

“Product localization in the fast food industry”

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Product localization in the fast food industry

Abstract

The purpose of this research is to explore the importance of product localization of western fast food in China market. China is an emerging market providing huge potential for MNEs' global expansion. However, because of social and cultural differences, it is an immense challenge for western companies to choose right marketing strategies when they move into China market. Culture has a significant influence on Chinese customers' behavior and loyalty. This study uses KFC China as a case study to investigate fast food products localization and global marketing in international market. The reason of using KFC is because it was the first western fast food company moving into China and is now the market leader. The primary sources of data were collected via questionnaires and focus group interviews. The finding reveals that the product localization plays a crucial role in KFC's success in maintaining its competitive position and customer loyalty in the sector. This research provides valuable suggestions for western fast food companies when they develop their international strategies.

Keywords: globalization, localization, global marketing, product adaptation, standardization, marketing strategy, fast food, China.

Introduction

According to Mergers & Acquisitions Business (2011), China will gradually become the world's largest fast food market. The growth of Chinese fast food sector is 10%-20% annually. In 2010, the market scale exceeded RMB 260 billion. As a result, more and more western fast food companies consider China as their strategic market. Overall domestic fast food restaurants have nearly 70% market share, but majority of them are independent restaurants. The major Chinese fast food chains, such as Kongfu, Yonghe King, Malan Noodle, and Da Niang Dumpling, are much smaller compared with their international competitors in terms of revenue or number of stores.

Globalization is a "complex and multifaceted phenomenon" (Guttal, 2007), because it processes enormous powers and produces great effects to the world. Lasserre (2007) states that there are three stages of globalization: export, multinational and global. When companies focus on the world markets, the business strategy is global. The key of growth strategy is profitability which can be achieved by "selling more products in existing markets or by pursuing strategies to enter new markets" (Hill, 2008, p. 362). Thus, a correct global expansion strategy can assist companies to increase the growth of profits in new markets. Furthermore, Aaker and McLoughlin (2007) provide seven motivations of global strategies which include creating global association, accessing low-cost labor or materials, obtaining scale economies, accessing strategic markets, dodging trade barriers, cross-subsidize and accessing national incentives. Czinkota et al. (2004) claim the main motivation of MNEs' expansion is pursuing profits. Companies can increase their profits by selling products into the

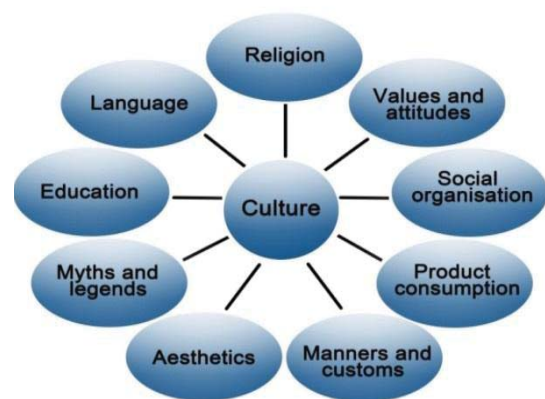
global market. However, they need to adapt their products and marketing strategies to suit local conditions and cultures (Hill, 2008).

Global expansion faces a series of challenges, such as local responsiveness which comes from the differences of customer tastes and preferences. Besides, the cost reduction is affecting global businesses, because they have to reduce costs to increase their competitiveness. Thirdly, some success recipes are easily replicated by their competitors, particularly in the fast food sector (Gupta and Govindarajan, 2004).

1. Cultural impact on international marketing

When companies expand to foreign markets, cultural issues should be considered carefully. In order to grasp lucrative foreign markets, operators must deeply understand cultural differences (Kotabe and Helsen, 2008).

According to Czinkota et al. (2004) culture includes nine elements (Figure 1). All elements shape people's culture values and each element could affect people's demands and preferences. Cultural differences can lead to different brand selection, buying behavior, and consumption customs (Lee and Carter, 2009).



Source: Lee and Carter (2009).

Fig. 1. The components of culture

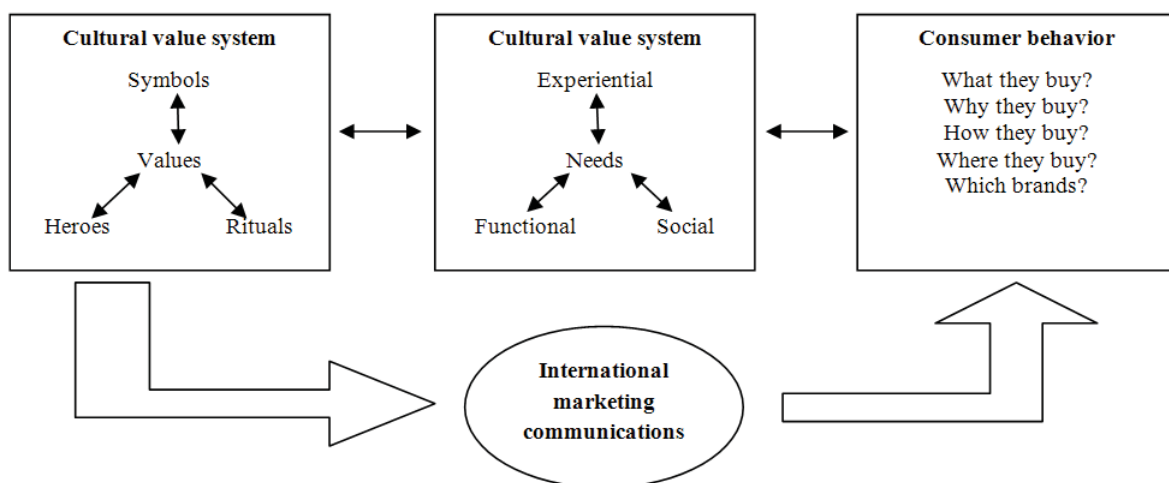
Therefore, when international companies expand their business to new countries, they should understand the local cultures to increase local responsiveness.

Culture has a vital impact on international marketing. Cleveland and Laroche (2006) propose that managers need to recognize cultural influences on markets because “interactions between cultures and markets are accelerating in the global economy”. Besides, Rugimbana and Nwankow (2003, p. 5) state that “markets are people, not products”. As a result, cultures impact directly on the customers’ consumption, because cultures include values and norms which influence their choices. According to Lasserre (2007), there are six aspects which are strongly affected by cultural differences: marketing and customer communications, partnerships, negotiations, human resources, business practices and multi-cultural teams.

Cultural forces send direct and indirect messages and experience to customers for their choices of products and services. Therefore, in order to know the consumer’s choices and wants, the marketers must understand their culture first (Gillespie et al., 2007). In other words, “cultural forces shape a company’s marketing mix (Kotabe and Helsen, 2008, p. 135)”. They also point out that products and services could be restricted by cultural differences, because different

regions have diverse history and norms. Furthermore, cultures and customs decide customers’ buying motivations and it could create new opportunities for international firms. For example, when McDonald’s introduced McChao in Japan, a kind of Chinese fried rice, the volume of sales climbed 30%, because over 90% of Japanese people eat rice every day (see Gillespie et al., 2007).

Lee and Carter (2009) outline the relationship between culture and customer behavior (Figure 2). Culture and consumer behavior interact with each other. Cultural value system is formed by a specific group to which they belong, but individuals have unique distinctive values that are influenced by regional culture, social culture and familial culture (Luna and Gupta, 2001). According to Terpstra and Russow (2000), they argue that MNEs must know local culture when they begin to enter into the international markets, because culture shapes behavior. Consequently, different desires and needs of people are created by cultural values and affected by the different organizations they belong to (Kim et al., 2002). From Figure 2, it can be seen that marketing communication as conveyor transfers messages between cultural value system and consumer behavior, while it can influence buyer behavior directly as well.



Source: Lee and Carter (2009) based on Luna and Gupta (2001).

Fig. 2. The interaction of culture and consumer behavior

2. Product development

For MNEs, the core of international marketing is product development (Czinkota et al., 2004). When firms prepare to exploit new markets in other countries, they would face cultural differences and diverse customer needs. Therefore, to get market share, marketers should select the right product strategy to suit new markets.

Ansoff (1986) suggest a product portfolio strategy for business expansion (Figure 3). He presents

different strategies for existing markets and new markets. If MNEs get ready to expand to new countries, they should select market development strategies for existing products and diversification strategies for new products (Johnson and Scholes, 2002). Some firms keep their existing products and search for new segments for market development. However, considering reducing risk and costs of development, in the meantime increasing the attractiveness of products, companies tend to choose related diversification strategies for new product

development. It is products which directly connect between the company and customers by creating value to customers.

	Existing product	New product
Existing market	Penetration strategies <ul style="list-style-type: none"> • withdrawal • consolidation • market penetration 	Product development strategies
New market	Market development strategies	Diversification strategies

Source: Stone and McCall (2004) adapted from Ansoff (1986, p. 99).

Fig. 3. Strategic related options for growth

Hill (2008) mentions a successful new product will bring enormous returns to its developer company. It is also a crucial determinant of performance for global firms (Brentani et al., 2010). For majority international companies, product differentiation strategy is widely used to give customers a unique and valued perception which can differ from their counterpart's products. Thus, new product development is necessary for international firms to meet local customers' demands (Frynas and Mellahi, 2010).

3. Localization vs. standardization

Finding the right balance between standardization and localization of marketing practices is a major challenge for MNEs (Terpstra and Russow, 2000, p. 9), because when MNEs expand their business to foreign markets, the environment of business, culture, policy, and society are different from the domestic market. Thus, new product development should consider whether to choose adaptation or standardization as it directly affects sales figures and customers' choices (Boztepe, 2007).

Standardization refers to providing same products for the domestic and foreign markets (Kotabe and Helsen, 2008). The purpose is to reduce costs. Localization (customization) means firms adapt products based on cross-border differences in order to meet customers' needs and demands in diverse markets. Standardization focuses on low costs through mass production, but ignores customers' preferences. Localization emphasises customers' satisfaction through adaptation of products.

With the process of globalization, choosing a standardization or localization strategy is a point of

contention. Some academics argue that MNEs should standardize their products and services as part of their marketing strategies, because they believe that with the development of communication and technology, the world markets will be homogenized (Ozsomer and Simonin, 2004; Czinkota et al., 2004). In addition, in that process, cultures can be converged and some authors claim that the demands and choices of consumers across the world are becoming alike (Kotler et al., 2008). Similar demands, technologies, and low trade barriers allow the international firms to sell the same products and service in different markets (Zou & Cavusgil, 2002).

However some MNEs have chosen to localize their products for foreign markets. For example HSBC advocates itself as a global bank and does business as locals (Kotler et al., 2008). Most researchers believe that product localization is necessary for global expansion. Keegan and Green (2008, p. 21) propose that "products must be adapted in response to different market conditions". Furthermore, Gupta and Govindarajan (2004, p. 56) argue that it is necessary for companies to adapt products for dealing with local market differences, because companies "can reap benefits in three fundamental areas: market share, price realization, and competitive position". In addition, if firms use the adaptation strategy, it can meet customers' needs and wants (Kotabe and Helsen, 2008). Cultural difference is another reason that forces MNEs to adapt products for the foreign market as well. Johnson and Arunthanes (1995) claimed that cultural difference has a positive influence on product adaptation, more so on consumer products than industrial products.

For MNEs, whether to employ localization strategy or not depends on the specific condition of the target markets. In order to expand businesses to foreign countries effectively, many academics propose that firms should combine standardization and localization as well as balance the degree between standardization and localization. In other word, they should "think globally but act locally" (Kotler et al., 2008). It is better to keep international standardized operation and exploit or modify new products based on local customers' needs.

4. Research method

Case study has been used as the major method for this study. Case study is "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence" (Robson, 2002, p. 178). It can explain, evaluate, and illustrate the social phenomenon or can examine theories and develop theories (Maylor and Blackmon, 2005).

Saunders et al. (2009) believe that the multiple methods are better than the mono method for business and management research. This research has used multiple methods in data collection. Secondary data is very useful for researches, which provides a great deal of sources and information that can help the investigator to test and answer research questions. In addition, using secondary data has some advantages, such as timing, saving costs, large samples, and serendipity (Veal, 2006). Primary data is the core of the study. To collect primary data, the authors employed on-line survey and face-to-face focus group interview. The main participants are young people aged between 18 and 30 years old, who are familiar with and have easy access to the Internet. 190 out of 200 questionnaires have been returned and interpreted in this study. After that, a focus group interview was carried out among a group of Chinese overseas students, which allowed the authors to find out why and how customers make choices on fast food products and what they think about KFC's product localization.

5. Findings of KFC China case study, KFC and fast food in China

KFC belongs to Yum! Brands which is ranked the second in global food service companies in 2010 and has three main brands: KFC, Pizza Hut, and Taco Bell (Euromonitor International, 2011). With the rapid development of 25 years, KFC is the biggest western fast food brand which possesses over 3000 restaurants in China (Bell and Shelman, 2010). In addition, "KFC has become the most recognized global brand among Chinese consumers (Parker et al., 2006)". The success of KFC could not be separated from its localization strategy. After it entered into the Chinese market from 1980s, it continuously exploited new products to attract local customers and delivered the Chinese-style fast food to customers through advertisement and promotion (Li, 2008). They adopt local employees and use local supply chain. According to their strategy, KFC promotes itself as "No. 1 Chinese Style Fast Food Brand" (KFC, 2012).

About Chinese customers' choices of fast food, according to an investigation of Curtis et al. (2007), they prove that the females, young people, higher income earners, and children prefer to eat at western fast food restaurants. With the economy's development, income is higher than before and lifestyle has changed. The western food and culture become fashionable for Chinese, particularly in metropolises. The fast food has a great attraction for children (Cheng, 2003). Some fast food restaurants like KFC and McDonald's are venues for children to celebrate their birthdays. It also attracts young

adults, partly because they think the western fast food is fashionable, such as McDonald's (Eckhardt and Houston, 2002). However, the elder Chinese people are not so interested in western fast food; some of them go there just for accompanying their children or grand children (Parker et al., 2006).

According to Euromonitor International (2011), the Chinese fast food industry had rapid growth in 2010, 16% sales revenue growth and 6% growth of restaurant numbers to 1.2 million. In the meantime, annual growth is expected to rise to 12% until 2014. More international fast food companies expand their businesses to lower tier (middle and small) cities, while the domestic companies try to enter markets in first tier (major) cities in China. Although the competition was intensive, Yum! Restaurants still held 40% of market share in chained fast food restaurant sector in 2010.

A localized menu appeals to extensive consumer groups for KFC in China. KFC has introduced a number of traditional Chinese products which cater to local customers' food habits and consumption preferences in the past 20 years. For example, KFC launched series of Chinese Breakfast, which includes congee, fried dough sticks called *youtiao*, and soy milk. In 2005, KFC China developed a "New Fast Food" model which is based on market research on Chinese food culture and customers' needs (Bell and Shelman, 2010). From 2010, KFC launched different types of rice dishes successively. More local new products have been planned for KFC China in the near future (KFC, 2012; Bell and Shelman, 2010).

Localized menu and frequent new product launch (Figure 4) are main strengths for KFC compared with its competitors. To do product development, KFC uses market testing survey to gather customers' feedback of products in order to screen optimal products (Euromonitor International, 2011). Joaquin Pelaez who is a chief support officer at Yum! Brands said "in China, here, food is culture – at the very heart of society, it must be adapted" (Bell and Shelman, 2010). On the other hand, KFC China faces strong competition from other international chains and local restaurants. Therefore, KFC has to develop more exciting local products, because it must differ from other western fast food brands and cater to Chinese people's favour. Chinese customers like variety in food, so new products can appeal more consumers. Thus, in China, there are more than 50 items on the menu compared to only 29 items in the United States.

	Category	Signature Products
1987	Chicken	Colonel's Original Recipe
Today	Sandwich	Zinger
		New Orleans roasted burger
		shrimp burger
	Twister/wrap	dragon twister
	Rice	chicken & mushroom rice
	Snacks	hot wing
		New Orleans wing
		popcorn chicken
	Sides	veggie soup
	Desserts	egg tart
	Beverages	9 lives juice
		lemonade
		coffee float
		milk tea with red bean
	Breakfast	pastry puff sandwich
		congee
		dough stick
		soy milk

Source: Jerzyk (2011).

Fig. 4. KFC today: signature products in every category

6. Findings and discussion of primary research

This questionnaire survey was conducted with 190 Chinese customers. The aim of the questionnaire is to understand Chinese consumers' behavior related to western fast food.

6.1. Respondents' profiles.

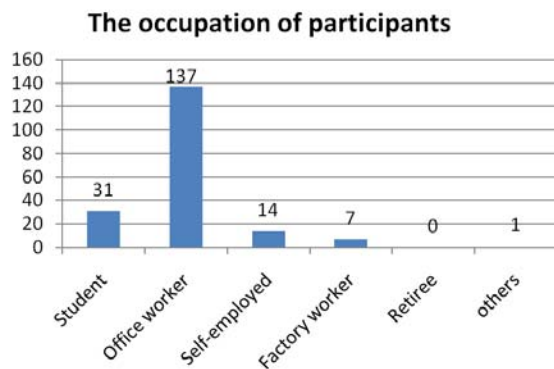


Fig. 5. The occupation of participants

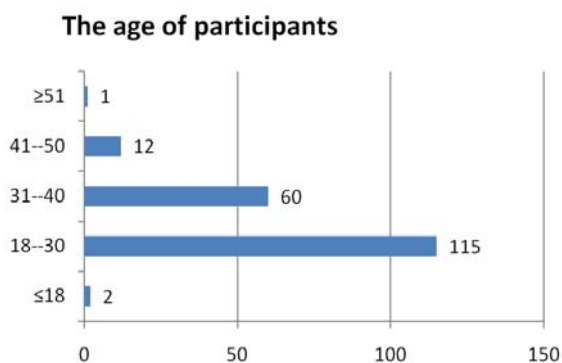


Fig. 6. The age of participants

6.2. Chinese customers' favourite choice of fast food restaurants. From Figure 7 below, 79% people agreed that KFC is the most popular brand in China. 14% participants chose McDonald's as their favourite brand. There are a few other brands been chosen as favourite brand as well (Burger King, Subway). 36% of customers think that a clean and nice restaurant environment is very important for

them to choose restaurant; about 28% customers believe that the choice of foods are the main reason attracting them to visit. Clearly KFC's clean environment and wide range of food choice can meet most customers' needs.

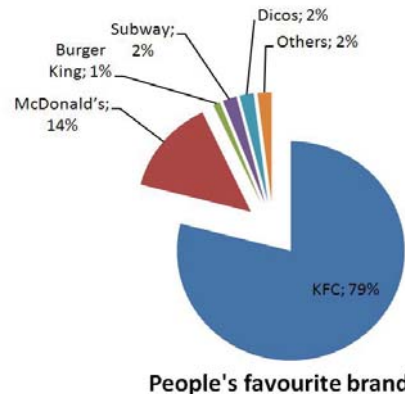


Fig. 7. Chinese customers' favourite brands in fast food chains

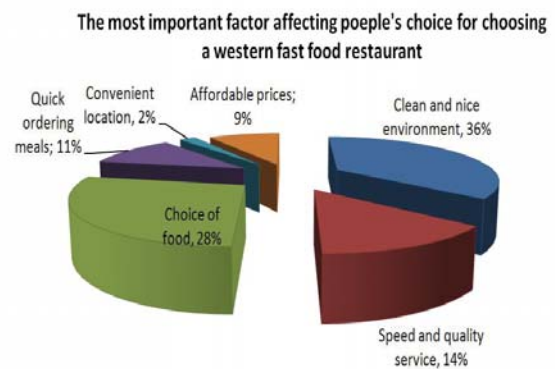


Fig. 8. The factor affecting people's choice for western fast food

6.3. Customers' attitude toward KFC new product. From Figure 9 below, nearly 65% customers (highly possible) will buy new products at KFC and 29% consumers quite possible will buy new products at KFC. Only 6% people not so sure they will try new products at KFC China.

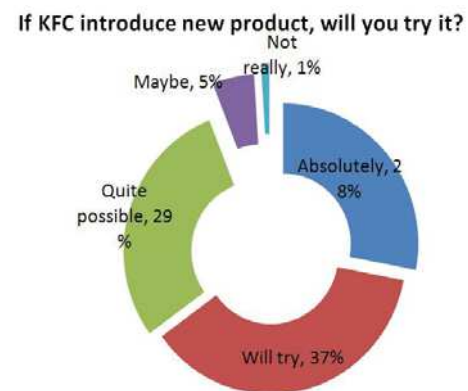


Fig. 9. Foretaste rate of KFC's new products

From Figure 10 below, it can be known that majority Chinese people (73%) prefer eating Chinese style food, 27% prefer western style food.

Chinese customers' choices of food

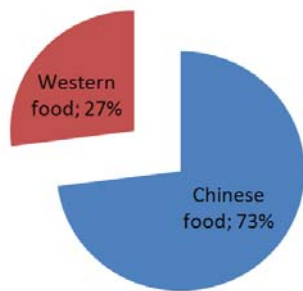


Fig. 10. Food choice of Chinese people

In terms of popular food in KFC, the most popular one is its hamburger (133 responses). The dragon twister, which is Chinese style, is the second favourite choice (98 responses).

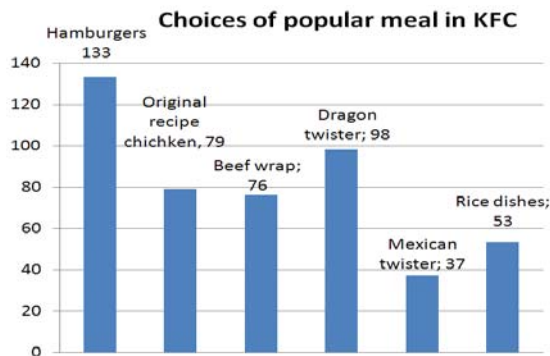


Fig. 11. Chinese customers' choices of staple food in KFC

Chinese customers' choices of breakfast

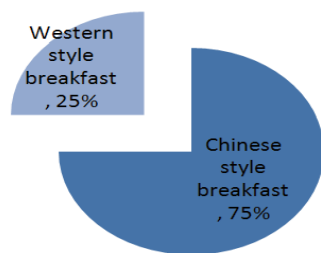


Fig. 12. Chinese people's choices of breakfast

About the choice of breakfast at KFC (Figures 12 and 13), there is no doubt that Chinese style breakfast is more popular than western's. Because of KFC's localized products choice, customers chose congee (135 responses), soy milk (99 responses), and fried dough sticks (96 responses) as their favourite, only 66 and 58 participants would order hamburgers and egg tart for their breakfasts. In addition, only a few customers choose coffee (31 respondents) and French biscuit (*Shaobing*) (37 respondents). 52% of participants are satisfied with KFC breakfast and 18% of customers are very satisfied with KFC's breakfast, while only 2% of

respondents are not satisfied with it. Figure 15 shows that majority of Chinese customers (74%) are extremely satisfied or satisfied with KFC's rice dish and only 2% are unsatisfied.

Customers' choices of KFC's breakfast

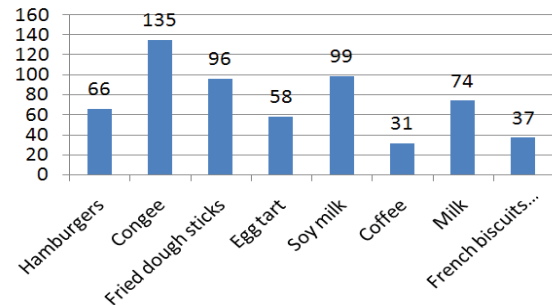


Fig. 13. Chinese customers' choices of KFC's breakfast

Satisfaction of Chinese breakfast in KFC

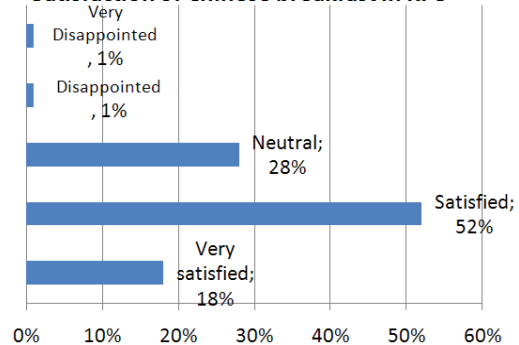


Fig. 14. Satisfaction of Chinese breakfast in KFC

Satisfaction of rice dishes of KFC

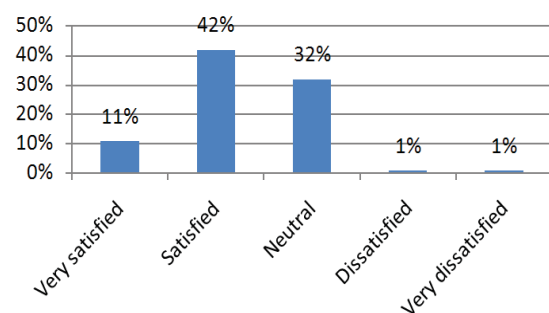


Fig. 15. Satisfaction of rice dishes of KFC

From the collected data above, it is clear that KFC has used localized products to create its business opportunities, particularly attracting older generation customers as they are more conservative about food. Lee and Carter (2009) believe that different cultures lead to different choices of buying behavior and product consumption. For the popular food at KFC, except hamburgers and original recipe chicken, the others are all localized Chinese food. As Gillespie et al. (2007) mentioned before, cultures and customs could create new business opportunities for companies. KFC's Chinese style breakfast i.e. the

rice dishes are unthinkable in western counties, however it is exactly the product which helps KFC stand out from its competitors and grab more market share in the sector.

From open-ending questions of the survey, some comments were collected about comparing with Chinese fast food restaurants and KFC:

- ◆ Most customers think that KFC is more expensive than Chinese fast food.
- ◆ Most customers think Chinese like KFC because of its taste and choices.
- ◆ Clean and comfortable dinning environment of KFC is attractive for young people.
- ◆ Customers think KFC is very good at marketing and promotion compared with the Chinese restaurants.
- ◆ A few people think that KFC's products are limited compared to the local fast food.
- ◆ Some customers propose that KFC should develop more localized products.
- ◆ Some customers believe that the nutrition of KFC's food is not enough compared with Chinese fast food.

Comparing with other western fast food restaurants, such as McDonalds and Subway, KFC has clear advantage on new product development and launching localized products. It confirms once again that localization has helped KFC to integrate into the Chinese market and get high market share and customer loyalty.

7. Focus group result

This focus group interview was carried out with a group of Chinese overseas students who were studying in Sheffield Hallam University. From the collected first hand data, it has been identified that culture has deep influence on consumers' behavior, particularly on food choice. It has deep impacts on these Chinese students' daily lives, even when they live abroad. The interviewees still prefer to eat Chinese food in the UK. It means once the tastes of people are shaped, it is not easy to change.

About products localization of KFC China, almost all of them think that the product adaptation of KFC China is very successful, because it provides chances for local customers to try food totally new to them, which combines Chinese and western flavours. This makes the products and the brand really attractive. An interesting finding from the focus group is that all the interviewee have tried KFC in the UK and China, but all of them felt the taste of KFC in China is better than that in the UK. "KFC hot chicken wing in Beijing tastes like

Chinese food. I like it so much, but the one in the UK is not so spicy and taste. The menu of KFC in China has much more choices than that in the UK".

Indeed, localization of KFC China has a positive impact on customers' choices. As Kotabe and Helsen (2008) outlined that to enter into a new market effectively, the company should have a deep understanding of cultural differences. In fact, based on social and cultural environment scan of China, KFC has identified and satisfied Chinese consumers' specific needs. It positions itself as a trendy fast food restaurant with western identity but caring about Chinese customers' needs as well. In terms of product localization of KFC China, customers are the resource, co-creator, and user of the company to develop new products. That is one of the main reasons KFC can become the favorite restaurant brand for Chinese customers.

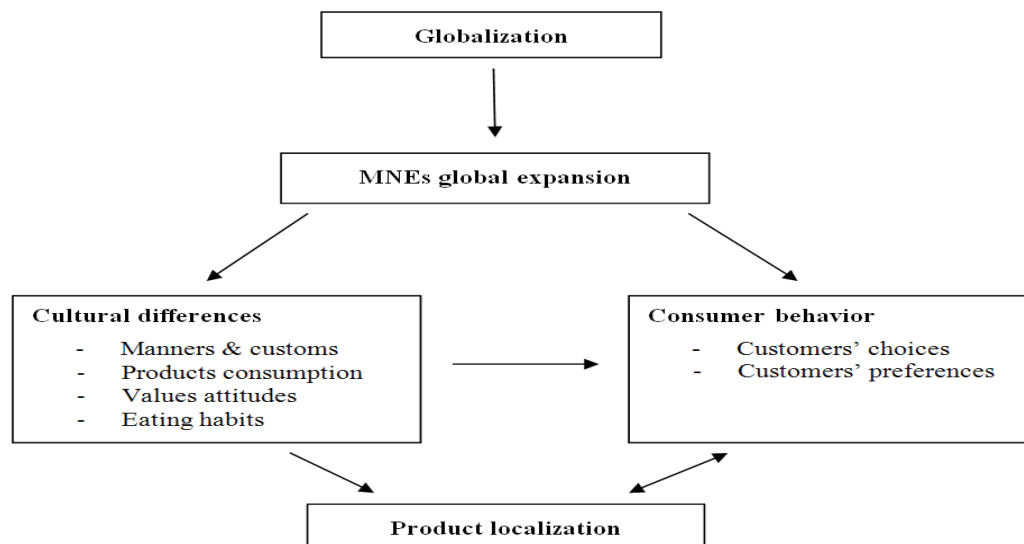
8. Key issues of findings

For the fast food industry, product adaptation is very important, "because of large scale variability in food habits across countries and even within a country" (Prakash and Singh, 2011). The fast food chains need localized products to cope with different food habits and cultures.

From the case study of KFC, we know that the localization is absolutely necessary for western fast food chain restaurants, because food habits are formed in people's lives and across cultures, which influence food consumption, buying behavior and customers' needs. The local customers get used to eating local food, so restaurant chains should develop localized food based on deep understanding of local food cultures. On the other hand, the localization strategy can facilitate the MNEs' long-term development. It is important for western fast food restaurants to balance standardization and localization. Through the case study of KFC, it can be seen that localization is one of the reasons for KFC's success in the Chinese market as it provides opportunities for KFC to access local customers and get local responsiveness. The product adaptation gives customers a unique and valued experience which allows them to distinguish KFC from other similar products.

9. The model of the relationship between culture and product localization

Based on the research, the authors develop this model (see Figure 16) to explain the relationship between culture, consumer behavior and product localization. From this model, it can be seen that the globalization provides opportunities for MNEs to expand their businesses into the world markets.



Source: The authors (2013).

Fig. 16. The model of the relationship between cultural differences and product localization

In this globalization process, most MNEs face two challenging issues, which are cultural differences and diverse consumer behaviors. Culture includes elements that can affect people's buying choice and purchase predisposition, so it forces MNEs to adopt localization strategy for gaining local responsiveness. On the other hand, consumer behavior will also influence product localization, as local customers have their own tastes and preferences. The MNEs managements have to adapt products to meet local customers' requirements. In addition, the positive product adaptation could have significant impacts on consumer behavior. If the localized products can meet customers' expectation, customers will change their attitude and previous buying behavior and embracing the new products/brands. It is a clear trend of MNEs in global expansion, particularly in service sector.

Conclusion

The product localization strategy can be applied in many sectors, but it is particularly important in the fast food industry because of large scale variability in food habits across countries and even within a country (Prakash and Singh, 2011). Food habits are formed very early in life and they vary significantly across cultures. Hence, the fast

food companies need localized products to cope with different food habits and cultures.

The Chinese market provides a positive prospect for western fast food companies, because of its large population and rapid economic growth. In the localization of KFC in China, the customer is the resource, co-creator, and user of the company to develop new products. The localization of KFC employs the global strategy which is thinking globally, but acting locally to guide its development. In is process, standardization and localization are not conflicting. KFC follows the western standard production systems and mode when they deliver local product, possibly because of large market size in China. This area can be researched further in the future.

From this case study, KFC China has demonstrated the power of products localization. KFC had good understanding of Chinese food culture and put production localization as its priority. It continuously develops new products for the local market. Customers are participants in the new product development process and they provide precious feedback to KFC. Product localization has a great significance for this fast food giant's to achieve its strategic vision in China.

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