Global operations management during major change
An exploration of industrial practice

Udechukwu Ojiako
School of Management, University of Southampton, Southampton, UK
Stuart Maguire
Sheffield Management School, University of Sheffield, Sheffield, UK, and
Shuting Guo
University of Northumbria, Newcastle upon Tyne, UK

Abstract

Purpose – The purpose of this paper is to examine the key practical factors that confront global businesses as they attempt to improve all aspects of their operations including emerging areas of the customer experience. The paper focuses on the way various organisational capabilities such as information systems/information technology have been adopted in order to provide an enhanced operational and strategic control over key areas of business.

Design/methodology/approach – The paper adopts a case-based participation observation study which explores the global operations of a major restaurant brand. This approach enables it to explore several concepts which examine the behaviour of global operations at a time of major change.

Findings – The paper has focused on the application of change principles in the restaurant and hospitality industry and its importance for business performance and marketing strategy. The paper shows how adapting business strategy to incorporate key cultural sensitivities can pay major dividends for organisations. This strategy appears to be contrary to the general approach of standardisation adopted by other franchises in this key market sector.

Research limitations/implications – It will be necessary to increase the range of this research to ensure any real certainty regarding its implications.

Originality/value – The paper identifies a number of interesting changes to preconceived ideas of standardising product portfolios in the restaurant sector. It shows the need for a balanced "mix" of menu products to satisfy local and national requirements.

Keywords Operations management, Organizational change, Restaurants, Hospitality services, Business performance

Introduction

The restaurant industry is a significant part of the overall hospitality sector (Chew et al., 2006). As the 1940s, it was also characterised as being unique due to its skilful co-ordination and combination of production and service (Whyte, 1949). It is also characterised as highly segregated (Giuffre and Williams, 1994), with women making up about 82 per cent of the waiting staff (US Department of Labour Bureau of Statistics, 1989). The industry is also characterised as providing significant recognised benefits to the economy, especially to that of local communities. This is especially true in areas such as employment generation (Andriotis, 2002; Theobald, 2004; Chew *et al.*, 2006). In 2006, it was estimated that restaurants across the world generated over £400 billion in revenues, while employing over 60 million people (Ostblom, 2007).

The study and background

Yum! Brands Inc. is currently the world's largest restaurant franchisee with operations in over 110 countries. It currently operates more than 34,000 restaurants (EIU-Business China, 2006), and its portfolio includes five major brands (which includes Kentucky Fried Chicken, Long John Silver's, Pizza Hut and Taco Bell), and in this capacity it is a leader in the chicken, pizza, Mexican food and seafood chain restaurant industry (HP, 2007). The company employs around 750,000 workers worldwide (James, 2003). Like other highly successful fast food restaurant chains (e.g. McDonalds, Chester's International and Long John Silver's), Yum! Brands has been successful due to its ownership of an extensive and easily identifiable network of franchised outlets (Valikangas and Lehtinen, 1994), and its highly standardised product and service offerings. For example, it is Taco Bell brand was a pioneer in value meals in the 1980 and 1990, by being one of the first to introduce three-tiered price menu's. Yum! Brands were until 2002 known as Tricon. As Tricon, it had been owned by PepsiCo, but it was divested from PepsiCo's portfolio in 1997 in order to ensure that it was able to take advantage of economies of scale (Asgary and Wall, 2002).

To realise its vision of creating the world's greatest restaurant company (Yum!, 2008b, c), Yum! Brands are focusing its operations on four key strategic objectives (Figures 1 and 2). These objectives include building a dominant restaurant brand in China, increasing the profitability of its international divisions (in order to support its international expansion), improving the positions and returns of its operations in the USA and to continue to drive a high rate of return on investment for its shareholders (Yum!, 2008a, c). Earlier work by Romano (1990), highlights that

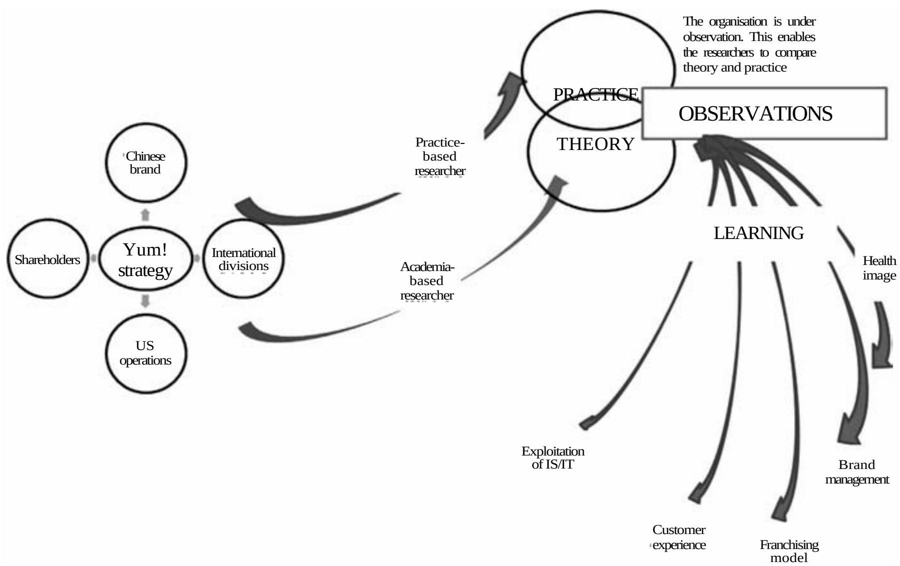

Figure 1.
Four key strategic objectives leading to realization of company vision

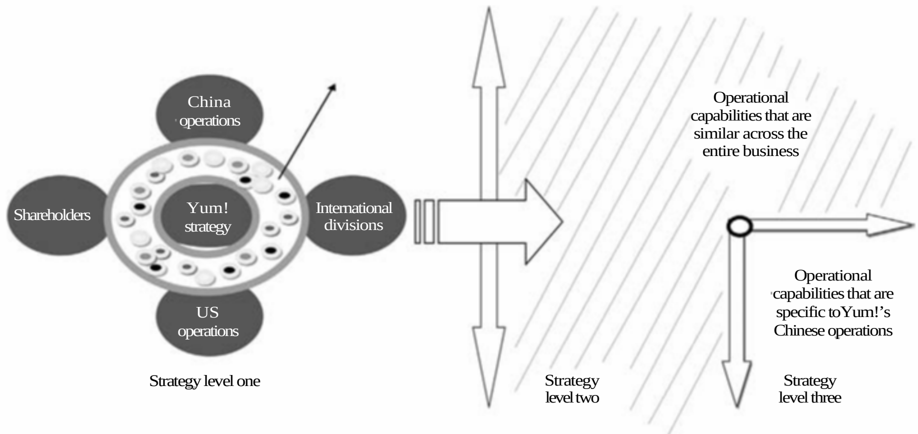

Figure 2.
Breakdown of strategy levels for Yum!

there is no simple formula or criteria for identifying parameters for case studies. This is especially true as the relationship between these parameters are usually very complex. As this is the case, we have identified the five major parameters for study based on existing literature. Based on this, we seek to explore some parameters that are enabling Yum! to achieve its first strategic objective. There is no doubt that conducting such an exercise is challenging. The challenge according to van Aken (2004), relates to how an appropriate balance is maintained within management research to ensures that theory is empirically proven (but then face practitioner critism of triviality in terms of practical relevance), as against being seen to produce research which is relevant to practice, but possibly limited by a insufficient instrumental rigour.

There is no doubt that substantial interest remains in the field of operations management and the wider management sphere on how major and complex organisations are attempting to maintain their profit margins in the current era of extreme competition and business uncertainity (Aulakh and Sarkar, 2005; Ojiako and Maguire, 2008; Judge and Blocker, 2008; Wan *et al.*, 2008), by being able to maintain some form of organisational flexibility (Dreyer and Gronhaug, 2004; Kiessling *et al.*, 2006), that enables the production of attractive products and services. More specifically is however the generation of knowledge that deals with how these organisations who often have to deal with a diverse and sometimes conflicting range of business interest and conditions, struggle to address the challenges of strategy ambiguity by maintaining a consensus on the strategic direction of the organisations.

It is not surprising that within the current economic climate, a key feature of this research interest has been extended to similar studies within the restaurant industry (Harrington, 2001, 2004; Parsa *et al.*, 2005; Kim *et al.*, 2006; Harrington and Kendall, 2007), and Yum! Brands which is one of the biggest players in the industry (Mike and Slocum, 2003; James, 2003; Enz, 2005; DiPietro, 2005; Muller, 2005; Schreiner, 2006; Lang *et al.*, 2006; Combs *et al.*, 2006; Rivera, 2007; Associated Press, 2007; Head, 2007; HP, 2007; Baillie, 2008).

Over the recent years, research has indicated that the restaurant industry does have a very high level of company collapse (Ernst, 2002; Kim and Gu, 2006). In fact, according to Ernst (2002), about one in every three restaurants in the USA goes out of business within the first 24 months of commencing business. Based on this, it is very clear that those restaurants which do survive will quickly recognise the precarious nature of their industry. For the world's largest restaurant franchisee, these challenges are particular crucial as up until now, the conventional wisdom, in terms of global marketing has been that multinational corporations in the restaurant business could afford to be "product-led" in terms of their range of offerings to consumers as economies of scale have been seen as the overriding rationale for policy decisions in the global restaurant sector.

This paper is an attempt for the authors to contribute the ever growing, but yet inconclusive research on the operations of complex organisations and how strategic consensus can be maintained. In particular, the authors seek to use this paper to facilitate the bridging of disparities between theoretical knowledge and management practice as relates to the operations of complex firms and how they manage conflicting elements of their business operations. Although our understanding at present is that there is a direct link between a cohesive business strategy and the performance of organisations, the reality is that there is still conflicting opinions being expressed, based on the outcomes of empirical studies (Rapert *et al.*, 2002; Kellermanns *et al.*, 2005).

Research philosophy

The decision on choice of research methodology has been demonstrated by scholars such as Easterby-Smith *et al.* (1993), Yin (2003) and van Aken (2004), to have a link directly to whether or not research exercise is eventually successful or not. As in most cases, questions on research approach have been shown to link directly to on-going discipline-oriented epistemological debates. These debates have for example been on-going within the information systems/information technology (IS/IT) world with questions on whether IS/IT should be regarded as a social science or as pure science (Checkland and Holwell, 1998; Livari, 2007). These debates also apply to functional specialities such as operations management (Whitley, 1988; Meredith *et al.*, 1989; van Aken, 2004), and relate to not only the question of general philosophical approaches (i.e. positivism or phenomenology), why management research has failed to communicate with practitioners (Kelemen and Bansal, 2002), but also how and whether research output can be applicable in practice (Starkey and Madan, 2001), especially since at present this appears not to be occurring (Porter and McKibbon, 1988; Hambrick, 1994).

Research approach

On the question of research approach, being that the research exercise related to the operations of an organisation which is very much dependent on superior customer focus and interaction, and also noting the importance of not only noting how the organisation has been performing within the research context, but also how its behaviour has been influenced by interactions with its wider business environment, we adopted a phenomenological stance in our research approach (Hycner, 1985; Moustakas, 1994). Generally, research which is phenomenologically oriented is conducted using inductive and qualitative research methods which is mainly based on descriptive techniques that provides subjective, explanatory (van Strien, 1997) and value-laden accounts of events (Jones, 1985), that could be reconciled with detail, flexibility and context (Seymour, 2001), thus ensuring that observations are seen as true based on evidence which supports the contextual understanding of phenomena. These methods are generally seen to fall into the realm of conceptual scientific knowledge as against instrumental scientific knowledge which responds to research outcomes in a controlled manner thus leading to some form of logical consistency (van Aken, 2004). In the case of conceptual scientific knowledge, the objective is to facilitate general awareness of the subject matter (Kilduff and Kelemen, 2001). To support the use of a qualitative research approach, we choose to adopt a case study approach from a single data source as our method of study.

Case studies are qualitative research methods which will emphasize a high level of detail in the contextual assessment of a set number of real-life events or organisations. Within management research which is known for its eclectic nature (Easterby-Smith *et al.*, 1993), the case study approach has remained popular and highly valuable in the field of operations management (McCutcheon and Meredith, 1993; Meredith, 1998; Voss *et al.*, 2002; Stuart *et al.*, 2002), due to a recognition by researchers that it has the ability to reconcile with or blurred contextual boundaries (Yin, 2003). Case studies are also seen as being able to articulate a better understanding of the operations of organisations (Clements, 1974; Rickwood *et al.*, 1987; Romano, 1990). Certainly, one observable advantage of case studies is that the cases are primarily oriented at addressing focused challenges through collaboration with practitioners. It is then anticipated that through reflection, emergent knowledge from the exercise is then transferred to similar cases (Eisenhardt, 1989), which are regarded as highly valuable by practitioners (Voss *et al.*, 2002). This off course does not mean that the approach does not have its critiques. Researcher such as Campbell and Stanley (1966), Dogan and Pelassy (1990) and Abercrombie *et al.* (1994), have been known to in various ways question the scholarly rigour of case study research approaches.

We choose to adopt a case study approach from a single data source as our method of study. Such an approach is valid, well represented in academia and has been discussed in previous research (Eisenhardt, 1989; Yin, 2003). In line with work by Yin (2003), we have sought to use a single case which can be argued is representative of the restaurant industry due to the size of the organisations operations.

Overview of Yum! China

Employing over 140,000 staff (HP, 2007), Yum! Brands operations in China covers both Thailand and Taiwan. Yum! Brands Chinese operations are primarily run either as sole investments, joint ventures or franchises (HP, 2007). The company has been a pioneer in the Chinese fast food sector and through its KFC brand in 1987; it became the first major foreign restaurant brand chain to enter the Chinese market. Again in 1990 (through its Pizza Hut brand), Yum! Brands became the first restaurant chain to introduce pizza into China in 1990, followed by its first franchise in 1993 (EIU-Business China, 2001). The company also pioneered drive-thru restaurants by opening the first-ever drive-thru restaurant in 2002 (through its KFC brand). Yum! Brands currently operate more than 3,100 restaurants in over 450 mainland Chinese cities (Yum!, 2008c, d). As of March 2007, the company's Chinese operations included just under 2,500 outlets.

The Chinese restaurant market

Since reforms started in 1978, China's economic growth has been remarkable (Wang and Yao, 2003). This economic growth is being driven by various factors such as a growth in human and physical capital (Wang and Hu, 2007). This expansion has continued with the country recently joining the World Trade Organisation – WTO (Agarwal and Wu, 2003). The joining of the WTO is expected to lead to more business opportunities as the country reduces duties on imported goods and liberalises its traditionally protected local markets (Moustakerski, 2002). Supported by a growing middle class (Johnston, 2004; Yang, 2006), changes in food consumption patterns and taste (Frazao *et al.*, 2008), the modernisation of consumer preferences (Parnell, 2002; Curtis *et al.*, 2007), growing personal incomes (Guo *et al.*, 2000) and changes in lifestyle (Veeck and Veeck, 2000; Jussaume, 2001), the number of restaurants in the country grew in 2007, to 3.8 million, accounting for the employment of approximately 18 million people (Chow *et al.*, 2007). The industry is now worth about £14 billion according to the Chinese Ministry of Commerce, The People's Republic of China (2008).

The growth of the restaurant industry is not solely due to China's economic growth. There are some cultural reasons as well. For example, the culture of the country is so much oriented towards food (Lu and Fine, 1995), playing a central part in local festivals and other areas of family and business life (EIU-Business China, 2003).

China is now the world's largest food consumer (Hawkes, 2008). The growth is expected to support more foreign restaurant chains seeking to gain a foothold in the Chinese market (Laroche *et al.*, 2005). Market predictions are also very favourable. For example, statistics shows that the majority of Chinese children choose to spend their own money on food more than anything else (EIU-Business China, 2001), while the Chinese customer, although price sensitive, is known to be willing to pay a little more for quality, convenience, and brand name products (Couch, 2007). These opportunities are recognised by Yum! who point out that although it continues to double its business in China annually, it is still unable to meet demand (Li, 2002), especially with a market constituting about one international fast food brand per million people (Zhu, 2005). This is in contrast to the saturation of the US market where the majority of Americans live within three miles of a Yum! Outlet (*The Economist*, 2005).

Organisational implications

This paper sets out to critically appraise the approach a major customer-oriented business has chosen to adopt in order to manage the changing nature of its business environment.

To conduct our study, we have chosen to use a practice-oriented case study approach. This approach has been adopted in similar research conducted by Maguire and Ojiako (2007, 2008) and Ojiako and Maguire (2008).

The following sections of the paper explore theoretical concepts which support Yum! Brands' operational approach. A total of five parameters are explored:

(1) exploitation of IS/IT;

(2) customer experience (CE);

(3) franchising model;

(4) brand management; and

(5) health image.

Exploitation of IS/IT

Yum! Brands IS/IT systems strategy is centrally defined by its corporate headquarters (Head, 2007). With responsibility for the translation of strategic business requirements and their translation to business solutions being that of the Extended Enterprise Architecture Unit. To support its three types of service operations which includes an eat-in, takeaway and home delivery service (Kang, 2005), its systems architecture is open and service-oriented.

Yum! Brands open architecture encourages systems independence across various operating units. This architecture provides many advantages to customer-oriented organisations in that it ensures customers receive the same services purchasing products on the internet, kiosk or store (Mader, 2008). The organisation has adopted the strategy based on a recognition that if it adopts a prescriptive IS/IT systems strategy, then difficulties will emerge as every market the company operates is different, meaning this strategy might be difficult due to the major challenges in some countries it operates securing locally the right level of competent IS/IT staff that will support these systems. In this situation, an open architecture is a perfect fit for the company's loosely coupled systems model. This is because it provides the company with the right level of flexibility to run on multiple platforms and multiple databases (Hossain *et al*., 2001). In addition, it provides for interoperability and portability of its numerous systems. It is interesting to note that this systems approach is in sharp contrast to other complex organisations such as BT and the NHS which have strived for organisational excellence through network convergence and a reduction of the number of its systems (Reeve *et al*., 2005; Dames, 2007; Maguire, 2007).

One example of such a local IS/IT system the company is operating is the End User Workplace Solution (EUWS) system. The system deployed in 2005 by HP in order to ensure that all its Chinese outlets were operating a standard IS/IT service, involves the support and operational maintenance of all the company's Chinese systems (HP, 2007). It also involves the management of Yum! China's end-user desktop environment (HP, 2007).

Yum! China management continues to demonstrate a passion for the innovative use of IS/IT. For example, the company like other large franchise operators runs real-time performance measurement systems (Berkley and Gupta, 1995), such as MicroStrategy's platform business intelligence tool (Brailov, 2003). We also continue to see the company strive to innovate in terms of CE enhancing services. Examples includes the development of its "virtual waiter" ordering technology for its Pizza Hut Brand, which is set to suggest menu items that best match customers' orders, based on previous order history. Recently, the company has also pioneered the use of mobile technology which enables the placement of orders by matching customer's addresses to a dynamically built menu page on the customer's local restaurant outlet (QuikOrder, 2008).

Considerations

In a commercial sense, IS/IT has always been sought by businesses and marketing managers within the restaurant and hospitality industry (Camison, 2000), including those operating in China to help them run their organisations more effectively. IS/IT can be regarded as an essential part of the CE of customers across various industries such as tourism (Korzay and Chon, 2002), restaurant (Oronsky and Chathoth, 2007) and hospitality industry (Wang and Qualls, 2007). This makes IS/IT a dominant source of competition within the industry.

Recent trends appear to demonstrate a growing realisation by Yum! China of additional advantages the appropriate exploitation of IS/IT can bring to the organisation, especially as relates to the enhancement of the Chinese CE (Law and Jogaratnam, 2005).

Although not seen as an IS/IT centric industry (Siguaw *et al.*, 2000), IS/IT is used by majority of restaurant franchises to support their ability to enhance the franchises' ability to enhance the customer relationship (Fuerst and Choobineh, 1999) and also the CE. Overall, the objective of franchises has been to be able to deploy systems that support the storing of customer address and order information with the limited hope that this will (through automation) facilitate future orders (Wells *et al.*, 1999).

There are various uses of IS/IT in the hospitality and restaurant industry that have significantly impacted on their operational efficiency (Powers and Barrows, 2003). Within the industry, IS/IT will usually provide for three major business benefits. These include the reduction of cost, more effective and efficient staff and financial management and the enhancement of the ability of an organisation to manage service provision. We see for example the use of IS/IT in areas such as food production (Rodgers, 2008), storage and retrieval (Sriram *et al.*, 1996) and delivery (Mangina and Vlachos, 2005). IS/IT in addition can be used in the management of booking (electronic booking and confirmation services), point-of-sale forecasting, inventory control and ordering. It is also used to enhance guest services (Powers and Barrows, 2003), and can also be used to enhance product and service promotion.

As the company began to expand and its IS/IT department began to face more complicated operational challenges, all deployment and support work was outsourced. Outsourcing some aspects of its IS/IT support service, although appropriate for a while, ultimately failed to ensure that the company could provide services without constant manual intervention. The result was that systems became increasingly complicated, expensive and difficult to manage. These difficulties were as a result of the spread of the companies' operations and the need to deal with many different vendors and franchises (HP, 2007), hence making it harder to create synergy.

Deployment of the EUWS system across all its outlets has helped Yum! China focuses on its core business by the provision of onsite support at outlets through a dedicated dispatch centre operated by HP. The results have been quite positive. Since the deployment of the system in 2005,95 per cent of problems raised by Yum! outlets in China have been resolved within 48 hours (HP, 2007).

Although there is no doubt on the positive role, especially as relates to the CE that IS/IT plays in the restaurant industry, it is important that we recognize that there exists research which suggests that the restaurant sector has not fully embraced IS/IT due to various factors including its complexity (Wang and Qualls, 2007) and a lack of entrepreneurial orientation towards such related investments (Oronsky and Chathoth, 2007). For this reason, researchers such as Siguaw *et al.* (2000) are of the opinion that the industry is not technology oriented.

Customer experience

The restaurant business in China is facing some obstacles due to its peculiarities. In the first place, limited wealth distribution outside the key economic and industrial centres of Beijing, Shanghai and Guangzhou-Shenzhen raises questions on whether customers outside these areas are willing to pay US rates for their food, especially as prices offered at locally owned fast food restaurants are most likely to be more affordable than those from international chain brands (Zhu, 2005). The second major challenge is that it has been the trend for a while for the profitability of its Yum! Brands restaurants in China to decline after the first 24 months of operation. This is possibly due to the large-scale loss of interest in its offerings by customers who are initially only attracted to its restaurants out of curiosity (EIU-Business China, 2001). To address these challenges, the Yum! Brands have undertaken various initiatives which include an increase in advertising and providing a web presence (Schreiner, 2006). In addition, the company has begun to focus on improving customer service which is particularly challenging considering that the Chinese customer is generally reluctant to complain about poor products and services (Ho, 1997).

Considerations

Previous studies by Maguire and Ojiako (2008) and Ojiako and Maguire (2008), have identified the CE, as a key parameter for measuring operational effectiveness of the twenty-first century organisation. Although this is the case, there is no doubt that thinking about the CE within the context of hospitality has presented challenges.

The main challenge being that the measurement of service quality involves quite a lot of subjective and complex attributes such as safety and quietness (Benitez *et al.*, 2007). CE within the restaurant sector is further complicated by the fact that service is delivered through a number of interfaces such as quality of rooms and the perceived quality of food (Andaleeb and Conway, 2006), which some might simply assess in terms of presentation and taste. Service quality is further complicated because to an extent, it is also dependent on the behaviour of other patrons and guests which cannot necessarily be controlled by the service provider. These factors make service provision within the restaurant industry particularly vulnerable to failure. To address these challenges, Andersson and Mossberg (2004), highlight the importance of providing multidimensional experiences to customers.

In order to fight off competition in what is no doubt a highly lucrative Chinese market, global restaurant brands such as Yum! do need to be able to keep their focus not only on meeting the stated expectations of the customer, but also to deliver desired products and services. To achieve this, we need the increasing recognition by the company that perhaps its Chinese customers although curious about western taste, primarily desire products with an authentic local flavour (Anderson *et al.*, 1999).

For example, although KFC (a Brand of Yum!), has done relatively well in sales with its spicy chicken burgers and wings, other western-oriented products which are based on coleslaw, have not been popular in sales with Chinese customers (EIU-Business China, 2001). To be able to meet these requirements, companies such as Yum! must be operationally oriented in a way that supports its ability to deliver to its customers not only a desired product, but also an intimate experience which goes beyond what the local perspectives of the restaurant experience should be (Yan, 1997). The Chinese customer also desires an authentic local dining experience (Lego *et al.*, 2002) which is delivered through the familiar presentation of food, cutlery and recognisable restaurant decorations and furniture settings.

It is also important to note that in the Chinese setting, restaurants are primarily set out to facilitate social interactions (Yan, 2000). For the fast food chain operating in China, this translates to a perception of niche and class and a place where one can acquire status by eating there (Chan, 1999). This is in marked contrast to the image of fast food chains in western countries where they are perceived as a cheap and low-value commodity (Yan, 1997; Zhu, 2005).

The reality is that if Yum! only strives to meet expectations seen as normal for its western customers, the brand will only be able to guarantee short-term successes for its Chinese franchises, especially in a Chinese cultural setting where customer complaints are restrained (Ho, 1997). This is, however, changing due to the influence of Western culture (Zhu, 2005).

Franchising model

Of the projected 3.8 million restaurants in China, 95 per cent of them are individually owned (Dayal-Gulati and Lee, 2004). This statistics makes China a very attractive country for franchising.

The restaurant industry is the largest global franchising industry (Michael, 2002), and this growth is ongoing (Ingram, 2001). The growth in franchising is supported by an equal research interest which has sought to highlight advantages of this business model for both various parties it involves.

It is estimated that about two-thirds of Yum!'s 12,000 overseas outlets are franchised (EIU-Business China, 2005). It is particularly notable that at the time of its divestiture from PepsiCo in 1997,60 per cent of the company's outlets were franchised; by 2005 the number of franchised outlets had grown to 75 per cent (*The Economist*, 2005). The company has generally operated its franchises using the classic franchise model (Watson and Kirby, 2004), where the company's franchisees pay a fee to Yum! which then gives them the right to use its various trademark and business plans as well as a host of its resources and services. Yum! Brands basic operational model is based on the establishment of franchises and its own company-owned outlets running in parallel. The company however spends a considerable effort to ensure that site acquisition is managed centrally. This ensures that its different divisions and franchises do not engage in site bidding against one another.

Considerations

Market peculiarities present particular challenges to potential western chains seeking to establish franchises in China. One major peculiarity of the Chinese market is that locals who appear willing to invest resources in building up a franchise often do not have the financial resources to purchase one, while in paradox, locals with the capital to purchase franchises are often not too willing to invest their resources in entering into a franchise agreement (Dayal-Gulati and Lee, 2004).

There are various reasons for this from the franchisor's perspective. In the first place, restaurant chains operating in China do have concerns that franchising could lead to a loss of management control hence negatively impacting on brand quality (Shen, 2007). Second, although we see evidence from research (Michael and Combs, 2008), that franchisees are less likely to fail when franchisors offer exclusive territories, in China, this guarantee of exclusivity is practically impossible. This is primarily due to difficulties with brand protection, especially as some local establishments do attempt to build their businesses around business models of well-known brands (Dayal-Gulati and Lee, 2004; Zhu, 2005), without bothering to purchase a franchise. Some local chains such as Grand Mother Dumpling Restaurant, Makamu and Mr Pizza appear to have done this successfully. To address this concern, the company recognising the possible use of tenancy and lease arrangements to ensure management control (Lashley and Rowson, 2002), has now instead of marketing franchise licences, is selling existing outlets only to then take the role of consultant (for a fee), to outlet operators (EIU-Business China, 2001; Globrand, 2006).

Brand management

Yum! Is one of the best known brands in the world (EIU-Business China, 2000; Enz, 2005). One of the company's growth strategies is based on multi-branding all outlets and their operations. This strategy includes the use of common kitchens.

Considerations

Yum! Brands are keen to combine multiple restaurant concepts into single outlets (Enz, 2005; Muller, 2005; Wright *et al.*, 2007). This strategy which is based on a rejection of long held marketing segmentation and differentiation strategies seeks to move the focus away from a generic strategy based on specific needs of a defined target customer group to the unspecified needs and desires of undefined customer groups (Harris, 2002). In the case of restaurants, this strategy seeks to deliver a wider selection of restaurant brands to outlets that for various reasons such as small catchment area size (Combs *et al.*, 2006) or expensive real estate, might not be able to support a single concept (EIU-Business China, 2000). As a result, this strategy can be seen as a means of boosting sales per square foot unit (Wright *et al.*, 2007). Multi-branding also supports the efforts of companies to target varying market segments, spread risk and meet customer's expectation for variety (Chen and Paliwoda, 2003).

Multi-branding brings about various benefits to restaurant chains. For example, it enables the combination of complementary brands which can result in the customer being presented with a wider choice of products (Muller, 2005). Multi-branding also ensures that there is a reduced customer product search time and costs (Muller, 2005).

The reality is that although there are identifiable advantages for the company to continue its multi-branding strategy, there is a need for the company to recognise three potential problems of this strategy. In the first place, there is always a danger that poor service delivery from one brand can negatively impact consumers' perception of another multi-branded partner (Bourdeau *et al.*, 2007). Other disadvantages could relate to operational confusion (DiPietro, 2005) and problems relating to the extra cost of training operators on two or more separate systems (DiPietro, 2005).

Health image

The restaurant industry has attracted controversy and in some cases criticism on the health implications of its products (Schlosser and Wilson, 2007; Werner *et al.*, 2007), since the first fast food restaurant was established in 1921 (Chung, 1999). Furthermore, the industry has continued to struggle as research establishing a direct link between its products and health problems (Koga *et al.*, 2006), especially childhood obesity (Young and Nestle´, 2007) becomes more prevalent, while associated medical costs also rise (Finkelstein *et al.*, 2005). The Yum! Brand has not been spared these criticisms

(Maloni and Brown, 2006) and over the years it has had to deal with various health-related concerns which range from the low investment in research and development (Lang *et al*., 2006), the poor nutritional value of its products (Mills and Thomas, 2008) and other concerns about the general hygiene of its outlets (Rivera, 2007). For example, the company has had to deal with an *E.coli* outbreak in one its Taco Bell outlets in Philadelphia (Jay *et al*., 2004; Elton *et al*., 2007), and a rat infestation in a Taco Bell/KFC restaurant in New York in 2007 (Bush, 2007). Similarly, in China, obesity although less common than in the West is increasing with approximately 7 per cent of the population (i.e. over 60 millions), falling into this category (Couch, 2007). Most worrying is that there is every indication from emerging studies that these figures increasingly include children (DeMaria, 2003).

Considerations

Like other fast food restaurant chains, Yum! is conscious of the impact of the brand being associated with health-related concerns. This should not come as a surprise especially as in the USA; ‘healthy’ sandwich chains such as Subway are now the fastest-growing take-away food franchises (*The Economist*, 2005). In order to address this challenge, the brand has begun to offer healthier options at all its brand outlets (Associated Press, 2007). Overall, it appears that this strategy is only being pursued by the company, as a means of avoiding recent bad publicity. Statements attributed to both the company’s CEO and chief nutrition officer (Stein, 2006); appear to suggest that the company has only decided to provide these offerings as a means of diverting the bad publicity. From statements attributed to the company’s Chief Nutrition Officer, Yum! Brands appears to be of the opinion that consumers seeking more healthy options should be more inclined to go to more upmarket restaurants (Stein, 2006).

Managerial implications

In the following section, we will explore three major specific themes emerging from Yum! Brands operations in China.

Importance to overall Yum! business

With operating profits for the China Division totalling more than £187.5 million (EIU-Business China, 2006) and revenue in 2004 over £500 million, up from £130.5 million in 1998 (EIU-Business China, 2005), Yum! Brands Chinese operations are seen to be a crucial part of the company’s global growth strategy. For this reason, the company intends to continue to increase its share of the very competitive international fast food restaurant market in China by building on the existing reputation of its brand (Yum!, 2008c, d). According to the EIU-Business China (2005), the importance of Yum! Brands China is demonstrated by the fact that while KFC’s China outlets record an average of £600,000 in sales a year, similar stores in the USA only manage an average of about £450,000. Key evidence of the brands’ recognition of this is that it has established one of its four Global Restaurant Support Centres in China. In addition, 26 per cent of its total international expansion in 2005 was based on the increase in the number of Chinese outlets (EIU-Business China, 2006). The contribution of the industry to China’s economy is also recognised by the Chinese Government. Evidence of this recognition can be seen in new laws passed in the country in 2005 which provided the legal framework for foreign owned companies operating within the country to establish franchises with the same rights as locally owned companies (Zhao and Li, 2002).

Relationship with the government

The constant and rapid expansion and growth of the Chinese economy provides more business opportunities for international fast food restaurant chains seeking to expand their business operations in China. These opportunities are however fraught with potential risk, especially of a political or economic nature (Fang *et al*., 2008). For example, recently Pizza Hut, one of Yum! main brands in China was listed by the Chinese Government as a major industrial polluter (Xinhua News Agency, 2008), resulting in the company facing stiff fines and more monitoring of its operations.

Chinese culture which is heavily influenced by the Confucian doctrine of harmony (Rowlinson *et al*., 1993), is fundamentally relation-based (Martinsons, 2008). For this reason, it is imperative that a positive relationship between any international organisation seeking to operate in China and the Chinese Government is particularly cordial and friendly.

Yum! recognises the need of not only establishing, but also of maintaining good relations with the Chinese Government. For example, it has closely aligned its expansion plans in China with the government's Five-Year Plan (EIU-Business China, 2001). This is further supported by the company ensuring that 95 per cent of its products sold in China are produced locally (Globrand, 2006). Recognising that the Chinese Government is keen to see international businesses being managed from the mainland, the company moved its Global Restaurant Support Centre in China from Hong Kong to Shanghai. The company also maintains good relations with the Internal Trade Bureau by organising bi-annual seminars in Singapore and the USA.

Cultural sensitivity

Yum! Brands remain one of the most popular international brands in China. Yum! Brands operations show an appreciation of the relationship between an emerging economic power, growing national pride and self-esteem, long established by scholars such as Hart (1976), Kwong (1994) and Douglass (2000). We see for example various initiatives by Yum! which indicates an appreciation of these relationships especially as relates to cultural sensitivities. For example, in 2002, Pizza Hut China produced the first Chinese style Pizza in celebration of the Chinese Lunar New Year.

The product

Like most franchises that are prepared to have their standard products adapted to meet local taste, Yum! is a good example of an organisation with minimal pressure to pursue global product integration. The company has stated that such a strategy will be detrimental to its operations in China because it is facing increased challenges on how to cater for demands on menu variety. Such demands are coming from the large and growing expatriate and returnee population (Hu and Duval, 2003). The challenge is how to meet these demands while balancing local sensitivities. Owing to a slower acceptance in the country of foreign cuisine and untraditional ingredients, a key strategy the company's Chinese operation is based on the provision of authentic Chinese taste to the Chinese customer. In this scenario, we see local Yum! Brands restaurants being encouraged to offer a local speciality variety modelled on western fast foods (Zhu, 2005). As an example of this strategy, Pizza Hut China currently provides one kind of new pizza called *Shuzhongdajiang*, which adopted Chinese food ingredients and has the popular Chinese Chongqing cuisine taste (Yum! China Division, 2006).

Conclusions

There is an increasing onus on providers in China to continuously monitor the CE. This may be particularly difficult as complaining in the Chinese restaurant setting does not appear commonplace. Monitoring the Customer Experience Journey may be crucial to isolate any particular local idiosyncrasies that may affect customer satisfaction. Failure to do this may mean the restaurant chains are unable to secure the long-terms customer loyalty they depend on to justify financial involvement.

Difficulties with brand protection in China have resulted in a general failure to provide potential franchises with even local exclusivity. This has produced pressure to combine multiple concepts into single outlets which appears to be a rejection of marketing segmentation strategies.

Recent negative publicity with regard to fast food and health will need to be addressed by the resultant chains. In China, this is especially crucial as a positive working relationship with the government is imperative for business success. No responsible government will want to knowingly encourage the sale of goods with could be potentially detrimental to the health of its population. With the 2008 Olympics games to be held in Beijing, the Chinese Government is no doubt under extra pressure to ensure that the restaurant business strives to provide health products to its Chinese customers.

This research has isolated a number of interesting parameters (Figures 3 and 4) that may lead to strategy-makers in this sector reconsidering their global policies. We note for example the significance of children in China as a major customer group.

The onus is also on foreign providers of restaurant foods to thoroughly understand the importance of providing satisfactory CEs for their local customers. In this particular case, there has been a need for Yum! Brands to gain valuable knowledge of how the family is at the centre of the Chinese dining experience, and also the need for

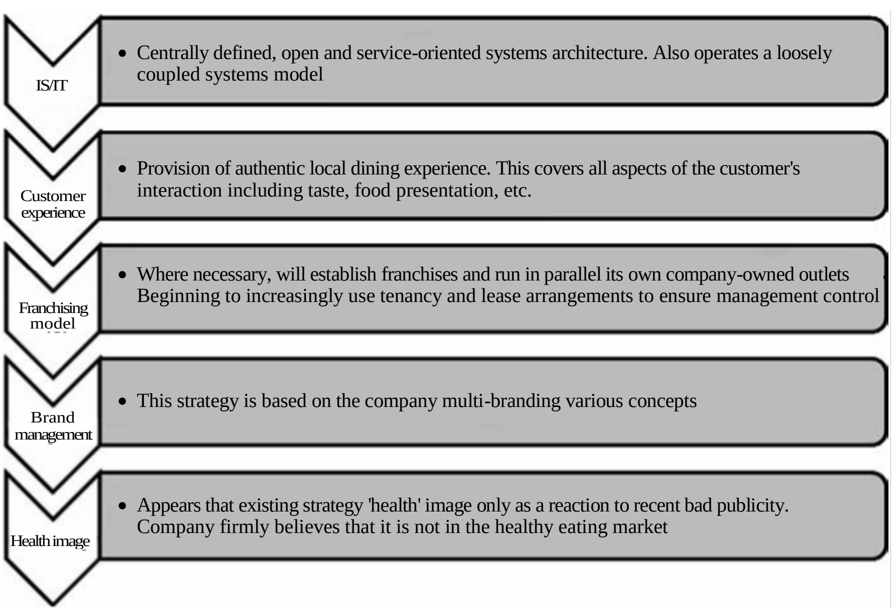

Figure 3.
Summary of findings on global strategy

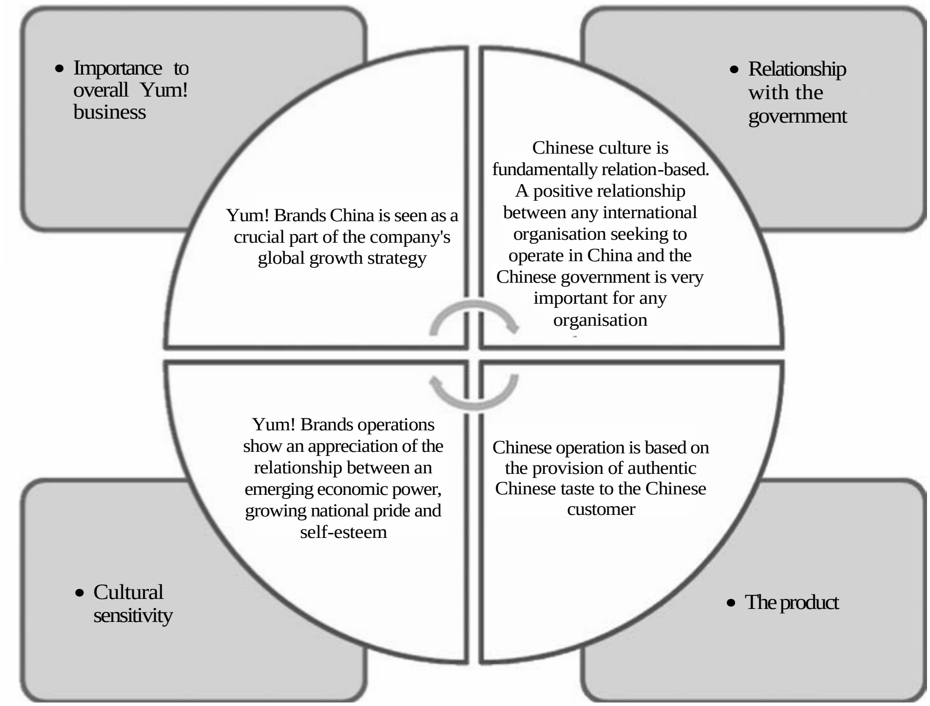

Figure 4.
Summary of managerial implications for Yum! Brands China

flexibility in providing a range of products during local festivals. Finally, it is important to highlight that the western franchising model may well not be appropriate in China and other parts of Asia as the capital expectations may not be viable for the vast majority of potential "restaurants" in this sector.

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