GLOBAL OPPORTUNITY

Fast-Food Rulers in China

As U.S. fast-food chains look toward foreign markets for growth, they face a typical decision-making question concerning which fast-food model to employ abroad. The issue centers around whether a chain should follow its U.S. model and offer its core products much like it does at home, or alternatively, whether it should adapt its organization and offerings to suit the local tastes of residents in the host country. The answer to the question concerning which of these two philosophies is "right" presents a dilemma to managers of fast-food organizations in their efforts to expand globally. Consider two success stories: those of KFC and McDonald's in China.

The first case involves the Yum Corporation. In 1987, when Yum brands, the holding company of KFC and Pizza Hut, faced falling revenues in the United States, it started to investigate the possibility of expanding overseas. Location studies at that time revealed that China was a promising market due to its sheer size and large expanding population. By entering that market, Yum realized that due to distinct local taste preferences, the company needed to adapt its product offerings to local palates and lifestyles. The menus, therefore, were reconfigured to add dishes similar to the foods that millions of Chinese grab from street-stall restaurants. Food items such as a bowl of congee (a rice porridge), a dragon twister (a chicken wrap), or a spicy tofu chicken rice were added to the usual fried chicken bucket menu items. The company hired Chinese managers for advice on food tastes, built partnerships with local companies, and trained other Chinese to operate the new branches that the company continued to add almost daily. The company, in 2015, commanded a 40 percent market share of China's $121.7 billion fast-food market. Starting with just a single restaurant in 1987, Yum now operates 5,003 KFCs in 650 Chinese cities. McDonald's, on the other hand, which is a competitor in fast-food industry in China, holds a 16 percent market share. Unlike KFC's policy of menu adaptation to suit local tastes, McDonald's opted to follow the same core strategy used in the United States by offering its familiar menu items. The restaurants' layout, décor, and atmosphere also followed the familiar format used at home. In this manner, McDonald's franchises were marketed as sophisticated venues for legions of increasingly affluent and status-conscious Chinese, who seek to emulate the admired American way of life.

To maintain this image, McDonald's restaurants feature bright, warm colors along with soft, comfortable seating within fashionable interiors. In addition, new restaurants feature drive-through facilities to appeal to China's increasingly mobile population. Over the next five years, McDonald's plans to add more than 1,000 restaurants in China (that is, 250 restaurants per year). In March 2016, McDonald's operated more than 2,200 restaurants.[35]

The depiction of both KFC and McDonald's reveals contrasting cases for global executives seeking to determine which business model should be followed in an emerging market. Should the home-base model be kept intact, modified, or discarded altogether? Such a decision is obviously a correlate between three main factors: the product, the host country, and the management philosophy. Learn more about KFC and McDonald's by visiting http://hbr.org/2011/11/kfcs-radical-approach-to-china/ar/pr *and* http://www.reuters.com/assets/print?aid=USTRE6BE0VJ20101215. *Which of these two alternative strategies would you suggest for a fast-food company pursuing global expansion in India? Similarly, which of these two strategies would you suggest for Campbell's Soup Company in Canada? Support your answers.*