RECENT TRENDS AND CHALLENGES IN INTERNATIONAL BUSINESS- A CASE STUDY ON GROWTH STRATEGY OF KFC

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ABSTRACT

BACKGROUND

International markets are evolving rapidly, and you can take advantage of the changing environment to create a niche for your company. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favour. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the far East for growth. More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. The companies based in developing markets often have lower labour costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

KEYWORDS

PESTEL Ps-Product, Price, Promotion, and Place.

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BACKGROUND

As the economy grows slowly at home, your business may have to look at selling internationally to remain profitable. Before examining foreign markets, you have to be aware of the major trends in international business so you can take advantage of those that might favour your company. International markets are evolving rapidly, and you can take advantage of the changing environment to create a niche for your company.

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favour.

Demographic Shifts

The population of the industrialised world is ageing while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

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Communication

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labour costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Growth

The emergence of rapid growth has been the Western economies and the largest of the emerging markets such as China and Brazil, but Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

Best Global Brands
2009 Rankings

2009 Rank	2008 Rank	Brand	Country of Origin	Sector	2009 Brand Value ($m)	Change in Brand Value
1	1	Coca-Cola	United States	Beverages	68,434	3%
2	2	IBM	United States	Computer Services	60,211	2%
3	3	Microsoft	United States	Computer Software	56,647	−4%
4	4	GE	United States	Diversified	47,777	−10%
5	5	NOKIA	Finland	Consumer Electronics	34,864	−3%
6	8	McDonald's	United States	Restaurants	32,275	4%
7	10	Google	United States	Internet Services	31,980	25%

Competing Effectively through Global Marketing, Distribution, and Supply-Chain Management

Case Study - KFC

Kentucky Fried Chicken (KFC) was the first American fast-food restaurant to enter China, opening its first in 1987 in Beijing. The Gale Group Inc., KFC's US arch rival, McDonald's, didn't open a restaurant in China. "KFC, Taco Bell, a Hit for Yum! in China, despite initial marketing mistakes—like its "finger lickin' good" slogan being mistranslated into Chinese characters that meant "eat your fingers off"—the company grew and thrived. Today, KFC has 2,872 restaurants in China, which generate over $2 billion in sales for its parent company, Yum! Brands "Restaurant.

KFC is Gaining Popularity in the Large Chinese Market

The main factor contributing to KFC's success in China is its localisation strategy. When KFC first entered the Chinese market, Chinese law stipulated that foreign companies could only operate in China if they had a local partner. KFC selected partners who had connections to government, so that it could benefit from their resources and contacts. KFC learned a lot from its local partners, and once joint ventures were no longer required, KFC chose a leadership team that knew Chinese culture intimately. Rather than sending expatriates to China to lead the expansion, for example, KFC selected people who had "an understanding of China and the Chinese cultural context 'so deep that it is intuitive, ' to understand the Chinese people's mixed feelings of love and hate about the West, to understand Chinese history, language, the influence of Confucianism, Buddhism and Taoism, this is especially important if you are in the consumer goods industry, " said Warren Liu, former vice president of development at KFC China and author of the book KFC in China: Secret Recipe for Success.

This leadership team recommended that KFC follow a strategy of localisation: offering local Chinese food options on the menu to appeal to local tastes. For example, instead of serving coleslaw, KFC offers bamboo shoots and lotus roots. Likewise, it sells a sandwich in the style that Peking duck is served, simply substituting fried chicken for the duck. The extent of KFC's product localisation is extensive, from preserved Sichuan pickle and shredded pork soup to a Chinese-style porridge called congee for breakfast.

KFC's promotional marketing is similarly steep in Chinese culture. As Yu Cui and Zhang Ting explain, "China is a society with relatively high collectivism, where people have a high sense of identity to the traditional culture and traditional food. Since the family members in China often share the similar value and most Chinese people consider that it is necessary to keep on the wonderful family traditions, such as respecting, loving and supporting the elderly, helping others, friendship between individuals and so on. Thus, many advertisements of KFC in recent years try to reveal the background of common Chinese families.

KFC emphasises speed and convenience rather than chicken. "Choosing to eat at fast food restaurants like KFC doesn't necessarily indicate a desire for Western flavours," said Sun Min, a local government official who eats at KFC because speed and convenience are his top priorities when choosing a place to eat. "Western Fast Food Giants Meet the Challenges of Local Culinary Preferences, "Selecting the right place or location for its outlets is also important for convenience, and KFC is opening stores at a pace of nearly one a day in China, to be closer to its customers. KFC also developed its distribution system quickly, right from the start, and its parent, Yum! Brands, owns those distribution centres. Owning its own distribution centres lets Yum! Brands grow its restaurants efficiently as it expands into 402 cities in China. "Yum! Execs Discuss China Strategy, Franchising and the Recent Minimum Wage. For the future, David Novak, CEO of Yum! Brands (which owns Pizza Hut and Taco Bell in addition to KFC), said he envisions eventually having more than twenty thousand restaurants in China. "We're in the first inning of a nine-inning ball game in China,"

As we saw in the opening case, KFC has had great success in China after a first failed attempt. Why did KFC try again after its first failure? For the same reason that most companies market their products globally. Specifically, companies expand internationally to reach more customers, gain higher profit opportunities, balance sales across countries in case one country experiences problems, and compete with other brands that are expanding internationally and with global firms in their home markets.

Reaching new consumers is often the main reason for international expansion. The rising standards of living in the developing world, especially BRIC countries (i.e., Brazil, Russia, India, and China) mean billions of new consumers. The companies which are based in the mature economies of the West are attracted by the potential for double-digit growth in emerging markets.

What is the best way to reach those international customers? You begin with the core of marketing knowledge- the four Ps- product, price, promotion, and place. While you likely learned this framework in your marketing class, it is important to recognise how this essential tool will help you think about marketing in the context of international business.

In a flat world, the answers to questions about the four Ps are all the same; however, because the world isn't really that flat, country differences will have important implications for how product, price, promotion, and place play out when an organisation takes its offerings across borders.

The First P

Product— refers to any physical goods or intangible service that's offered for sale. For example, the product could be physical, like a laser printer, or it could be a service, like printing or photocopying services. The product could also be access to information such as stock-market reports. Given the differences between countries (e.g., language, culture, laws, and technology standards), a company's products may need to be adapted to different countries. Some products, like Coca-Cola or Starbucks coffee, need little, if any, modification. But even these companies create product variations to suit local tastes. For example, Starbucks introduced a green tea Frappuccino in China. The new flavour was very successful there.

Second P

Price- is the amount of money that the consumer pays for the product. Pricing can take different forms. For example, pricing can be by item (e.g., a can of corn), by volume (e.g., gasoline), by subscription (e.g., monthly cable service), by usage (e.g., cell-phone minutes), or by performance (e.g., paying more for overnight delivery versus two-day delivery).

Let's spend a little more time on price, because pricing has even more nuances when applied to international products. For example, emerging-market countries often have a less-developed financial system and limited credit available to local consumers and businesses. Some of the biggest challenges in selling to emerging markets involve making the product affordable. In Brazil, 26 percent of the population lives below the poverty line. However, companies have devised ways to help even the poorest consumers afford products. Let's see how Casas Bahia has succeeded in selling to the bottom-of-the-pyramid (BOP) consumers in Brazil.

Third P

Promotion- refers to all the activities that inform and encourage consumers to buy a given product. Promotions include advertising (whether print, broadcast radio, television, online, billboard, poster, or mobile), coupons, rebates, and personal sales. Like products, promotions are often customised to a country to appeal to local sensibilities. One obvious mistake to avoid is a language translation that misses the nuances of native speakers.

For example, a straight translation of Clairol's "Mist Stick" curling iron into German misses the nuance that "mist" in German is slang for manure. Likewise, Coors' "turn it loose" slogan, when translated into Spanish, is interpreted by some locals as "suffer from diarrhoea." Less obvious, but important to know, are the different countries' regulations affecting advertising. For example, as discussed in Chapter 8 "International Expansion and Global Market Opportunity Assessment", Section 8.2 "PESTEL, Globalisation, and Importing", regulations in Germany prohibited discounts, free gifts, or money-back guarantees with purchase. When US clothier Lands' End expanded into Germany, it was taken to court for its guarantee that "If you're not satisfied with any item, simply return it to us at any time for an exchange or refund of its purchase price." Only recently have these German laws been repealed to bring them in line with European Union laws- Jan Peter Heidenreich, "The New German Act against Unfair Competition"

The Final P

Place- refers to the location at which a company offers its products for sale. The place could be a small kiosk in a village, a store in town, or an online website. Place poses a particular challenge when selling internationally. Many of the things we take for granted in the United States- national retailers, grocery stores, and extensive railways and roadways to reach them-aren't prevalent everywhere. Products reach consumers through a channel of distribution, which is a series of firms or individuals who facilitate the movement of the product from the producer to the final consumer. The shortest channel, called the direct channel, consists of just the producer and the consumer. In this case, the consumer buys directly from the producer, such as when they buy an apple from a local farmer. An indirect channel, in contrast, contains one or more intermediaries between the consumer and the producer. These intermediaries include distributors, wholesalers, agents, brokers, and retailers. In international business, the number of intermediaries can expand due to the regulations affecting import and export across national boundaries. Agents, brokers, international freight forwarders, and trading companies may get involved. Then, once a company's product is in the foreign country, that country may have its own wholesalers who get involved. The firm must pay all these intermediaries for their services, which increases the cost of the product. Firms must raise prices or accept lower margins when confronting these added channel costs.

Even when sales are direct, as with Internet sales, place differences can affect marketing. For example, as mentioned previously, laws in Germany prohibit retailer Lands' End from advertising its unconditional money-back guarantee because returns are allowed only up to fourteen days.

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