Localization of McDonald's and KFC in China

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Abstract. Localization strategy is a marketing strategy that addresses the buying habits, customer behavior, and overall cultural differences of a new consumer market. China is an emerging market with huge consumer potential and offers great opportunities for multinational companies to expand into the global market. However, joining the Chinese market is not easy and due to the vast social and cultural differences, Western companies need to discover the right marketing plan and adapt it quickly. This study uses China as the research site and the localized development of McDonald's and KFC in China as the research theme. It begins with a basic introduction of the two companies and then analyses what efforts they have made in localization by comparing supply chains, site selection and market positioning, respectively. The findings show that KFC has done a better job of localization in the Chinese consumer market than McDonald's, growing faster and expanding more, but that McDonald's has done a better job of standardization than KFC.

Keywords: Localization; fast food; marketing strategy.

1. Introduction

China is perhaps one of the most appealing markets of our time, with a sizable consumer market, due to its rapid economic expansion, favourable performance in recent years, and status as the most populous nation in the world. Because of its rapid pace of life, China has steadily replaced mealtimes with hectic workdays. Fast food has developed into a convenient option [1]. American fast food is the most famous fast food and has become the most popular choice for consumers. But because of its wide variety and small product differences, this leads to a lot of competition. McDonalds and KFC are examples of companies that compete all the time, and in China they are no exception. Research shows that McDonald's is far more well-known and sold globally than KFC, except in China, where the company operated in more than 120 different countries and territories as of the end of 2014, primarily dealing in hamburgers. KFC was ranked as the 7th largest fast-food chain in 2014, with operations in around 80 different countries and territories worldwide.

However, in China, McDonald's is lagging far behind KFC. By the end of 2012, KFC had more over 4,000 locations whereas McDonald's only had slightly more than 1,700 [2]. KFC entered the Chinese market in 1987 and expanded rapidly after opening its first shop in Beijing. In contrast, McDonald's has been slower, entering the Chinese market in 1990 with the opening of its first fast food restaurant in Shenzhen. This study compares the localization strategies of KFC and McDonald's from the following three perspectives: supply chain selection, differences and similarities in site selection, and different target markets, based on this situation.

2. Analyse

2.1 Product and Supply Chain Localization Comparison

Whether the supply chain is localised or not determines the speed of its expansion in China and affects the financial returns in China [3]. KFC has been more successful in localising in China than McDonald's. In China, KFC was the first foreign brand and foreign fast food to be fully localised, with early targeted modifications to its fries, burgers, and chicken nuggets, with most of the raw materials, such as chicken and potatoes, originating from China.

Since KFC first entered China, there have been many changes to its localization and in 2004, the company adopted the slogan and goal of "Building on China, integrating into life", which was further upgraded in 2008 to "Creating new fast food for China, making a difference". ". When the first shop opened in China, it was a big hit with customers and demand outstripped supply daily. But at the time, KFC only had eight products and they were "expensive and strange" and completely unsuited to Chinese tastes. Fortunately, KFC quickly realised that it needed to create additional goods to appeal to Chinese consumers' tastes and reduce its pricing, changing from a high-end fast food to a consumer one. KFC optimised its menu and introduced specialty items tailored to local tastes and demands in addition to employing slogans to communicate its point. To create quick food for Chinese tastes, the company has also asked more than 40 national food and nutrition specialists to join an expert group. As a result, egg tarts, Peking duck rolls, vegetable soup, and other items have been introduced. They aim to release up to 50 new products year while preserving the calibre of their legacy offerings, such their finger-sucking original chicken and spicy chicken wings [4]. Customers expressed a strong preference for KFC cuisine in the consumer interviews because it is close to Chinese tastes and the menu options are varied enough to satisfy customers' wants in various ways.

Although McDonald's has operated in China for 30 years, its supply chain has not yet been entirely localised. The majority of McDonald's has always adhered to its American standards and American suppliers, in contrast to KFC's localization plan. The company imports chips and ice cream syrup from North America, and as a result, the high shipping expenses have significantly impacted the company's earnings. Even some establishments that have been in operation for 20 years still don't turn a profit. To cut costs, McDonald's has just recently implemented localization in the manufacture and sourcing of ingredients.

McDonald's chooses its raw material suppliers with more care than KFC, despite the fact that KFC is better at localising its supply chain. Suppliers for McDonald's conduct their business consistently across the Asia-Pacific area by importing raw materials straight from North America, where high quality can be relied upon. However, KFC's suppliers are overseen by various regions, and the raw ingredients they use are sourced from various areas of China. It is challenging to monitor and supervise the production process [5].

McDonald's rarely rolls out new products that are fit for the Chinese consumer market, and its menu is essentially the same as international menu. In the early years, McDonald's made only minor changes to its hamburgers for the Chinese market. Because the corporation thought that customers would choose Western-style fast food, including the Big Mac, milkshakes, and did not want to change its basic items. However, they have now discovered that they cannot start, operate, and expand in China without creating locally sourced goods as they have expanded there over the past few years. They decided to introduce certain adaptable items [6], the most distinctive of which is the breakfast, in order to adjust to the Chinese market. Chinese-style breakfast items like scrambled eggs, pancakes, and hot tea can be found on the McDonald's menu. More and more customers are willing to enjoy its breakfast and hamburers due to the localised product changes. McDonald's localization process moved far more slowly than that of its competitors, and it did not respond to the market during the initial stages of rapid development or recognise the issues and grab the chance to change its marketing approach as rapidly as KFC did.

The expectations of new products are likewise considerably different at McDonald's and KFC. Some individuals claim that KFC's new goods can't replace its staples, but KFC doesn't intend for its new products to completely replace its staples; rather, it utilises their launch as a strategy to draw in repeat business. Since there are different expectations here than at McDonald's, it is more forgiving. KFC bases its decision-making for new items on letting the market and its consumers buy and vote; however, you cannot vote for notes; it only needs to generate revenue and traffic. The market must select novel goods that will be profitable in the long run, like the Old Beijing Chicken Roll and Beef Tart. McDonald's has higher expectations since it aims to introduce seven out of ten new goods that will be well-liked and continue to make money over time. They consequently deliberate and make thoughtful choices, keeping to the product styles they are adept at, purposefully avoiding the components they are not, and include some adaptive elements.

2.2 Localization of Site Selection

The ideal location for a chain store serves as the foundation for its standardisation, simplification, and specialisation as well as a requirement for its success. As a result, KFC places a high value on the site selection issue. Its site selection success rate is over 100%, which is one of KFC's key skills. The site selection choice must pass through two levels of approval: one is the headquarters and the other is the local firm.

The spatial distribution of KFC and McDonald's in China shows a consistent trend, with a steady shift from east to west and an expansion from big cities to smaller ones. A total of 12 provinces on the east coast of the Chinese mainland are home to around 74.1% of KFC locations (2,894 shops) and 80% of McDonald's locations (1,376 shops), primarily in the Beijing and Shanghai-centered economic region. The concentration of McDonald's restaurants is greater in China's capital city due to a gradual outward expansion. With 17.8% (684 firms) and 14% (236 companies), respectively, of all the stores in Central China, KFC and McDonald's are a very small portion of the total. Although McDonald's has a very small number of locations in Western China, it still has 2.3% fewer than KFC, and there are essentially no McDonald's locations in Western China cities other than the provincial capitals [2].

But there are also similarities in that their expansion trends are decreasing from east to west, from tier 1 to tier 5 cities, and they both almost have outlets in tourist attractions. The goal of these branches is not to make a profit, but rather to gain more space to showcase their brand image and actively promote word-of-mouth publicity, which will increase consumer trust and increase consumption [7].

Both businesses frequently establish more locations in urban areas with dense populations, high household incomes, and advanced economies [8]. KFC's principle of opening shops is to strive to open in and around the places with the most customers, and KFC has put more effort into planning its business districts than McDonald's. In the case of KFC, which is in Beijing, its development department knows all areas of the city very well and even knows how some buildings and roads change from year to year. So that he can grasp the characteristics of the business environment in certain areas and consider whether they are suitable for opening a new outlet.

Developing franchises is also the basis for expansion, and in this respect, KFC has a stronger work ethic, a broader perspective, and a more advanced strategic plan than McDonald's. McDonald's aimed to draw urban youth in major cities, whereas KFC concentrated on expanding into new markets. Compared to KFC, there are far fewer McDonald's outlets in China. The latter's franchising company has grown rapidly and is currently at a stage of relative maturity. One of KFC's techniques for ensuring the profitability of its franchises is to transfer established direct sales outlets to franchisees to reduce risk and speed up the learning curve and market incubation cycle [3]. However, McDonald's does not consider opening franchises in China as a good growth strategy and sticks to its philosophy that the gap between the two will widen further if KFC accelerates its franchise expansion in the future.

2.3 A Comparison of Market Position in China

McDonald's market strengths are quality, speed, cleanliness, service, value, and standardised production. KFC's distinctive flavours and locally sourced goods are its competitive advantages.

The two companies' different choices of target consumer groups have an impact on the eating experience and marketing strategies of KFC and McDonald's. McDonald's aims to create a bright and airy dining experience for the youthful, active youth demographic. At the same time, McDonald's captures the youth's love for sports and uses a series of advertisements and promotions endorsed by sports stars to stimulate consumers' desire to spend money at McDonald's [9]. KFC, on the other hand, is positioned more towards family members, aiming to create a family-style reunion and a warm and happy dining atmosphere. In terms of advertising and marketing, it differs from McDonald's energetic advertisements, entertainment and sports stars' endorsement, KFC's branding is understated and simple, constantly conveying a kind and considerate attitude. KFC aims to bring adult together with their children and parents by offering a varied selection of flavours and a cheerful and warm family reunion-style dining environment to appeal to customers of all ages, including many older residents. A few years ago, KFC also introduced its Family Pack, which was well-received by many senior citizen organisations and caused both its sales and customer happiness to skyrocket.

The two chains have different promotions, merchandise, and even decorating styles because of their varied business methods. Even though young people are both of their target markets, there are significant contrasts between the two. While KFC capitalises on localization and diversity to convey family warmth and further broaden its target market to older consumers, McDonald's promotes youth. In a fast-food interview, it was shown that younger individuals favoured McDonald's due to the free WIFI and laid-back atmosphere, whereas most elderly people and their families preferred KFC because they felt more at ease with the setting and menu options. These are the results of different target market strategies.

The two approaches are radically dissimilar when it comes to choosing high-level employees. McDonald's typically "manages from the air," selecting seasoned professionals that they can trust to run their businesses in China [10]. With practically every restaurant manager and executive being promoted from the front line, KFC's talent strategy, on the other hand, follows a "recruit and employ from China" management method.

3 Future development plans

As Chinese consumers become more health concerned, these well-known high-calorie fast food companies are facing enormous challenges [11]. Future product development plans for both businesses include the creation of low-calorie items, such as the veggie burger and vegetable fried chicken offered by KFC. They will be working hard to find ways to cut calories by 30% in the future without raising prices

Future KFC development will be more streamlined, efficient, and franchise focused. Their primary growth goals are to maintain the leading localised items and the present rate of expansion. Their future growth ambitions also include enhancing the original product suppliers' standards of quality and enhancing the customer service ethos and responsiveness of their shop workers.

By the end of 2023, McDonald's expects to have 4,500 McDonald's outlets in mainland China [12]. Shop localization and significant expansion are two of the most critical changes McDonald's will need to make in the future. McDonald's also intends to promote convenience services such as product innovation at its existing locations and expand its online shopping business They also predict that over 75 % of McDonald's restaurants will offer takeaway services over the next five years, providing the greatest convenience to Chinese customers, with over 45 % of these restaurants to be in third and fourth tier cities and part of western regions.

In addition, in terms of site selection, McDonald's should learn more from KFC and visit more of the characteristics of each city to find the most suitable locations to open branches. At the same time, it is important to consider whether the main movement lines of consumer flow will be intercepted by competitors when choosing a location to maximise profitability.

4 Conclusion

In general, KFC's localization is now significantly better than McDonald's in all areas except quality and standardisation. KFC's supply chain is more diverse, with more menu choices and more in tune with Chinese tastes. McDonald's has a single but higher quality and more standardised supply chain. KFC's chosen target market is mostly families and therefore the decor is more welcoming and friendly, while introducing a range of products suitable for families to eat together. McDonald's targets young people with a more casual dining environment and cheap deals, while using the appeal of sports stars to stimulate spending. Objectively, the two restaurant chains have very similar goals and approaches to location selection but are expanding in completely different directions. They both tend to open more branches in developed cities, where the population is dense, and the spending power is high.

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