



Comparative Study of McDonald's and Kentucky Fried Chicken (KFC) Development in China

Wei Hu & Yuanyuan Xie

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THESIS

Abstract

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| Abstract <p>McDonald's and KFC are two international fast food restaurants. They both expended their businesses in global scale. It is obvious that McDonald surpassed KFC in terms of sales and fame in international level. However, in China, KFC performs better than McDonald's.</p> <p>The aim of this study is to find out how these two companies developed differently in Chinese market. By making a comparative study of McDonald's and KFC, different operation and competitive strategy theory will be integrated with their development situation. Research is made based on strategy theory, Internet sources and interviews.</p> <p>The thesis is started with general information, Chinese fast food industrial situation introduction and thesis structure. After having introduced the two companies background, we illustrated strategy theory as thesis theoretical basis. Next, by comparing McDonald's and KFC's core competitive power, we analyzed the main difference and some similarities comprehensively of McDonald's and KFC's business and competition strategy.</p> <p>In research finding chapter, we introduced qualitative finding, it is the main research method we have used. The thesis is ended in conclusion, after main finding, recommendation will be given to other international fast food restaurants and suggestions will be given for further research.</p> | | | |
| Keywords Comparative study, business strategy, competitive strategy, fast food development | | | |
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1 INTRODUCTION

As two of the world's largest fast-food giants, McDonald's and Kentucky Fried chicken (KFC) are both from the United States. Hu Wei and Xie Yuanyuan were surprised to find that there was no KFC in Finland, although KFC can be seen everywhere in China. In addition, they have a different way of development. Due to this situation, we want to find out how these two companies developed differently in Chinese market.

Hu Wei and Xie Yuanyuan wrote this thesis. Hu Wei was mainly responsible for question introduction, methodology and KFC parts. Xie Yuanyuan was mainly responsible for theoretical basis, thesis analysis methods and McDonald's parts.

1.1 The background of Chinese fast-food development

The fast food industry in China started late in April 1987, the KFC fast-food chain store entered Beijing, and opened a prelude to the fast development of modern Chinese fast food. The Chinese fast food industry in the context of GNP in the 1990s of the last century having an year-on-year growth of 10% had a rapid growth to up to a 20% annual growth rate with an industry profit margin always up to 10%-20%, so as to gradually become an important force in support of sustainable development in the food and beverage industry and a new economic growth point. In the end of 1996, China had about 800 professional fast-food companies, nearly 400 thousand fast-food stores and the annual turnover of the fast-food industry reached 40 billion Yuan, accounting for about 1/5 of the total food and beverage industry. In 1999, the national fast-food enterprises stores constituted over 800 thousand, the fast-food industry turnover reached 75 billion Yuan, accounting for 1/3 of the total food, and the beverage industry and its turnover over the previous year had an increase of 20%, which was 7% higher than the average increase of the food and beverage industry. (Xiao 2005)

At 1999, the development and social needs of the fast food industry in China were not quite compatible, mainly represented in the slow development of Chinese fast food varieties, backward production technology, low industrialization and organization; the development of Chinese fast food business was still in the stage of learning, imitating and experience accumulating It had not yet formed its system and scale. (Xiao 2005)

Since the beginning of the 21st century, China's fast food industry has made a sustained and rapid development. According to the research, the annual turnover of the fast food industry in China has been more than 200 billion Yuan after 2000, chain stores have exceeded 1 million, and the rapid development has reached a growth rate of 20% per annum. In 2004, China's fast food industry had formed its basic system and scale and its basic shape of the consumer market and supply market with boundless vigour and vitality, among which, with the strong momentum of the development of Western-style fast food, McDonald's and Kentucky Fried Chicken fast food had led the Chinese market. In contrast, the Chinese fast food business had to further improve their competitiveness. According to a Ministry of Commerce research the fast-food market share in Guangdong province was as high as 90%, while the share thereof in the relatively developed coastal provinces such as Jiangsu, Shanghai, Liaoning, Beijing, Zhejiang and Shandong was more than 50%. (Xiao, 2005)

In addition, Chinese fast food industry had also made a rapid development as a result of strong market demand and attractive business profits. In early November 2006, the fast-food restaurant from Guangdong province, Real Kung Fu (Beijing New World) Global Chinese Dining Chain Store, officially opened a store in the capital city, which was the sixth store in Beijing of this fast food chain enterprise that previously focused on the southern market. Mr. Cai Dabiao, president of the Real Kung Fu, announced that "Real Kung Fu would open 35 stores in Beijing in 2008 and have up to 1,000 stores across the country in 2010." The development of Chinese fast food enterprises is rapid as these example show. The country's macroeconomic policy also promotes the rapid development of Chinese fast food. Premier Wen Jiabao signed in February 2007 the State Council Order No. 485, which announced that the Administration of Commercial Franchise Ordinance should come into force on May 1, 2007, when the concession retail enterprises, especially fast food enterprises, would face a major reshuffle. Franchisee operations would become the mainstream model of the fast food industry and its development prospects would be better. (Xiao 2005)

With the booming Chinese economy, when the fast-food market demand is further increased, together with the aggressive competition from McDonald's and KFC, Chinese fast food industry faced both more opportunities and challenges. How could Chinese fast food grasp market trends and continue to grow in the future? Through a comparative study of the business strategy and competitive strategy of both McDonald's and KFC, there comes a lot of experience that could be learned and applied by Chinese fast food. Chinese fast food business also can make use of its

comparative advantages and continue to convert them to competitive ones, so as to make effective defence against McDonald's and KFC's competitor in the future development and change their leading roles in China's fast food industry. (Xiao 2005)

1.2 Research Introduction

With the developing of living standards, fast food is increasingly being accepted in people's lives. It has become an integral part of the daily food. In recent years, the rise and development of the fast food industries have become a very interesting phenomena in the Chinese market. McDonald's and KFC have sales mode with a good quality, excellent services and a clean environment to attract customers. McDonald's is ranked at the top of the fast food industries with over 33,000 outlets, whereas KFC only has 11,000 outlets in 80 countries, ranking at 7th in the world. The information of McDonald's and KFC will follow the Table 1. (Wikipedia 2012)

TABLE 1: McDonald's and Kentucky Fried Chicken information (Wikipedia 2012)

| | | |
|----------------------|---|---|
| Company name: | McDonald's | Kentucky Fried Chicken (FKC) |
| Type: | Public | Subsidiary |
| Headquarters: | Oak Brook, Illinois, U.S. | Louisville, Kentucky, U.S. |
| Number of locations: | 33,000+ worldwide, 700+China | 11,000+worldwide, 1500+China |
| Products: | Fast food (hamburgers, chicken, French fries, soft drinks, coffee, milkshakes, salads, desserts, breakfast) | Fried chicken, grilled chicken, related Southern foods and Asian foods. |
| Website: | http://www.aboutmcdonalds.com/mcd.html | www.KFC.com |

According to our research, KFC's sales, store number, reputation exceed that of McDonald's in the Chinese market. Both of us want to understand how these two companies developed differently in Chinese market. . Due to differences in strategy, we think that we should proceed from the angle of development strategy to study. At present, Chinese and foreign fast-food entrepreneurs are all concerned about McDonald's and KFC's development in the Chinese market and they secretly began to follow them in a Chinese fast-food market. We use the method of comparative study on the development strategy of McDonald's and KFC to get more useful strategies that can help Chinese and foreign enterprises in this area. (Xiao 2005)

In addition, our choice to use this subject is based on both multinational fast food companies and Chinese fast food. We can study how KFC uses the resource advantages and disadvantages to expand business in China, and how to implement the strategy of localization in this big market. Compared with McDonald's in China, KFC has gained the competitive advantage obviously so far. So it lets us have the curiosity and interest towards them. At the same time, China is a growing a super fast-food market in the 21st century. (Xiao 2005)

On the one hand, due to the slow growth of the national economy in recent years, the United States domestic market has been saturated by fast-food industries. On the other hand, since China's WTO entry, the Chinese household electrical appliances industry, as well as other industries, is facing the reality of a globalizing world economy and multi-global challenges, such as the environmental challenge, the competitive challenge, the collaborative challenge, the organizational challenge, the worldwide learning challenge and the management challenge. To McDonald's and KFC, China has an abundant market with threats and opportunities. They need to choose the suitable strategies to use it. However, China needs their intervention which can bring advanced management experience. Chinese fast food also needs to learn more about their successful experience to grow. (Xiao 2005)

1.3 Thesis structure

The thesis has six parts. The first part will introduce the thesis structure and the Chinese fast-food restaurant development. The second part will present the background of case companies. The third part will review business strategy theories and comment the relative essays. The fourth part will use utilization strategy, the strategic analysis, and the deeper strategic level correlation theories to analyze the reasons, by comparing McDonald's and KFC's core competitive power, to analyze the main difference and some similarities comprehensively of McDonald's and KFC's management and competition strategy. The fifth part will explain the main research objective and methods after elaborating the research's background. Finally, we will make a conclusion on this thesis and offer some suggestions for further research. The thesis structure will follow the structure of Figure 1.

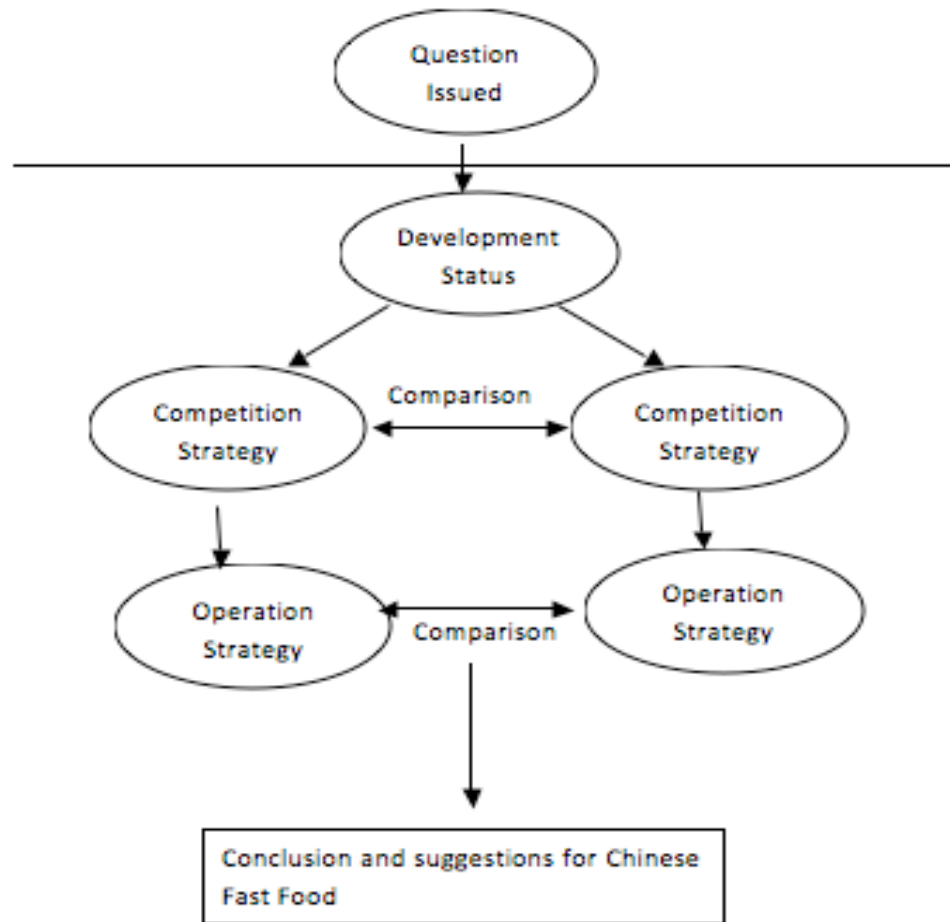


FIGURE 1. The structure of thesis (by our own)

2 CASE COMPANY INTRODUCTION

2.1 The background of McDonald's

McDonald's headquarters is located in Oak Brook, Illinois, United State. It is the largest chain of hamburger fast food restaurant in the world. The company logo is McDonald's with a big yellow "M". Image 1 shows that. Richard and Maurice McDonald started the first McDonald's store from 1950s in the US, and it primarily sells hamburgers, French fries, dessert, and salads. In 1955, when the first McDonald's restaurant was founded in the United States, there was not much variety on its menu, but they offered food supply with high quality, low cost and good environment. By 1983, there were more than 6,000 domestic branches. In 1967, McDonald's opened its first overseas branch in Canada. By 1985, its total abroad sales accounted for about 20 per cent of its domestic business. Every day there are more than 18 million people coming to McDonald's in more than 40 countries. Nowadays McDonald's has more than 3,4000 locations worldwide with a revenue of 27.56 billion US dollars. Table 2 presents the brief background of McDonald's. (McDonald's 2013b)

TABLE 2. The brief background of McDonald's (McDonald's 2013b)

| | |
|---------------------------------------|-----------------------------------|
| The name of McDonald's (English name) | McDonald's |
| The name of McDonald's (Chinese name) | 麦当劳 |
| Headquarters location: | America |
| Establishment time: | 1954 |
| Business field: | Western-style fast food, desserts |
| Company slogan: | I'm lovin' it |
| The number of employees: | 1,800,000 (2013) |
| The stores in China: | 1400 (2012) |



IMAGE 1. McDonald's logo image (New Age Gathering 2013)

In 1990, McDonald's opened its first restaurant in Shenzhen, China. There were countless people who went to their opening day. Subsequently, in April 1992 they opened the world's largest McDonald's restaurant in Beijing. Right now there are more than 1,400 McDonald's stores in China. (Baiké 2012a)

2.2 The background of KFC

Together with Pizza Hut and Taco Bell, KFC (Kentucky Fried Chicken) belong to Yum! Brands Inc. Yum! Company is the world's largest restaurant company in terms of system units. KFC Corporation's headquarters is located in Louisville, Kentucky, United States. It is the world's largest fried chicken chain restaurant, measured by sales; it is the second largest restaurant chain after McDonald's. More than 11,000 Yum restaurants have been opened in about 80 countries. Colonel Harland Sanders founded it in 1952 by selling fried chicken. His kindly grandpa face also became KFC logo. Image 2 shows that. Today KFC mainly sell fried chicken, hamburgers, French fries, soft drinks and other Western-style fast food. It has about 18,000 locations with a revenue of 15 billion US dollars. Table 3 as follow presents background information on KFC (Yum 2013)

TABLE 3. The brief background of KFC (Yum 2013)

| | |
|---|------------------------------|
| The name of the company (English name): | Kentucky Fried Chicken (KFC) |
| The name of the company (Chinese name): | 肯德基 |
| Headquarters locations: | America |
| Establishment time: | 1952 |
| Business field: | Western-style fast food |
| Company slogan: | We Do Chicken Right |
| The number of employees: | 840000 |
| The stores in China | More than 3000 (2012) |



IMAGE 2. KFC logo image (Eatcookdream 2012)

KFC started in its first location in China on 12th November 1987 in Beijing, the capital of China, which has rich history and diversity food culture. On 8th October 1990, McDonald's entered Shenzhen as its first location in the Chinese market. As a south east coast line city, Shenzhen is full of fresh new things with a curious attitude. Since then they both started their development historify in a country with a wide variety of food culture and eating habits. (Baiké 2012b)

3 RESEARCH PROCESS AND METRHODS

3.1 Research objective

The objective of this study is to answer the main question: what kinds of business strategies lead to this different situation between McDonald's and KFC in China market? The research should consequently make the two companies to be able to reach a conclusion on:

- McDonald's business strategy in the Chinese market
- KFC's business strategy in the Chinese market
- If the international fast food industries want to enter into the fast-food market, what kind of the market strategy should be used?

3.2 Research methodology

In this thesis, the research used qualitative research method and also use some theories to analyze what kinds of reasons led to the difference.

The theoretical part includes information gathered from literature and Internet dealing with business strategy. The large amounts of necessary data and information were collected from the Internet. This thesis will describe the current development of McDonald's and KFC in China, and also use theories and realities to explain the reasons for their performances in China. On one hand, we will analyze the strategies of both companies from the perspective of business strategy; on the other hand, we will analyse reasons from the perspective of competition strategy.

In addition, the research contained personal interviews. There were a lot of participants' observations that the managers and customers in the Chinese market know the goal of our research. Table 8 shows the information of participants' interviews (customers & managers). For our questionnaires, we only asked them at most 5 questions.

TABLE 8. The information of customer Interview and manager interview

| Customer Interview | Manager Interview |
|--|--|
| <ul style="list-style-type: none"> • Addresses: city centre of Shanghai & one kindergarten school & one senior apartment (near McDonald's and KFC stores) • Categories of Customers: Children (0-12), Youth (13-30), Adult (31-54), Elder (55+) • Numbers of categories: Children (10), Youth (10), Adult (10), Elder (10). | <ul style="list-style-type: none"> • Addresses: KFC manager office & McDonald's manager office (Shanghai, China) • Level of Manager: middle level managers • Numbers of categories: KFC (1), McDonald's (1) |
| You will find the questionnaire at Appendix 1 | You will find the questionnaire at Appendix 2 |

However, the study included primary and secondary data. The primary data was collected with qualitative methods by interviewing the customers and managers. The secondary data was from books, Internet, and course materials with some relevant information.

3.3 Qualitative findings

The thesis used qualitative method to do the research. In addition, we also interview the customers and managers to get their relevant feedback.

As to the definition of qualitative research, this part of this thesis will employ Creswell's definition as follows:

Qualitative research is an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyses words, reports detailed views of informants, and conducts the study in a natural setting.

(Creswell, 1994)

Through qualitative analysis, we found that there are several reasons that lead to the different performance between KFC and McDonald's.

1. The difference of marketing positioning: As the page 22 of the thesis, you will see the different service mode. KFC used CHAMPS mode that includes cleanliness, hospitality, accuracy, maintenance, product quality, and speed. McDonald's used QSCV mode that includes quality, services, cleanliness and value. CHAMPS mode and QSCV mode will be explained at page 43 and 44.
2. The difference of marketing strategies: McDonald's provides a lively young dining environment. KFC offers a warm family dining atmosphere.
3. The difference of employee's management: KFC prefer to use localization training, while McDonald's would like to use diversification mode to manage their employees.

3.4 Thesis analysis methods

3.4.1 Case study method

Doing collecting related information would describe the development situations of KFC and McDonald's in China respectively. To reveal and explain the dramatic difference of the two companies' development in China, we will integrate the theory with practical information.

3.4.2 Comparative study method

By making the interviews and collecting the information, the similarities and differences will be found out between the two companies. In order to explain that KFC has a dominant position in China, we focused on the comparison of the different sides. Comparing the different strategies, it will explain the difference in development. Mainly, the two companies will be compared from two perspectives; one is the strategic business perspective, the other one is the competition strategy perspective.

3.5 Interview findings

Interviews were started very successful. They will be found at Appendix 1 and 2.

3.5.1 Interview with managers

In order to understand the real performance of McDonald's and KFC in China, we made the two interviews with the managers of McDonald's and KFC in Shanghai, China. Face-to-face meeting made the interviews. Because of the limit time, we only asked them two questions, which took totally 15 minutes. The manager interview questionnaire will be put in Appendix 1.

- Manager of KFC's: Due to the great potential Chinese market, Yum group operating Western-style dining is seizing the Chinese market in recent years. KFC added a lot of China's characteristics into them, for example many of its products are integrated into the Chinese taste. For the future development of KFC, manager said that due to the growing number of Western-style fast food in China, KFC is also facing many competitors, for example, United States John Burgers. KFC is still mainly focus on localization style for China market.
- Manager of McDonald's: In recent years, McDonald's began working with some local meat production and processing companies. McDonald's also made development of healthy fast food to customers. McDonald's is planning to increase its investment in China in the future which mainly for new restaurants and existing restaurant upgrades and extensions.

Both of them are very satisfied with their performances in China, and in the future all of them want to occupy much more fast food market in China. KFC will still using localization strategy for China market. And compare with KFC, McDonald's will still using global standard way for China market.

3.5.2 Interview with customers

According to the requirements of thesis, the authors did the customers questionnaire in Shanghai, China. Investigation of population can be divided into three categories which include old people, young people and children. The research was set at city center of Shanghai, one kindergarten school and one senior apartment. Customer questionnaire will be put in Appendix 2.

- Old people: They prefer KFC to McDonald's. Compared with McDonald's, KFC provides Chinese breakfast and Chinese day meal. To the old people, they love Chinese style fast food much more that typical East fast food.

- Young people: They like McDonald's, because McDonald's provides delicious coffee, and free network services. And in addition, McDonald's also sell perennial student discount card.
- Children: They love KFC. Children think that KFC toys are more fun than McDonald's. The fast food of McDonald's is spicier for child.

Through interviews, the authors found that most old people choose KFC restaurant because of their good services and patient attitude. However, the free Internet services, which are provided by McDonald's, also attract a lot of young people.

4 AN OVERVIEW ABOUT BUSINESS STRATEGY

4.1 What is the business strategy

We have used business strategy related theories as our thesis theoretical basis. The word "strategy" was originally a military term that referred to the commander using certain strategies to win the fight against the enemy. In many dictionaries, when looking up strategy, it will not be separated from the military strategy, which is usually defined as the "art of war". Defining strategy from this angle, strategic connotation evolved into a series of strategic means to defeat the considerable strength or stronger opponent. According to the theory of Henry Mintzberg, people making business activities under different occasions in different ways has given us different connotations of strategy. It means that people can accept a variety of strategies definitions. Based on this view, Henry Mintzberg proposed strategy is defined by the five specifications. The five definitions from different angles explain the concept of strategy as shown in Figure 2. (Chinabaike 2011) These are:



FIGURE 2. Mintzberg's 5P strategy theory

Plan, ploy, pattern, position, and perspective constitute the "5P" of the strategy. Mintzberg thought that strategy is the definition of a concept, which emphasized abstraction of strategy. Just like members of an organization possess the same values culture and ideals, strategic concept is shared when similar expectations and behavior of organization members are formed. Therefore, in order to study, an organization's strategy, it is necessary to understand how the expectations of the organization are shared among its members. (Chinabaike 2011)

4.2 Aims and procedures of business strategy

According to Alfred D.Chandler, Jr's definition of strategy, the strategy making is to set a clear long-term goals and short-term goals objectives with developing an action plan and allocating necessary resources to achieve the target. This is mainly emphasized by three components of the strategy: setting target, taking action and deploying resources. Factors affecting strategy includes two aspects, the external environment and internal environment. As external constraints on the company's actions, external environment affects company's choice. Even in the same industry environment, it may means differences to different companies. It may mean an opportunity or a threat because of companies possesses deferent resources and management capabilities. (Alfred D.Chandler, Jr. 1969) Therefore, it is necessary to evaluate the internal environment of a company with these questions, for example,

- Which skills do company's employees have?
- What kind of resources does company have?
- What are the company's organizational values?
- How is the company's financial situation?

By asking these kinds of questions, it is easy to have a clear assessment of the company's internal resources, strengths and weaknesses. Here is a low chart figure 3 to explain it.



FIGURE 3. Process of key strategy deciding

4.3 Competitive strategy

According to Michael Porter's competitive strategy theory, generally, companies choose a strategy that brings competitive advantages. These advantages are based on either a lower cost than competitors or a significant difference from the competitors. Competition strategy consists of the following three strategies: cost leadership strategy, differentiation strategy and focus strategy. The following figure 4 shows the three kinds of strategies. (Porter, M.E. 1998)



FIGURE 4. Michael Porter's competitive strategy theory

4.4 Four strategy levels

H · Igor Ansoff is the originator of strategic management. He believes that rather than a company's strategic plan, strategy has more emphasis on internal strategic capability. According to him, Schendel and Hofer created a new theory about strategy level. There are four strategy levels, functions level, operational level, company level and enterprise level. (Changxiang 2006)

We think that it is hard to distinguish the strategy on a corporate and business level; therefore, it is referred to as the corporate strategy. So we can easily to understand them from three levels of hierarchy, which include the company's strategy, business strategies, and functional strategy. As shown in the graph below, in general, the company's strategy focuses on two issues:

- What kind of things businesses should do? It involves how to determine the nature and purpose of the enterprise and how to select the scope and focus of activities of the enterprise. Obviously, this is the fundamental business survival and business development issues.
- How to develop the business trade? Main concern is how to decide on the establishment of the various strategic units, objectives and the allocation of resources.

Corporate strategy is also known as business strategy. Business strategy is the company's strategy, which is particularly under the common corporate mission premises. According to the opportunities and challenges, it needs to make suitable strategic decisions. A business department generally has its own functions units, which can implement business strategy effectively. And business strategy also needs to be factored into their respective functions departments. Functions departments can also be understood as a strategy for the executive branches. However, business strategies and functional strategy are known as a competitive strategy. Figure 5 states four strategy levels during the business.(Marketing91 2010)

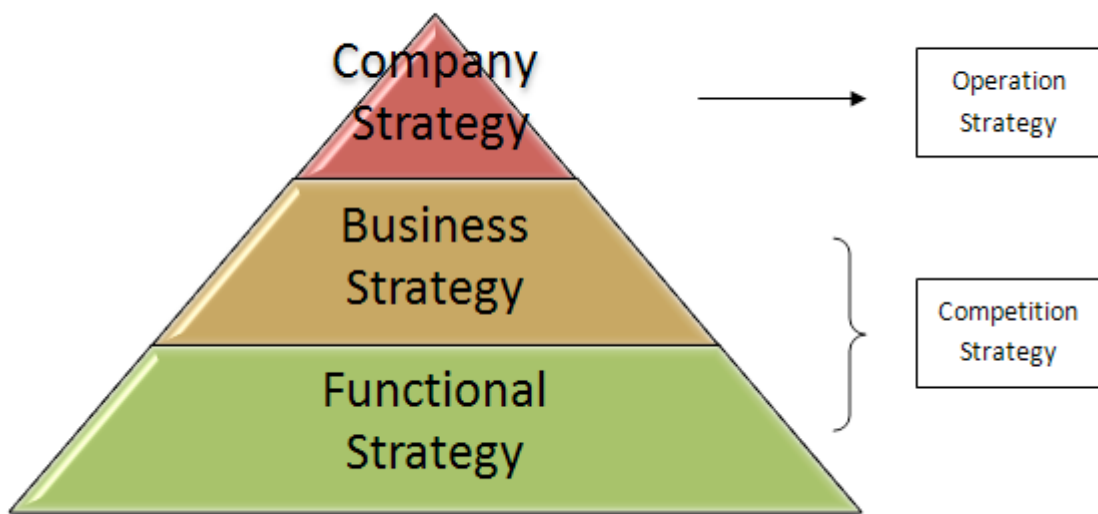


FIGURE 5. Four strategy levels

5 COMPARISON OF MACDONALD'S AND KFC BUSINESS STRATEGY

5.1 Comparison of McDonald's and KFC core competitiveness

McDonald's and KFC regard each other as a strong competitor in the fast food industry. When starting from the moment of entering the Chinese market, they have been vying for the market leadership in China. Both of them are surprisingly similar in many areas which including the service, standardization, organization's mission and restaurant atmosphere. However, according to the results of the analysis in chapter 4, we can see the business performance of KFC is better than the McDonald's in China, why is that? The differences in organizational performance are due to the differences in their strategies and competitiveness aspects. In China, KFC is better than the McDonald's in the development strategies. (Zhidaao 2006)

A dozen years of development in China, their continuous integration and effective use of limited resources and capacity in the Chinese market. And they also formed a kind of unique abilities which are hard to copy from each other in business. These abilities are their core competitiveness. Both of them have one or more businesses that can achieve first-class level, in addition, they have clear advantages in the field of competition. They are all the foundation of competitive advantage for McDonald's and KFC in the long-term. (Wenku 2011a)

No matter how large an enterprise is, they will be influenced by its resource and capacity. Resources are divided into physical, human, financial, operational and intangible resources; capacities are the characteristics shared by competitors of the same industries, which are usually developed by the intern-enterprise, or outside of the enterprise. McDonald's cultivate their core competitiveness by the continued integration of unique resources and effective capacities. Concrete expression is as follows:

- The integration of intangible resources:

As the website named Social Brand Value stated, the 2010-top 100 most valuable brands in the world showed that McDonald's has become one of the world's most valuable restaurants brand. It was ranking No. 6 of the 2010-top 100. With a high internet penetration and a fast information transfer, McDonald's in China relies on its brand strength of its parent company, even though people who haven't been to McDonald's still know its reputation, McDonald's has an excellent brand recognized

degree; Basically, the brand of McDonald's recognized for excellence. (Social Brand Value 2010)

- The integration of human resources:

McDonald's managers have special incentive training at the University of Hamburg, which are McDonald's unique capabilities compared with KFC. (McDonald's 2012)

Through the information from KFC annual report, its core competence is integration of operational resources. Their franchising model can be described as good one with strong Chinese characteristics. KFC's unique method of is "not starting from scratch" won the interests of Chinese investors to join them. At the first time, KFC has been determined to do the domestic products for Chinese customers, and made a 100 per cent localization of raw materials. (Bloomberg 2011)

However, there is some similar competitiveness Between McDonald's and KFC, but both of them have a unique ability that distinguishes them from normal fast food businesses in China. For example, the standardization of their research and development are commendable. In order to ensure a consistent taste of foods on a global scale, the procedures of the companies require detailed development to then get the conclusion from the appropriate quantitative criteria. According to understanding, standardization is their core knowledge. Actually, there are also a lot of similar restaurant location in China, for example, there must be one KFC restaurant near one McDonald's. McDonald's prefer to choose the city center as their main locations in China, while KFC prefer to choose shopping malls as their main locations. Table 4 will present the comparison between their core competitiveness in China. (Doc88 2012c)

TABLE 4. The comparison between McDonald's and KFC's core competitiveness in China (Doc88 2012c)

| McDonald's | KFC |
|--|-------------------------------------|
| Excellence brand recognized | Stable franchise mode |
| Manager training system(at University of Hamburg) | 100% localization raw materials |
| Cities center as the main locations | Shopping mall as the main locations |
| Standardization development in China | |

5.2 Comparison of McDonald's and KFC operation strategy---Growth strategy

McDonald's and KFC's growth as characterized is presented by some quantitative indicators in the previous chapter, such as growth of sales revenue, number of restaurants and the number of employment, which can be seen as both of them want to expand the organization's scale. The strategy of McDonald's and Kentucky Fried chicken is basically growth strategy in China. Growth strategy can be achieved through direct growth, vertical integration, and horizontal integration to achieve. Specific strategic development includes mergers, acquisitions, partnerships, franchising, strategic alliances, and so on. (Strat. Mgmt. J.)

KFC and McDonald's have taken a direct expansion of growth, but the first McDonald's children's clothing stores called McKids opening in Shanghai, China in 2004 marked the adjustment of McDonald's business strategy, it means that the company is seeking effective growth through diversification. In addition, there are also differentiations on drive-through restaurants. (BrandRepublic 2004)

5.2.1 Comparison of McDonald's and KFC chain-store operations model

Both KFC and McDonald's implement "regular sales" and "franchising sales" on the management mode to achieve profitable growth. Using the direct sales, the company may be control shares absolutely, or there may also be a partnership with others. Under this mode of operation, the company will pay the high up-front costs in relation to the latter income part, and also the cost will be expended at one time. The long-time gap will have an impact for the capital chain of the entire company; however, using the franchising sales, although it increases the costs of control and management to the company's stores, the upfront initial fee to supplement the cash flows of the company will make the cash flow of the company smoothly as a whole. (Alibaba 2012)

Since 1993, KFC began franchising in XI'AN, China. In 1998, it issued the new franchising policy called "not starting from scratch". By the end of 2006, KFC has 95% regular sales stores in China, and only 5% franchises stores. (Study mode 2011)

Compared with KFC, McDonald's officially introduced into a franchising business model in China. McDonald's has more than 700 restaurants in China, most

restaurants are joint ventures with local Chinese firms accounted for 50% operation modes, contractual joint venture and wholly foreign-owned enterprises, and only a few stores are franchise. (Wikipedia 2010)

5.2.1.1 Stability of McDonald's franchise mode

1. "McDonald's is not just a restaurant".

This sentence not only accurately covers business philosophy of McDonald's, but also reflects franchise concept of McDonald's. McDonald's is not just a restaurant for sale, and as well as the concept of corporate culture. Initially, McDonald's franchise can be a new store, or it can be an old one. The investment costs for new stores and old shops are different. In the medium of 2004, McDonald's opened a regular chain first, and then converted them to franchised outlets. That franchise can use depreciation equipment; shops, furniture and decoration, and the joined costs are correspondingly reduced. McDonald's franchisee is a long-term partnership that the franchise agreement for a period of 20 years. (Wenku 2011a)

2. McDonald's franchise mode

McDonald's Corporation is one of the most successful franchises in the world; it creates a unique franchise model: the company will buy or rent the shops, and then subleases it to the franchisee. These real estates are the important property of McDonald's, while rental income of these shops also accounted for a significant proportion of the income. The following table 5 will be a very good description of the McDonald's franchise mode. (Wenku 2011a)

TABLE 5. McDonald's franchise mode (Wenku 2011a)

| | |
|--------------------|--|
| Location selection | 24 provinces in north, central and south of the China |
| Investment | Initial fee must be non-borrowed funds; company or partners to join forms are not be allowed. As funds are not enough, McDonald's firm allows you to rend the facilities, but you need to buy these devices within 3 years |

| | |
|----------|---|
| Training | 12 weeks training. Offer the staff training at the University of Hamburg for the franchise. It also provides management consulting, advertising and other services. |
|----------|---|

3. The features of McDonald's stores selection

McDonald's expands their scale through the chain of business, however, the first step in achieving this objective is through comprehensive market information and the location of the evaluation criteria to select suitable store locations. It will make the stores more standardized and more simplistic at headquarters management. The preferred terms of McDonald's business success is selecting good location. McDonald's will not spend huge investment to develop the new markets, but rather to search for their own market all over the world. So mostly, they choose fully copy shop store locations as possible. With a vivid metaphor, they are not tailored to each person, but they are looking for people who are suitable for their clothes. (Wenku 2012c)

5.2.1.2 The double win of KFC's professional franchises

1. "Do not start from scratch"

The idea called "Do not start from scratch" is a special point of franchise of KFC in China. This refers to starting a resale of profitable and sophisticated restaurants, which are sold to franchisees. Franchisees are not required to start from scratch so that will avoid choosing a place or setting up a shop on their own, such as recruiting, training and managing people as a result of the work. The franchisees will greatly reduce the risk of investment and also improve the chances of success. Recently franchise of KFC is a mature restaurant in the form of transfer. Joining KFC is also a long-term cooperative relationship; the first period of cooperation will be continued at least ten years for franchising agreements. Franchisee must voluntarily work on KFC franchise more than a decade. (Wenku 2011b)

2. KFC franchise mode

New franchise operators will be authorized to run a mature KFC restaurant, which had already begun to profit at least for a year. Purchase charge for each restaurant's will be calculated according to the specifics of the restaurant, which includes all the

decoration, equipment, profit, and transfer of employees except from the purchase of immovable property. Table 6 explains KFC's franchise mode. (Wenku 2011b)

TABLE 6. KFC's franchise mode (Wenku 2011b)

| | |
|--------------------|--|
| Location selection | China's non-agricultural zones (150,000 -400,000 population) |
| Investment | Financing can find partners, but the main operator's capital ratio must be greater than 30% or loan, but the loan amount cannot exceed 30% of the amount of investment |
| Training | 13 weeks training: <Restaurant manager>, <Restaurant management>, <how to manage the franchise restaurant>, <KFC background> and the other relevant courses. |

3. High commercial planning in KFC

Site success is one of KFC's core competitiveness. Through the research on Internet, KFC has a thorough planning. Firstly, the selection and division of location will consider their own stability and maturity of market positioning and business circles. Secondly, KFC will research the stream of people in the areas and make sure competitors will not intercept their customers. (Doc88 2012a)

4. Brand helping and promise keeping

KFC is one of the Yum Group's brands. On the management mode of chain, yum introduced Pizza Hut and their other restaurant brands to enter the Chinese market with the similar sales, finance, supply-chain and other strategies. Through multi-brand synergies, it enhances the competitive advantage of KFC, and also integrates the supply chain. They are full use of the facilities in China is a big agricultural to guarantee the maximum profit of KFC. (Wenku 2011a)

5.2.1.3 KFC and McDonald's strategies summary

Since 1993, KFC firstly improved franchise mode into China, and then established appropriate organizations for the response of rapid decision. Thus KFC started strategy named accelerated. Because of the development of KFC, McDonald's also begun their strategy on Chinese market. In 2005, McDonald's opened up franchise mode at more than 30 cities. In addition, KFC used the Chinese characteristics business mode into KFC restaurants of China. After the initial fee paid, the franchisee found that there is not profit; KFC will be responsible for the losses. If the store is working well, according to the agreement which is signed before, KFC will buy this store with 1 or 2 times of the price after two or three years. So it means that the normal franchises shop may become a joint venture shop, and then a joint venture shop may become KFC own shop. Mostly this is more like Chinese investment style because of zero risk. It states that McDonald's will earn higher profits from the following operations. But KFC's "Chinese characteristics" mode is clearly more suitable for the Chinese market. (Xinhuanet 2004)

Actually, McDonald's decision-making systems are slower than KFC's on the long-term organization. And McDonald's often paranoid in "the price is right" conservative principles when choose the locations. They all greatly affected its market expansion in China. On the contrary, KFC has more adventurous innovation spirit. It leads to KFC will get a good location faster than McDonald's. (News 2006)

5.2.2 Comparison of McDonald's and KFC operations area

McKids is clothing brand, which was founded in 1987 by McDonald's Corporation. In 2004 McKids clothing toys brand, owned by McDonald's announced that the first McKids stores opened in Shanghai in the same year. Apart from its operation with the McDonald's restaurant, it has its own stores, production and sales outsourcing model. McDonald's introduced a brand extension strategy in order to change the two fast-food giants over the year's comparable business development; they are very closely in China. In terms of business diversification, McDonald's is faster than KFC. (Bahaudin, G. M. & Bina, P.)

5.2.2.1 Brand extension strategy adjustment for McDonald's

Currently, it has fiercely competitive in Chinese fast-food industry area. Nowadays, KFC already has increasing quantities of fast-food restaurants in Chinese market

which is much more than McDonald's. Kentucky Fried chicken's strong offensive has posed a great threat to McDonald's. From year 2004 to 2010, McDonald's use of the existing resources to enter the children's clothes market in China. They started brand extension and diversification so that can achieve good performances. Basically, McDonald's positive to face problems so that can avoid risks. And then they use multi-angle management to improve market share. McDonald's developed from a single food to the children's clothing. This method of multi-angle management will undoubtedly enhance their product's market share in China. In addition, McDonald's opened the "Mckids" shop to avoid direct competition with KFC restaurants, its intention was to adopt a new approach and take full advantage of their brand to link with their consumers more closely. It means that their products are uniform in the same brand, with the same logo and design concept, thus its higher business objectives. (Bahaudin, G. M. & Bina, P.)

5.2.2.2 McDonald's Diversification, KFC's Specialization

Under the doctrine of brand positioning and extended, branded with the influence of the parent brand makes it easy for the consumer at the time of initial contact with cause for concern. That is easy to create visibility and awareness, but it's hard to establish preferences and reputation. McDonald's is a service organization, which provides fast food chain. Its brand identity system is not only its trademark, it includes the standardization of services, specific dining environment and atmospheres, as well as traditional food, and like their slogan "McDonald's is not only a restaurant." Mckids is a series of children's products that is totally different from McDonald's restaurant. Even Mckids and McDonald's have the "blood" relation, it can get more attention at the beginning of the business and gain access on the channel's success, but because of the brand, they have great sales resistance at final. Therefore, McDonald's support was very limited for Mckids, after three years, it has proved that Mckids had not, as expected, creating huge profits for McDonald's, but it drowned in the children's clothing market in China. Their operation were fail to serve the McDonald's development strategy. It presents that McDonald's did the diversification in the wrong direction, and it lost its way on the brand. (Bahaudin, G. M. & Bina, P.)

Different from McDonald's, KFC is more sensibly recognizing that diversification may result in difficulty increases on human, financial, material resources, and management. So brand extension has not been started. KFC always adhere to the professionalization of management, technology, product and service differentiation

and market recognition of specialization. KFC is seriously pay attention on the study of the development prospects of the industry, so as to make a better plan for their development strategy. (Guide 2006)

5.3 Comparison of McDonald's and KFC competitive strategy

Competition strategy: cost leadership strategy, differentiation strategy, and focus strategy.

Briefly, we would like to introduce the three competition strategies respectively. The organization finds ways to cut cost and try to become the industrial low-cost producer. This strategy is known as cost leadership strategy. When organizations maintain the manufacturing cost at lowest possible level, they actively seek a high efficiency in the production, marketing and other operational areas. Through their own innovative design, the technology's potential ability or outstanding brand image, enterprise tries to provide distinctive products and unique service. The company makes itself different from competitors; this strategy is called differentiation strategy. Porter's theory mentioned that those two competitive strategies seek competitive advantage in the broad market; however, focus strategy is focused on seeking cost advantages (cost leading centralized) or differentiated advantages (differences centralized) in a narrow market. The purpose of focus strategy is developing narrow market segment or customer group, rather than trying to serve the broad market. An enterprise can use mixed strategy. Using the mixed strategy means that a company which has a cost that lower than the industrial average level can sell products or services on a differentiated basis. The effects of innovation or scale economies enable enterprises to use mixed strategy successfully. McDonald's and KFC are increasing the scale of business and development in China. They have using mixed competition strategy in China, and that is to use cost leadership strategy and differentiation strategy. They are seeking a competitive advantage in the Chinese market as a whole, so that they have not use focus strategy. (Porter, M.E. 1998)

5.3.1 Comparison of McDonald's and KFC cost leadership strategy

In order to show that the key of using cost leadership strategy is to gain more profits and compete with rivals effectively, here is figure 6 to make a comparison for the effect of using a cost leadership strategy and not using this strategy at same price level.

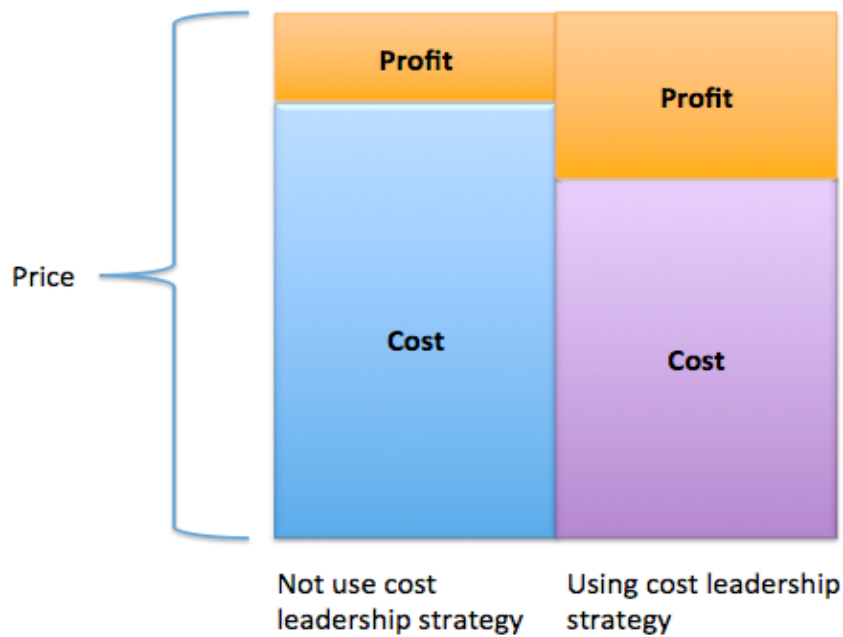


FIGURE 6. Cost Leadership Strategy

From figure 6, we can easily see that a company by using cost leadership strategy could have lower cost and high profit assuming they have the same price with competitors in the market.

A lot of factors could affect the cost of doing business. Resources McDonald's and KFC invested are cost-effective, thus they ensured the standardization of their basic products and services nationwide. Obtaining experience curve effect is another important factor if companies want to gain cost leadership strategy advantages.

According to Peter Marsh, experience curve effect means that as value activities with the learning result in their efficiency increase, accumulated over time its cost will decrease. Practicing and learning over time could reduce the cost of the mechanism, including the improvement of the labour efficiency, improved asset utilization and raw materials suitability for the production process. As global fast-food industry's big brands, McDonald's and KFC have extensive experience in the China market. Therefore, from a strategic point of view, the main factors affecting the cost of doing business are economies of scale and cost of material purchasing price. (Marsh, P. 2012)

The costs of value activities are often subject to economies of scale. Economies of scale produced in the capability of a greater range of activities in a different manner and higher efficiency. It means that economies of scale could allocate the cost in

greater sales. McDonald's and KFC primarily use direct sales stores and franchise stores as expansion mode in China; especially the franchise mode is more rapidly expand the scale. From a long-term perspective, Kentucky and McDonald's are able to achieve economies of scale. (Marsh, P. 2012)

For the purchase cost, McDonald's and KFC respectively unified procurement and distribution as supply chain management in order to have lower cost. When it comes to procurement and supply of the product, McDonald's inclined to allow American enterprises to provide sources, while KFC is trend to cooperate with China's domestic supplier. Moreover, for example, KFC is sharing supply chain with Pizza Hut, which creates the supply chain collaborative sharing effect. It decreases the cost also. In one word, KFC performed slightly better control of product costs. (China Economics 2006)

In pricing aspects, McDonald's and KFC set same price level for similar products for a long time. However, started from June in 2003, due to McDonald's global performance decline and cost control pressures, it started to decrease the price within ten products. Meanwhile, KFC has been based on reasonable profit as pricing. (Finance Sina 2006)

In short, the economic scale of KFC in China is greater than McDonald's with minor difference in cost control. The differences of competitive strategy is not mainly reflected in cost leadership strategy, but is reflected in the differentiation strategy.

5.3.2 Comparison of McDonald's and KFC's differentiation strategy

5.3.2.1 Product Strategy

On the menu of KFC and McDonald's, both of them have standardization and unification main product in China and worldwide. However, from product innovation and uniqueness points of view, there is a great difference between KFC and McDonald's.

KFC has sparing no effort to meet the different needs of Chinese consumers. Started from the beginning of Chinese business, it determined to build a brand for the Chinese people to fit their own needs. (Winshang 2007)

To ensure the execution of the ideas and direction of the work, in 2000 KFC has invited more than 40 national food nutrition experts and set up Chinese KFC Food Health Advisory Committee. They studied how to adapt to Chinese tastes, diet, eating habits and consumption characteristics. They developed diversified products to meet different requirement of customer groups. In 2004, the innovation and localization strategy KFC products broke the boundaries of Western fast food and Chinese fast food and got into new consumer market. There are more than 30 type of new product launched in Chinese market, among which at least half of with Chinese characteristics. (Info Food Hc360 2006)

There are many products that are especially developed according to Chinese taste, for example, hibiscus fresh vegetable soup, mushrooms and chicken porridge, traditional Beijing chicken roll, Sichuan spicy hamburger and so on. The localized products are inspired by Chinese cuisine; however, they are served in a fast food way with reasonable price and good timing. Image 3 is a type of lunch that KFC serves. (Stnn 2006)



IMAGE 3: KFC Lunch Poster (KFC 2013)

At the same time, there are hamburgers, fried chips and cola available. Within the range of the Guangdong province, in 2004 summer, a traditional herbal tea called Wanglaoji was served officially in KFC. It is the first time that KFC directly transited from improved products to the introduction of a completely local product. In addition to the deepening of localization strategy in China, KFC is now studying regional consumer preferences. They are implement regional localization strategy. This is based on the fact that China is country with big geography scale and verified food

preferences. In short, KFC now is at the top spot of fast food industry in China, which is largely due to its localization business strategy. (Media163 2004)

For a long time, McDonald's is mainly serving hamburger and beef based products, which is more suitable for the European and American people. After entering the Chinese market, McDonald's may take into account two considerations. One is that the secret of fast food long-term survival lies in the standardization and continuity of product supply everywhere. Another is that it requires large cost inputs to develop new products. Thus, they have not changed their menu for long. (Jctrans 2012)

Later on, they have chicken products to meet the market needs. Usually chicken is cheaper than beef as the results the cost of raw material decrease. Also, as a general conception, chicken is healthier than beef and Chinese people are fond of chicken meat. McDonald's declared that it would not change the menu in China and always adhere to its own characteristics burgers, which are just like the slogan, I am lovin it. This was regarded as a strong style of McDonald's. These are McDonald's product standardization embodied. (Tiannong 2012)

However, when faced the fast expansion of KFC, McDonald's has finally changed the stubborn temper in 2004. There are Chinese style scrambled eggs and pancakes available in breakfast menu, which are welcomed by lot of customers. This is the first time that McDonald's first introduced localized product in China. Although McDonald's insist on standardization in products and services, it made some adjustments on the product in China, but the strength and breadth of its product localization is far behind KFC. Today, McDonald's global standardization concept is still not reduced. Image 4 is one of McDonald's lunch product. (Jctrans 2012)



IMAGE 4: McDonald's Lunch Poster (McDonald's 2013)

In Chinese market, KFC introduced of 1.5 new products averagely every month, while McDonald's made slight changes to burgers. When McDonald's insists on the global fast food standardization, KFC launches local products with diversified characters. Product localization is a key strategy of KFC's fast development in China. Precisely because they treat localized management in different attitudes, they have a different develop paths. Typically, KFC's success localization in China is regarded as a classic case of international business. (ServiceOcn 2008)

5.3.2.1.1 Interview

As we can conclude from previous description, KFC has a menu filled with Chinese localized food as a strategy to attract customers, meanwhile, McDonald's has almost same menu as international one. In the interview, customers are fond of KFC food very much, because it is close to Chinese taste with verified choices. Also, some customers like McDonald's as well. However, customers are more prefer to go to KFC for the reason that KFC provide Chinese taste food, hamburger and fried chips at same time. Manager in KFC also pride that they have a wide range of menu choices with which they could satisfy customers well.

5.3.2.2 Target market strategy

As to the fast food industry, the most commonly used market segmentation method is based on demographic factor, while the other factors such as regional factor; customer psychological factor and consumer behaviour factor are less used. For demographic variables, Western-style fast-food industry takes age as a consideration of market segmentation variables. In 2006, before changing marketing strategy, McDonald's had always been focusing on child-cantered families, and also taking account of young men and women and young parents. Each McDonald's restaurant had a set play area for children, including small slides, blocks, etc. Children would get their special birthday blessings and gifts when they visited the restaurant on their birthdays. In addition, many McDonald's restaurants regularly made their female employees arrange dancing activities for children. (Doc88 2012b)

All the above activities are not only very fond of children, but also quite popular with their parents. After changing marketing strategy, McDonald's has oriented her target market to young people: 4 – 30 year-old male and female. Based on the appeal of

young and liveliness, McDonald's expect to provide a relaxing and pleasant dining environment for young people. By a series of advertising and promotional activities in shops, McDonald's deeply seizes the sports-like and romantic minds of young people and stimulates their consuming desire in McDonald's. This is to attract the target customers from value level and get recognized by them. Take the Big Mac for example; it successfully attracted a large number of young consumers by the endorsement of NBA superstar Yao Ming and issuing colour wristbands. While KFC is positioning on the family members consuming, making young men and women drive the consumption of their children and parents. In order to attract customers of all ages, including many elderly, KFC provides a warm and family reunion-like dining atmosphere and the diversified and localized-flavoured products. (Doc88 2012c)

A few years ago, KFC introduced the family package, big enough for a 13-member family. Besides, different with McDonald's vigorous and dynamic advertising, entertainment and sport stars' endorsement, KFC's image with its simple, subtle style, always embodies the warmth, love and its "family members consuming" market concept. (Doc88 2012c)

Under the influence of different target markets, McDonald's and KFC vary in the products, promotion and even the decoration style very much. Before transform, it raised the cost of decoration and personnel when McDonald's wanted to drive the purchasing power by children's non-purchasing power. After the transform, it seems like both McDonald's and KFC are sharing the same target market to young men and women, but there is a substantial difference in between. McDonald's advocates young passion, while KFC advertises the warmth of the family and further expands the target market to the elderly consumer group with the advantages of localization and diversification. So with its advantage in target market positioning, KFC occupies a favourable market position. (Doc88 2012b)

5.3.2.2.1 Interview

Due to the different target market strategies, KFC managers in China pay more attention on family and the elderly consumer groups. Compared with McDonald's, managers in China focus on youth markets. The customers in the interview, most of the old people and families choose to KFC, and young people would like to go to McDonald's. Youth prefer to go McDonald's because of free Wi-Fi and lively environment. Elder and families like warmer environment. These are the results of different target market strategy.(Interview)

5.3.2.3 Brand strategy

As companies increasingly focus on brand image personalization, today, we have very different impressions of brand image between KFC and McDonald's. KFC paid more attention to the psychological feelings of the Chinese consumers. It focuses on spread the concept that integrating into Chinese life, changing for China and creating new fast food products. (Cyjm28 2009)

For brand building, KFC has obvious characteristics of Chinese culture in details. In 2006, KFC restaurants in China used the new logo and decorating idea. It has not only eye-catching logo board at each restaurant door, but also visual elements on restaurant design, advertising, food packaging, staff uniforms and public supplies. Even, KFC grandfather put on Chinese costumes to welcome customers at Chinese New Year time. KFC changed its logo, which made a good foundation for brand communication and marketing campaign. Customers are attracted by novelty. Immutable things likely to cause visual fatigue and unable to stimulate the senses, therefore naturally cannot become a focal point. KFC's advertisement on TV is full of Chinese atmosphere too. KFC is good at gathering the attention of the public and the focus of attention of a society, during which it expresses its strategic intent of the brand as well as supporting tactical. The president of Yum! Brand Su Jingshi said that since entering China in 1987, KFC has been adhering to the concept that build a Chinese brand for the Chinese people and spare no efforts for it. Inspired by this concept, KFC continuously work for narrowing the gap with Chinese consumer and building China brand according to local taste. It is easy to conclude that KFC focus on localization of brand image. (Cyjm28 2009)

Compared to KFC, in 2003, McDonald's launched brand rejuvenation and remodelling movement. It attracted younger consumer groups by using slogan I am lovin it. It is a life attitude with definition of assertive and free. McDonald's rebranding is successful with creative expression of brand idea. It injected new meaning to McDonald's brand and culture. However, But this rebranding was launched under the adjustment of McDonald's global brand image, rather than especially for Chinese market. McDonald insisted that the standardization and uniformity of its own image in any location. In order to create a warm environment, there is a golden M letter with red background in restaurant design. The uniform of McDonald's cartoon character is global unity, did not do as the Romans do. From this we can know that McDonald's implemented globalization strategy of the brand image building. (Stnn 2006)

5.3.2.3.1 Interview

In the interview, middle age customers are more prefer KFC advertisement because it gives them a feeling of family warm and happiness among family members. Youth customers pays more attention to McDonald's advertisement, they are attracted by the unique style and de-sign in McDonald's advertisement. So that we can say, they both achieved success in brand strategy; they have caught their target market attentions. (Interview)

5.3.2.4 Talent strategy

KFC has 100% local talent; they are not only the primary employees, but also the senior managers. From the first restaurant in China until now, KFC is practice localization of human resources strategies. They mainly pay attention on training, promoting and employing the local employees so that can play very well with their familiar characteristics of the policy environment and market advantage. The senior managers, such as "Operations Manager", "Area Manager" and "Restaurant Manager", who are all from China will be directly responsible for restaurant operations. Localization management personnel can gain a better understanding of local needs and wants, and they will use very good knowledge of local consumer consumption psychology and consumption habits in the Chinese market. In order to better carry out the successful implementation of the strategy of talent localization, KFC creative came up with the training structure with Chinese characteristics of double unit settings: Training Department and Human Resources Department. The operations training manager of Yum firm named Chen Yaqing described that KFC make the Training Department apart from the Human Resources Department. This action is not common in other worldwide subsidiaries. She said that the Chinese markets need to use this special strategy. It means that KFC has a big determination on using local talent. (Biz 163)

Different from KFC, most general managers of McDonald's are from China, however senior executives of McDonald's headquarters are not fully localized. However, the diversity of talent is a hallmark of the McDonald 's. Employees of McDonald's are from different departments. For example, the staff graduating from catering school only accounts for the 30% of, and 40% of employees are businessmen, engineers, agronomists and so on. McDonald's combination of talents is a family-style. You will also find the older people in the McDonald's, and they can tell much more experience to the young employees, while the young people will also bring much more fresh

energy to the old employees. At the same time, McDonald's do not employ the genius, because they think genius will leave on the long-term. If people want to be the success in the McDonald's, they have to start from scratch, such as making fry chips, hamburgers and other basic services. This is the only way to get success in McDonald's. (Finance 2011)

5.3.2.4.1 Interview

Talent strategy is bound to affect the future development of the enterprises. The manager of KFC said that where the enterprise development is, where the employees we would use. It will be more integrated into the local market. But McDonald's prefer to believe employee diversity, wherever they come from, McDonald's will train them together. That's why KFC is more localization and McDonald's is more diversification. (Interview)

5.3.2.5 Supplier Management Strategy

When compared their supply mode, McDonald's has tendency to get supply from international enterprises, while KFC is more in love with the local Chinese supplier. KFC purchases raw material from Chinese domestic supplier mainly, within which, 100% chicken are from domestic market. KFC's rapid development also led the industry starting with the development of all kinds of related raw material supply. KFC persists in the principle of common progress with its suppliers. KFC helps suppliers teach a new management methods and advanced technology. KFC supports suppliers with active training test. Every three or six months, KFC assesses the suppliers. The volume business in next period will be determined by the assessment results. Thus, they formed a close relationship with suppliers as strategic partners. It is mainly reflected in two aspects. Firstly, the economic scale of KFC grows to larger company. Secondly, KFC tried to make abroad suppliers localized. KFC has been actively encouraging foreign suppliers to set up factories in China. (Info China Alibaba 2009)

The basic philosophy McDonald's procurement is to form a mutual virtuous circle with suppliers. According to McDonald's procurement values and company culture, they have built a double-win procurement relationship. McDonald's is more willing to cooperate with global supplied. In their points of view, this corporation is been builds on trust to reduce the cost of risk. McDonald's prefers to be the shareholder of its

suppliers based on two reasons. Firstly, it ensures better control of risk factors such as food security and inflation. Secondly, they could take the material cost under control. McDonald's help its suppliers to overcome difficulties by playing role of the manager of the suppliers. There are four parts included in the value behind the McDonald's supply chain management. They are independence, partnership, shared values and system priority respectively. The goal of McDonald's supply chain management is to possess long-term competitive advantage rather than short-term profit. The long-term goal consists of four aspects. They are innovation; safe assured supply, quality and total cost respectively. McDonald's set globally uniform product quality specification and requirements. Each supplier production and transport links will be completed in accordance with the requirements of McDonald's. (Canyin168 2012)

5.3.2.5.1 Interview

KFC supplier management is constantly integrating suppliers to establish a strategic partnership and develop together. McDonald's supplier management maintains more independence and continues to cultivate a loyal supplier relationship.

5.3.2.6 The summary of comparison of KFC and McDonald's differentiation strategy

We have made a summary comparison of KFC and McDonald's differentiation strategy; the authors can conclude that in table 7 as below.

TABLE 7. The summary of comparison of KFC and McDonald's differentiation strategy

| Category | KFC | McDonald's |
|--------------------|--|---|
| Products | <ol style="list-style-type: none"> 1. Main food is chicken 2. Strong localization tendency, develop new products specifically for Chinese tastes | <ol style="list-style-type: none"> 1. Hamburgers and beef products are the main food 2. Primary emphasis on the standardization of products, weak localization tendency |
| Market Positioning | Focus on family consumption, create a warm dining environment | Focus on young people consumption, create lively restaurant atmosphere. |
| Brand Image | Policy based in China, each brand detail on the characteristics will | Develop on a global scale and maintain the unified image. They |

| | | |
|---------------------|--|--|
| | be involved Chinese culture | will not change for the special countries. |
| Talents | Using the localization strategy from the basic employees to the senior managers. | Recruiting the right talent. Employee diversity |
| Supplier Management | Building strategic partnerships | Building independent partnerships |

The differences of business strategy between KFC and McDonald's in China intended to be clear: Localization of KFC through multidimensional policies to catering Chinese consumers to achieve to be winner of the fast food industry in China; the ideas of McDonald's standardization and globalization to ensure high uniformity and high quality to maintain their good image. The standardized production of McDonald's shows a constant taste, service and United States cultures for the Chinese customers. Both of their aims are very clear. They are all expected to build their own brand loyalty and to expand market share in China by their differentiation strategy. But KFC has captured Chinese taste so that KFC achieved the market leading position in recently years in China.

Through the previous analysis, it shows that there is a difference on the business strategy and competitive strategy between McDonald's and KFC. However, they have many similarities that mainly reflected in the core service of standards and consistency. It is also why we intuitively feel that there is not much difference between them.

McDonald's service philosophy is QSCV as following figure 7 :(Canyin168 2011)

- Quality: Accurately selected raw materials;
Time is the money.
- Service: 100% customer satisfaction;
The service request is to facilitate fast, friendly, attentive;
- Cleanness: Serve the customers safely meals
Clean for stores
- Value: Understand customers ' needs and wants
Provide nutrition products

KFC service philosophy is CHAMPS as following figure 8: (ChinaMBA 2011)

- Cleanliness: Clean for stores
- Hospitality: Offer the sincere and friendly services
- Accuracy: Ensure accurate supply
- Maintenance: Maintain the good equipment
- Product Quality: Insist on high quality and stability of products
- Speed: fast service



FIGURE 7. Macdonald's Service Philosophy "QSCV"



FIGURE 8. KFC service philosophy "CHAMPS" champion plan

6 CONCLUSION

6.1 Main findings

In China market, McDonald's and KFC make continuous development and achieved great success. However, on the contrary to their performances in the global market, in this key market KFC surpasses McDonald's in terms of speed, quality, performance and reputation. The main reasons are that KFC emphasizes on how to integrate into the Chinese market and work out a development strategy with strong Chinese characteristics. In short, KFC gained a competitive advantage over McDonald's. It mainly reflected in these two aspects:

- In the aspect of business strategy of growth
 - 1) Based on double win strategy, KFC's business scale expanded rapidly. The way of corporation is in line with the investment psychology of the Chinese people. At the same time, McDonald's is mainly seeking stability.
 - 2) McDonald's took the brand extension diversified business strategy adjustment, however, it is not ended in the success.

- In the aspect of competitive strategy of growth
 - 1) KFC has larger scale of business in China. KFC purchased raw material with almost 100% localization. KFC has a cost advantage compared to McDonald's.
 - 2) KFC has deeper localized product than McDonald's.
 - 3) There are small differences in target market positioning between KFC and McDonald's. KFC lead McDonald's in many aspects.
 - 4) KFC pays a lot of attention to brand building localization.
 - 5) KFC develops localized high-level management personnel in order to make better company's strategic adjustment. McDonald's personnel diversification is reflected in employing senior staff from the head office.
 - 6) In supplier management, McDonald's independent spirit advocated by the United States; KFC integrated into the culture of the Chinese people way of doing business, reflecting the "love and loyalty" in Chinese culture.

During our study, we have noticed that even though KFC and McDonald's regard each other as the biggest rival in China market, but they did not they did not completely assimilated. There is no in a vicious price competition between

McDonald's and KFC either; on the contrary, they continue to improve core competitiveness in the fierce competition to obtain a double win situation.

6.2 Recommendation for international fast-food companies

Through a comparative study of McDonald's and KFC development in China focused on business and competitive strategy, we would like to have some suggestions for other abroad fast food restaurant if they desire to expand their business in Chinese market.

- Business strategy:
 1. Running more outlets is main way at this stage.
 2. The franchise chain will be an inevitable road to business expansion.

- Competitive strategy:
 1. Providing featured service and health products.
 2. Achieving standardization in each process and areas of service.
 3. Establishing a brand image that penetrates into the essence of every detail.
 4. Setting target market with clear personalized positioning.

6.3 Suggestions for further research

Authors gain the driving factors for Chinese market operating result difference of both companies by comparing between McDonald's and KFC from a strategic point of view, thinks about the strategic issues for the future development of Chinese fast food. However, due to the limitations of time and ability, the author is not able to make this thesis very comprehensive in which only involved some basic aspects. Although authors collect a lot of information about these two companies, some of which is related with the company's strategy, high-level attention and guidance of the two companies is needed. Unfortunately, because of capacity constraints, authors cannot get the enough supports. Therefore, authors applied the learned knowledge of strategic management to the strategic comparative study of the two companies, but it is still in the preliminary stage.

For further research, we would like to recommend doing more quantitative research to have a clear view of their differences in numbers.

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APPENDEX 1 Interview with customers

Dear friends,

We are the international business students from Savonia University of Applied Sciences. Our final thesis is comparative between KFC and McDonald's. We would like to ask you some questions about them. Hope you can give us your good suggestions and ideas that will help us a lot. We will keep them as secrete, please don't worry.

1. McDonald's, KFC, which one you prefer to choose?
2. Why you like KFC or McDonald's? Could you give us one or two reasons?
3. Are you satisfied with KFC or McDonald's services?
4. Which sides you think KFC or McDonald's need to improve?

Thank you for your helping. Have a nice day.

APPENDEX 2 Interview with managers

We are the international business students from Savonia University of Applied Sciences. We would like to ask you some questions about them. Hope you can give us your good ideas that will help us a lot.

For McDonald's:

1. How about the development in McDonald's at the recently years?
2. What about the McDonald's future?

For KFC:

1. How about the development in KFC at the recently years?
2. What about the KFC's future?