with the major 'rivals'. From there on, additional (quality) control and major promotions can be started.

Proposed (long & short term) objectives:

Short term (upcoming 2 years):

- ✓ To establish a Latin American division in Mexico
- ✓ To attract franchisees in Brazil, Argentina and Venezuela respectively
- ✓ Adapt the prices to compete with the local competitors
- ✓ Draft up a matching marketing scheme to be accessible to a larger target group

Long term (upcoming 10 years)

- ✓ Build market leadership in Brazil, Argentina and Venezuela
- ✓ Attract country subsidiaries in respective countries.

Long term (upcoming 20 years)

- ✓ Expand operations into neighboring countries

Suggested implementation:

Internal organization & Control:

It is very important that:

- ✓ The management staff at the Latin American division has knowledge of the respective region and has the necessary language skills.
- ✓ There should be regular contact with the main office to ensure the communication stays adequate.

- ✓ Trainings to ensure the latest knowledge of what is going on in the local markets are a must.
- ✓ Regular visits at all the branches throughout the region are necessary to check up the quality of operations. And to give and receive feedback.
- ✓ Keeping close contact with suppliers

The Marketing& Products

Each country should have a partly adapted marketing approach. Fully adapting the marketing efforts is costly, but considering which media to use to break through to the target market is crucial. **Not everybody will have a computer or TV or read the newspaper. So the promotions should be centered on more creative, out in the street approach.** To save costs, it should be wise to keep the main layout of the KFC menu as it is.

But adding a different desert or drink could be the small detail that does the trick to that specific target group. **Focusing on simple but efficient adaptations is the best way to customize the product line.**

The Costs

Implementation of a new strategy and opening new branches in reasonably new regions is always costly. But this is inevitable when striving to get a leadership position in this most promising market.

Set up Office Mexico

building (rent)	\$1.000,00
Salary 20 employees	\$60.000,00

Set up Restaurants(company owned)

Brazil (5)	\$250.000,00
Argentina (5)	\$250.000,00
Venezuela (3)	\$150.000,00

Marketing

Brazil	\$80.000,00
Argentina	\$80.000,00
Venezuela	\$60.000,00

Total first Month

in US \$	\$931.000,00
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The investment may seem high at this moment, but in the future, as the market grows and the economy gets better, the return will be significant.

Conclusion

As you can see, there are still great opportunities for KFC in Latin America. By building out of the base-office in Mexico, setting clear goals and persisting in them, KFC could well become a market leader in that region.

Sources

Prelude:

- www.kfc.com / About Us / History

The South American Issues & Advantages:

- Blockbook International Enterprise/ Task 1
- www.CIA.gov / Country Factbook/ Mexico
- New England- Latin America Business Council; Overview Latin America:
http://www.nelabc.org/site_english/LatAm_Region/LatAm_Main.html

Current Situation of KFC:

- Blockbook International Enterprise/ Task 1
- www.Kfc.com / About/ KFC Global

Proposed Strategies& Objectives for Latin America& Suggested implementation:

- Global Marketing, a decision orientede approach 3rd edition, Svend Hollendsen, Chapter 19 “Organization and control of the global marketing programme”
- Total Global Strategy, Managing for worldwide competitive advantage, George S. Yip , Chapter 1 “Understanding global Strategy”, Chapter 8 “Building the global organization”