

**Globalisation and its Challenges in China: case studies of KFC**

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## GLOBALISATION AND LOCALISATION OF FAST FOOD PRODUCTS

### - Case study of KFC in China

*Dr Wei Chen and Yanan Liu, Sheffield Hallam University*

#### **Abstract:**

The purpose of this research is to explore the importance of product localisation of western fast food in China market. China is an emerging market providing huge potential for MNEs' global expansion. However, because of social and cultural differences, it is an immense challenge for western companies to choose right marketing strategy when they move into China market. Culture has a significant influence on Chinese customers' behaviour and loyalty. This study uses KFC as a case study to investigate fast food products localisation and adaptation in international market. The reason of using KFC is because it was the first western fast food company moved into China and now the market leader in China. The primary sources of data were collected via questionnaires and group interviews. The finding reveals that the product localisation plays a crucial role in KFC's success and secures its competitive position in the sector. This research provides valuable suggestions for western fast food companies when they develop their international strategies.

**Key Words:** globalisation, localisation, global marketing, product adaptation, standardisation, marketing strategy, fast food, China

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## **Introduction**

According to Mergers & Acquisitions Business (2011), China will gradually become the world's largest fast food market. The growth of Chinese fast food sector is 10%-20% every year. In 2010, the market scale exceeded RMB 260 billion. As a result, more and more western fast food companies consider China as their strategic market. Overall local fast food restaurants have nearly 70% market share, but majority of them are independent restaurants. The major Chinese chained fast food restaurant, such as Kongfu, Yonghe King, Malan Noodle, and Da Niang Dumpling, are much smaller compared with their international competitors in terms of revenue or stores.

Globalisation is a “complex and multifaceted phenomenon” (Guttal, 2007), because it processes enormous powers and produces great effects to the world. Lasserre (2007) states that there are three stages of globalisation: export, multinational and global. He presents that a business strategy which refers to a series of choices which assist the company to organise it, make long-term objectives and building strong competitiveness. When companies focus on the world markets, the business strategy is global. The key of growth strategy is profitability which can be achieved by “selling more products in existing markets or by pursuing strategies to enter new markets” (Hill, 2008, p362). Thus, a correct global expansion strategy can assist companies to increasing the growth of profits in new markets. Furthermore, Aaker and McLoughlin (2007) provides seven motivations of global strategies which include creating global association, accessing low-cost labour or materials, obtaining scale economies, accessing strategic markets, dodging trade barriers, cross-subsidise and accessing national incentives. Czinkota et al. (2004) claim the main motivation of MNEs' expansion is pursuing profits. Companies can increase their profits by selling products into the global market. However, they need to adapt their products and marketing strategies to suit local conditions and cultures (Hill, 2008).

Global expansion faces a series of challenges, such as local responsiveness which comes from the differences of customer tastes and preferences. Besides, the cost reduction is affecting global businesses, because they have to reduce costs to increase their competitiveness. Thirdly, some success recipes are easy replicated by their competitors, particularly in the fast food sector (Gupta and Govindarajan, 2004).

## Cultural impact on international marketing

When companies expand to other countries, cultural issues should be considered carefully. In order to grasp lucrative foreign markets, operators must understand deep cultural differences (Kotabe and Helsen, 2008).

According to Czinkota et al. (2004) culture includes nine elements (see figure 1 below). All elements shape people's culture values and each element could affect people's demands and preferences. For instance, product consumption refers to different societies have different purchase patterns, usage habits, and usage needs, because resources, food cultures, ethnic customs, and dietary habits are different around regions.

Cultural differences can lead to different brand selection, buying behaviour, and consumption customs. (Lee and Carter, 2009) Therefore, when international companies expand their business to new countries, they should understand the local cultures to increase local responsiveness.

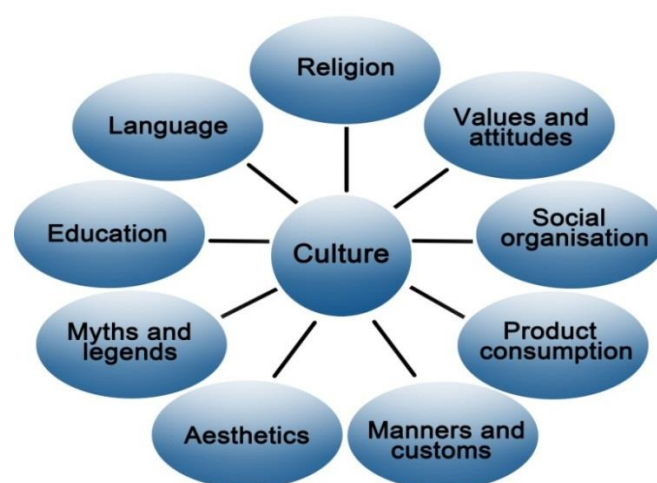


Figure 1: The Components of Culture (Source: Lee and Carter, 2009)

Culture has a vital impact on international marketing. Cleveland and Laroche (2006) propose that managers need to recognise cultural influences on markets because "interactions between cultures and markets are accelerating in the global economy". Besides, Rugimbana and Nwankow (2003, p5) state that "markets are people, not products." As a result, cultures of people impact directly on the customers' consumption, because cultures include values and norms which influence their

choices. According to Lasserre (2007), there are six aspects which are strongly affected by cultural differences: marketing and customer communications, partnerships, negotiations, human resources, business practices and multi-cultural teams.

Cultural forces send direct and indirect messages and experience to customers for their choices of products and services. Therefore, in order to know the consumer's choices and wants, the marketers must understand their culture first (Gillespie et al., 2007). In other words, "cultural forces shape a company's marketing mix (Kotabe and Helsen, 2008, p135)." They also point out that products and services could be restricted by cultural differences, because different regions have diverse history and norms. Furthermore, cultures and customs decide customers' buying motivations and it could create new opportunities for international firms. For example, when McDonald's introduced McChao in Japan, a kind of Chinese fried rice, the volume of sales climbed 30%, because over 90% of Japanese people eat rice every day (Gillespie et al., 2007).

Lee and Carter (2009) outline that the relationship between culture and customer behaviour (see Figure 2 below). Culture and consumer behaviour interact with each other. Cultural value system is formed by a specific group to which they belong, but individuals have unique distinctive values that are influenced by regional culture, social culture and familial culture (Luna and Gupta, 2001). According to Terpstra and Russow (2000), they argue that MNEs must know local culture when they begin to enter into the international markets, because culture shapes behaviour. Consequently, different desires and needs of people are created by cultural values and affected by the different organisations they belong to (Kim et al., 2002). From figure 2, it can be seen that marketing communication as conveyor transfers messages between cultural value system and consumer behaviour, while it can influence buyer behaviour directly as well.

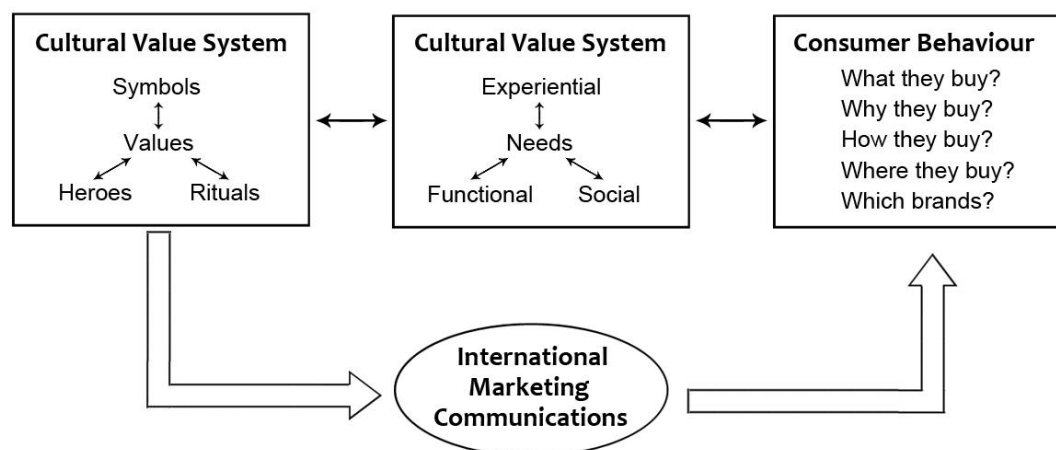


Figure 2: The interaction of culture and consumer behaviour (Source: Lee and Carter, 2009 based on Luna and Gupta, 2001)

Customers are the core of buyer behaviour and customers' value is affected by culture. Therefore marketing managers should always consider cultural values of customers to exploit efficient marketing programs. During customers' buying decision making process, customers' attributes, social and psychological processes, and behaviour will significantly influence their choices.

### Product development

For MNEs, the core of international marketing is product development (Czinkota et al., 2004). When the firms prepare to exploit new markets in other countries, they would face cultural differences and diverse customer needs. Therefore, to get market share, the marketer should select a right product strategy which suits new markets.

Stone and McCall (2004) outline that a product portfolio strategy for business expansion (see figure 3). They present different strategies for existing markets and new markets. If MNEs get ready to expand to new countries, they should select market development strategies for existing products and diversification strategies for new products (Johnson and Scholes, 2002). Some firms keep their existing products and search for new segments for market development. However, considering low risk and saving costs of development, companies always choose related diversification strategies for new product development. It is products which directly connect between the company and customers by creating value to customers.

	Existing product	New product
Existing market	Penetration strategies <ul style="list-style-type: none"> <li>• withdrawal</li> <li>• consolidation</li> <li>• market penetration</li> </ul>	Product development strategies
New market	Market development strategies	Diversification strategies

Figure 3: Strategic related options for growth (Source: Stone and McCall, 2004 adapted from Ansoff, 1986, p99)

Hill (2008) mentions a successful new product will bring enormous returns to its developer company. It is also a crucial determinant of performance for global firms (Brentani et al., 2010). For majority international companies, product differentiation strategy is widely used to give customers a unique and valued perception which can differ from their counterpart's products. Thus, new product development is necessary for international firms to meet local customers' demands (Frynas and Mellahi, 2010).

### **Localisation vs. Standardisation**

Finding the right balance between standardisation and localisation of marketing practices is a major challenge for MNEs (Terpstra and Russow, 2000, p9), because when MNEs expand their business to foreign markets, the environment of business, culture, policy, and society are different from the domestic market. Thus, new product development should consider whether to choose adaptation or standardisation as it directly affects sales figures and customers' choices (Boztepe, 2007).

Standardisation refers to providing the same products for the domestic and foreign markets (Kotabe and Helsen, 2008). The purpose is to reduce costs. Localisation (customisation) means firms adapt products based on cross-border differences in order to meet customers' needs and demands in diverse markets. Standardisation focuses on

low costs through mass production, but ignores customers' preferences. Localisation emphasises customers' satisfaction through adaptation of products.

With the process of globalisation, choosing a standardisation or localisation strategy is a point of contention. Some researchers argue that MNEs should standardise their products and services as part of their marketing strategies, because they believe that with the development of communication and technology, the world markets will be homogenized (Ozsomer and Simonin, 2004; Czinkota et al., 2004). In addition, in that process, cultures can be converged and some people claim that the demands and choices of consumers across the world are becoming alike (Kotler et al., 2008). Similar demands, technologies, and low trade barriers allow the international firms to sell the same products and service in different markets (Zou & Cavusgil, 2002).

However many other companies have chosen to localise their products to foreign markets. For example HSBC advocates it as a global bank and do business as locals (Kotler et al., 2008). Most researchers believe that product localisation is necessary for global expansion. Keegan and Green (2008, p21) propose that "products must be adapted in response to different market conditions." Furthermore, Gupta and Govindarajan (2004, p56) state that it is necessary for companies to adapt products for dealing with local market differences, because companies "can reap benefits in three fundamental areas: market share, price realisation, and competitive position." In addition, if the firms use the adaptation strategy, it can meet customers' needs and wants (Kotabe and Helsen, 2008). Cultural difference is another reason that forces MNEs to adapt products for the foreign market as well. Johnson and Arunthanes (1995) claimed that cultural difference has a positive influence on the product adaptation, especially in consumer products more than industrial products.

For MNEs, whether employ localisation strategy or not that depends on the specific condition of target markets. In order to expand businesses to foreign countries effectively, many researchers propose that firms should combine standardisation and localisation as well as balance the degree between standardisation and localisation. In other word, they should "think globally but act locally" (Kotler et al., 2008). It is better to keep international standardised operation and exploit or modify new products based on local customers' needs.



## **Research Method**

Case study has been used as the major method for this study. Case study is “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Robson, 2002, p178). It can explain, evaluate, and illustrate the social phenomenon or can examine theories and develop theories (Maylor and Blackmon, 2005).

Saunders et al. (2009) believe that the multiple methods are better than the mono method for business and management research. This research has used multiple methods in data collection. Secondary data is very useful for researches, which provides a great deal of sources and information that can help the investigator to test and answer research questions. In addition, using secondary data has some advantages, such as timing, saving costs, large samples, and serendipity (Veal, 2006). Primary data is the core of the study. To collect primary data, the authors employed the on-line survey and face-to-face focus group interview. The main participants are young people who are between 18 to 30 years old, so the Internet is familiar and easy way to access. 190 out of 200 questionnaires have been returned and interpreted in this study. After questionnaires, a focus group interview was carried out among a group of five Chinese overseas students, which allows the researcher to find out why and how customers make choices on fast food products and what do they think about KFC’s product localisation.

## **Finding of KFC China Case study**

### **KFC and Fast Food in China**

KFC belongs to Yum! Brands which ranked second in global foodservice companies in 2010 and has three main brands: KFC, Pizza Hut, and Taco Bell (Euromonitor International, 2011). With the rapid development of 25 years, KFC is the biggest western fast food brand which possesses over 3000 restaurants in China (Bell and Shelman, 2010). In addition, “KFC has become the most recognised global brand among Chinese consumers (Parker, et al., 2006).” The success of KFC could not be separated from its localisation strategy. After it entered into the Chinese market from

1980s, it continuously exploited new products to attract local customers and delivered the Chinese-style fast food to customers through advertisement and promotion (Li, 2008). They adopt local employees and use local supply chain. According to their strategy, KFC promote itself as “No.1 Chinese Style Fast Food Brand” (KFC, 2012).

About Chinese customers’ choices of fast food, according to an investigation of Curtis et al. (2007), they prove that the female gender, younger generation, higher income levels, and children prefer to eat at western fast food restaurants. With the economy’s development, the income is higher than before and the lifestyle is changed. The western food and culture become fashionable for Chinese, particularly in metropolises. The fast food has a great attraction for Children (Cheng, 2003). Some fast food restaurants like KFC and McDonald’s are venues for Children to celebrate their birthdays. It also attracts younger adults, partly because they think the western fast food is fashionable, such as McDonald’s (Eckhardt and Houston, 2002). However, the elder Chinese people are not so interested in western fast food; some of them go there just for accompanying their children or grand Children (Parker et al., 2006).

According to Euromonitor International (2011), the Chinese fast food industry had rapid growth in 2010, 16% current value growth and 6% growth of outlet volume increased to 1.2 million outlets. In the meantime, annual growth will expect to rise to 12% until 2014. More international fast food companies expand their businesses to lower tier (middle and small) cities, while, the domestic companies try to enter markets in first tier (major) cities in China. Although the competition was fiercer, Yum! Restaurants still held 40% of market share in chained fast food restaurant sector in 2010.

A localised menu appeals to extensive consumer groups for KFC in China. KFC introduces a number of traditional Chinese products which cater to local customers’ food habits and consumption preferences in the past 20 years. For example, KFC launched series of Chinese Breakfast, which includes congee, fried dough sticks called *youtiao*, and soy milk. In 2005, KFC China developed a “New Fast Food” model which is based on market research on Chinese food culture and customers’ needs (Bell and Shelman, 2010). From 2010, KFC introduced different types of rice dishes successively. It has been planned with more local new products for KFC China in the near future (KFC, 2012; Bell and Shelman, 2010)

Localised menu and frequent new product launch (Figure 4) are main strengths for KFC compared with its competitors. To do product development, KFC uses market testing to gather customers' feedback of products in order to screen optimal products (Euromonitor International, 2011). Joaquin Pelaez who is chief support officer at Yum! Brands said "in China, here, food is culture—at the very heart of society, it must be adapted" (Bell and Shelman, 2010). On the other hand, KFC China faces strong competition from other international chains and local restaurants. Therefore, KFC has to develop more exciting local products, because it must to differ from other western fast food brand and cater to Chinese people's favour. Chinese customers like variety and innovation, so new products can appeal to more consumers. Thus, in China, there are 50 items on the menu compared to nearly 29 items in the U.S.

	Category	Signature Products
1987	Chicken	Colonel's Original Recipe
Today	Sandwich	Zinger New Orleans roasted burger shrimp burger
	Twister/wrap	dragon twister
	Rice	chicken & mushroom rice
	Snacks	hot wing New Orleans wing popcorn chicken
	Sides	veggie soup
	Desserts	egg tart
	Beverages	9 lives juice lemonade coffee float milk tea with red bean
	Breakfast	pastry puff sandwich congee dough stick soy milk

Figure 4: KFC Today: Signature products in every category (Source: Jerzyk, 2011)

## Findings and discussion of primary research

This questionnaire survey interviewed 190 Chinese customers who are familiar with fast food. The aim of the questionnaire is to understand basic Chinese consumer behaviour related western fast food.

## Respondents' profiles

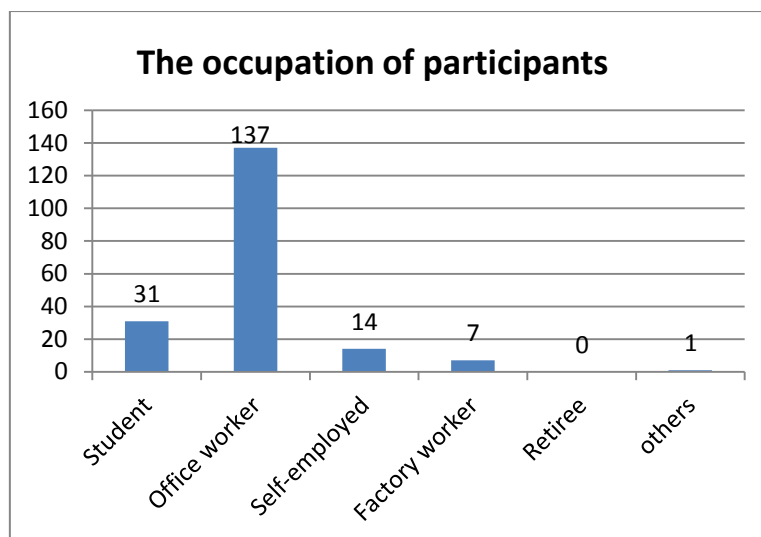


Figure 5: The occupation of participants

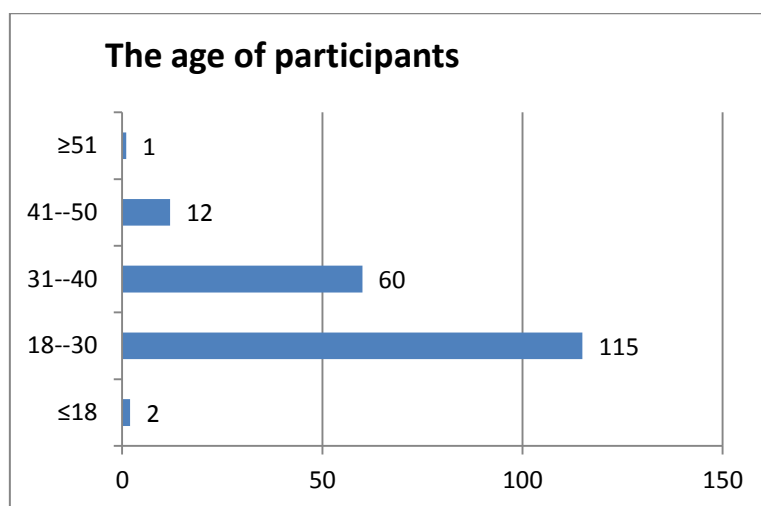


Figure 6: The age of participants

As can be seen from the data above, most customers who have consumed western fast food are office workers and students. Majority of them are under 30. Curtis et al. (2007) proved that younger generation and higher income levels would like to eat western fast food in China.

### **Chinese customers' favourite choice of fast food restaurants**

From figure 7 below, KFC is the most popular brand in China and 79% people agreed. In addition, 14% participants choose McDonald's for their favourite brand. There are few people like other brands (Burger King, Subway). 36% of customers think that a clean and nice restaurant environment is very important for them to choose restaurant;

about 28% customers believe that the choice of foods are the main reason attracting them to visit. Clearly KFC's clean environment and wide range of food choice can meet the most customers' needs.

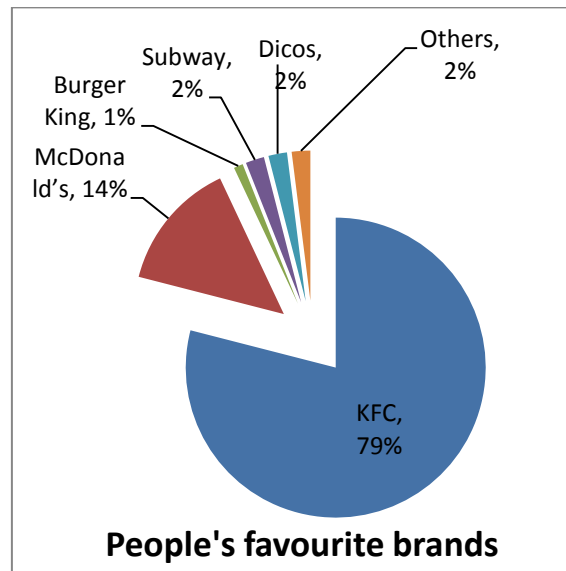


Figure 7: Chinese customers' favourite brands in fast food chains

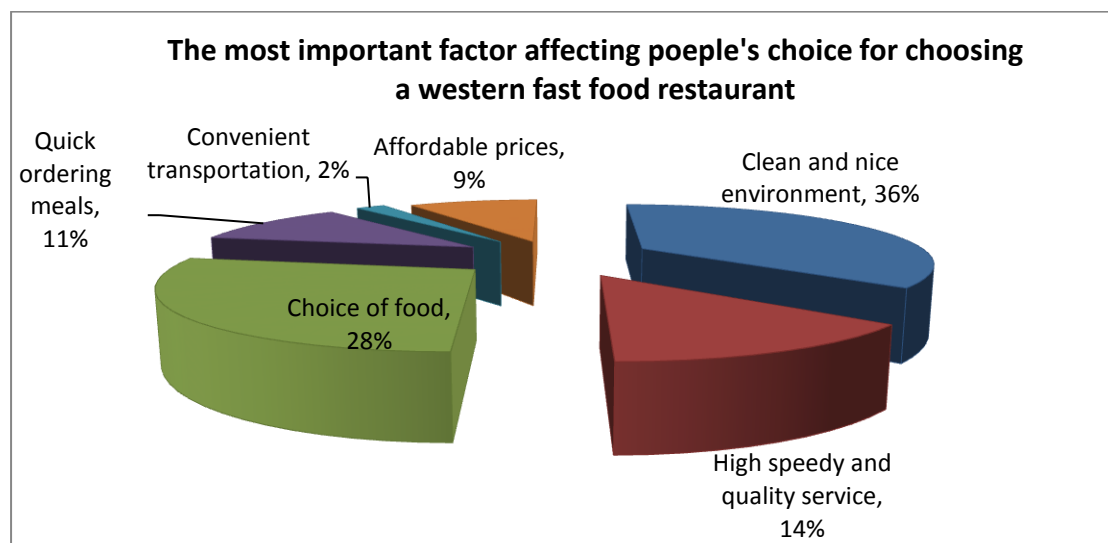


Figure 8: The factor affecting people's choice for western fast food

### Customers' attitude toward KFC new product

From Figure 9 below, nearly 65% customers would absolutely or often buy new products of KFC and 29% consumers may buy new products of KFC. Only 6% people do not like to try new products of KFC China.

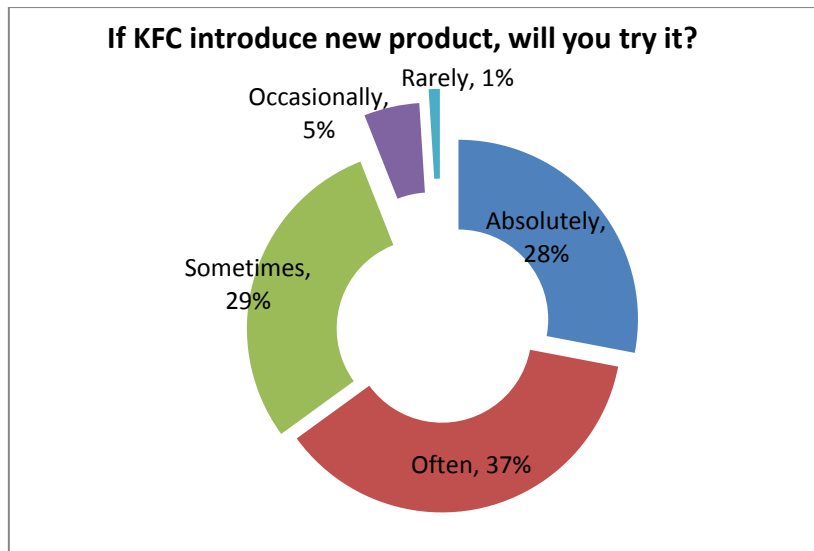


Figure 9: Foretaste rate of KFC's new products

From figure 10 below, it can be known that majority Chinese people (73%) prefer to eat Chinese style food, while minority customers (27%) prefer western style food.

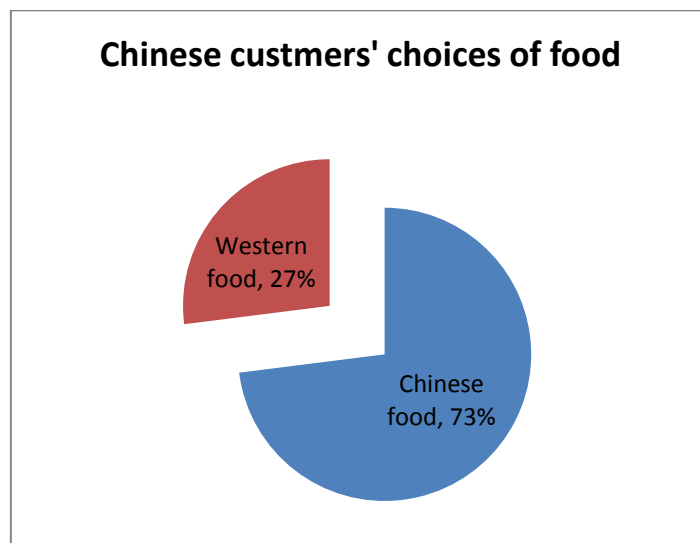


Figure 10: Food choice of Chinese people

About popular meal in KFC, the most popular item is its hamburger (133 responses). The dragon twister, which is Chinese style, is the second favourite choice (98 responses).

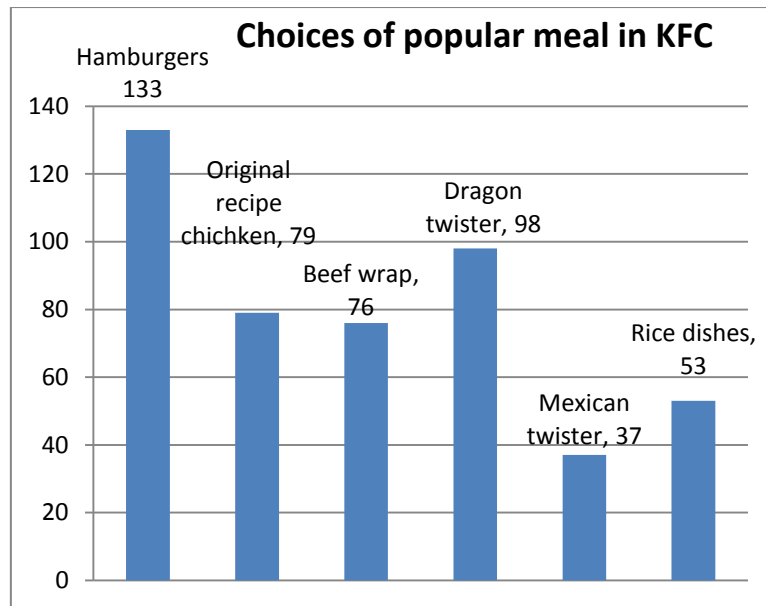


Figure 11: Chinese customers' choices of staple food in KFC

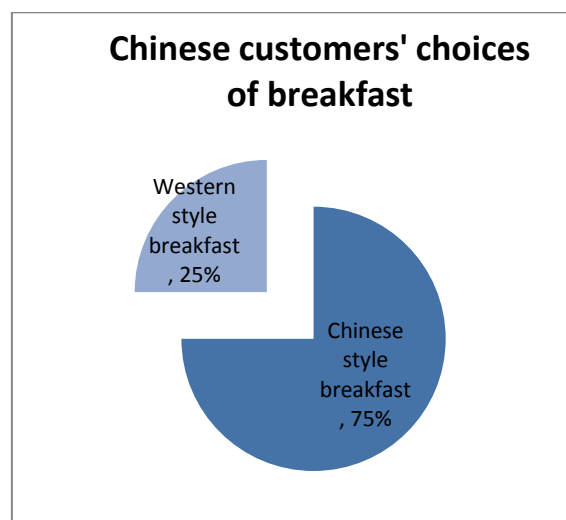


Figure 12: Chinese people's choices of breakfast

About the choice of breakfast of KFC (Figure 12 and 13), there is no doubt that Chinese style breakfast is more popular in China. Because of KFC's localised products choice, customers chose congee (135 responses), soy milk (99 responses), and fried dough sticks (96 responses), only 66 and 58 participants would order hamburgers and egg tart for their breakfasts. In addition, only a few customers choose coffee (31 respondents) and French biscuit (*Shaobing*) (37 respondents). 52% of participants are satisfied with KFC breakfast and 18% of customers are very satisfied with KFC's breakfast, while only 2% of respondents are not satisfied with it. Figure

15 shows that majority of Chinese customers (74%) are extremely satisfied or satisfied with KFC's rice dish and only 2% are unsatisfied.

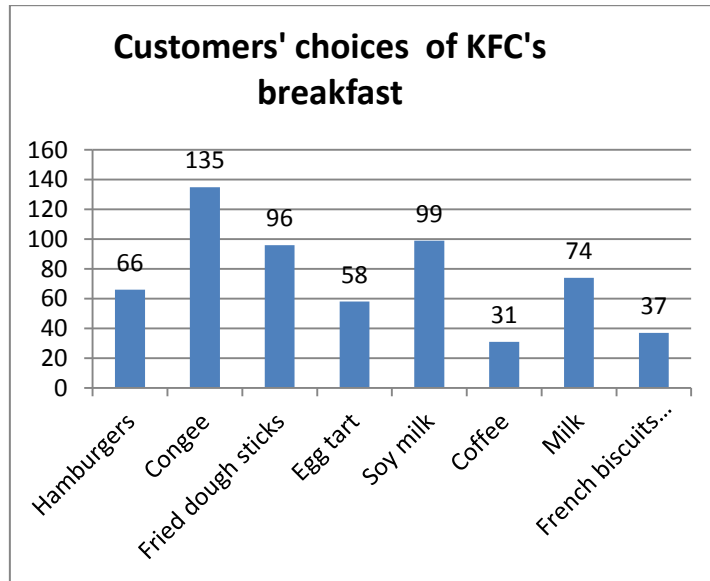


Figure 13: Chinese customers' choices of KFC's breakfast

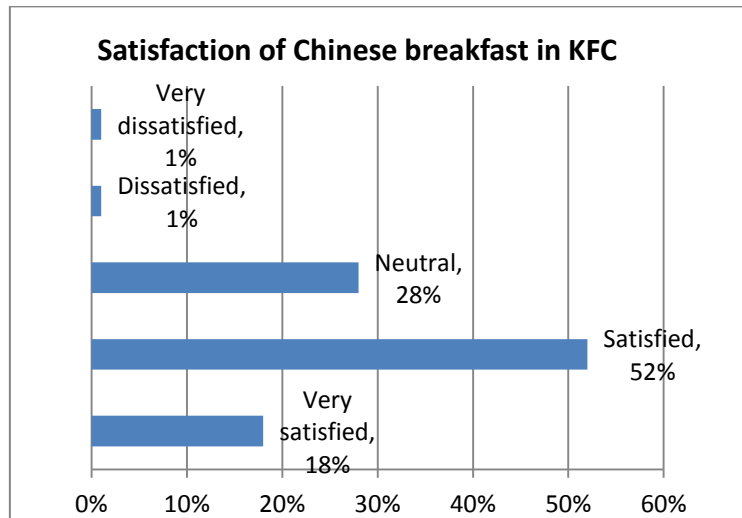


Figure 14: Satisfaction of Chinese breakfast in KFC



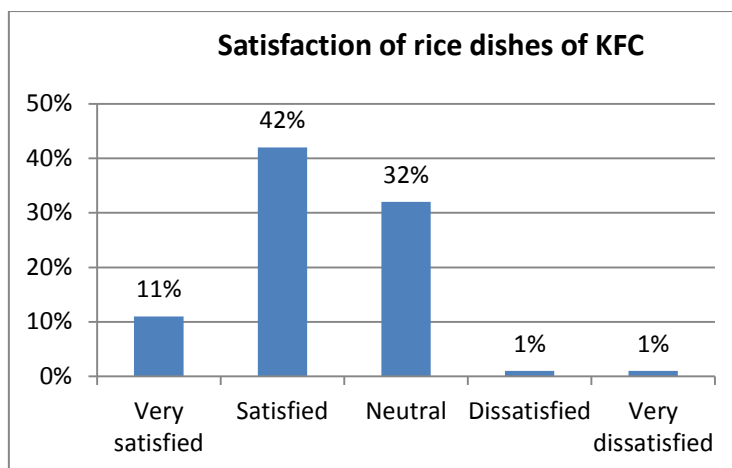


Figure 15: Satisfaction of rice dishes of KFC

From the collected data above, it is clear that KFC has used localised products to create its business opportunities, particularly attracting old generation of customers as they are more traditional. Lee and Carter (2009) believe that different cultures lead to different choices of buying behaviour and product consumption. For the popular food of KFC, except hamburgers and original recipe chicken, the others are all localised Chinese food. As Gillespie et al. (2007) mentioned before, cultures and customs could create new business opportunities for companies. KFC's Chinese style breakfast rice dishes are unthinkable in western countries, however it is exactly the product which helps KFC stand out from its competitors and grab more market share in the sector.

Comparing with other western fast food restaurants, KFC has clear advantage on new product development and launching localised products. It confirms once again that localisation can make KFC to integrate into the Chinese market and get high local responsiveness and market share.

### **Focus Group result**

This focus group interview was carried out with a group of Chinese overseas students who are studying in Sheffield Hallam University. From the collected first hand data, it could be identified that culture has deep influence on consumers' behaviour, particularly food choice. As Prakash and Singh (2011) emphasised previously, the food habits are formed across culture in people's early lives. It has deep impacts on these students' daily lives, even when they live abroad. They still prefer to eat

Chinese food in the UK. It means once the tastes of people are shaped, it is not easy to change.

About products localisation of KFC China, most of them think that the product adaptation of KFC China is very successful, because it provides chances for local customers to some food totally new for them, which combine Chinese and western flavours together in one nice place. It makes the products and the brand really attractive.

Indeed, localisation of KFC China has a positive impact on customers' choices. As Kotabe and Helsen (2008) outlined that to enter into a new market effectively, the company should have a deep understanding of cultural differences. In fact, based on social and cultural environment scan of China, KFC has identified and satisfied Chinese consumers' specific needs. It positions itself as a trendy fast food restaurant with western identity but care about Chinese customers' needs. In terms of product localisation of KFC China, customers are the resource, co-creator, and user of the company to develop new products. That is one of the main reasons KFC can become the favourite restaurant brand for Chinese customers.

### **Key issues of findings**

For the fast food industry, the product adaptation is very important, "because of large scale variability in food habits across countries and even within a country" (Prakash and Singh, 2011). Food habits are formed very early in life and they are varied significantly across cultures. Hence, the fast food MNEs need localised products to cope with different food habits and cultures.

From the case study of KFC, we know that the localisation is absolutely necessary for western fast food chain restaurants, because food habits are formed in people's lives and across cultures, which influence food consumption, buying behaviour and customers' needs. The local customers get used to eating local food, so restaurant chains should develop localised food based on deep understanding of local food cultures. On the other hand, the localisation strategy can facilitate the MNEs' long-term development. It is important for western fast food restaurants to balance standardisation and localisation. Through the case study of KFC, it can be seen that localisation is one of the reasons for KFC's success in the Chinese market as it

provides opportunities for KFC to access local customers and get local responsiveness. The product adaptation gives customers a unique and valued experience which allows them to distinguish KFC from other similar products.

## **Conclusion**

The product localisation strategy can be applied in many sectors, but it is particularly important for the fast food industry because of large scale variability in food habits across countries and even within a country (Prakash and Singh, 2011). Food habits are formed very early in life and they are varied significantly across cultures. Hence, the fast food companies need localised products to cope with different food habits and cultures.

From this case study, KFC China has demonstrated the power of products localisation. KFC had good understanding of Chinese food culture and put production localisation as its priority. It continuously develops new products for local market. Customers are participants in the new product development process and they provide precious feedback the KFC. Product localisation has a great significance for this fast food giant's to achieve its strategic vision.

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