



JORDAN SIEGEL

CHRISTOPHER POLIQUIN

Yum! Brands

Our vision for the company is that we want to be the defining global company that feeds the world. We have transformed this business from being a primarily U.S. business, where 80% of our profits in 1997 were coming from the U.S., to where more than 70% of our profits in 2011 come from outside the U.S. Our strong performance and leadership in China and other emerging markets have been the catalysts for our growth.

— David Novak, Chairman and CEO, Yum! Brands¹

Yum! executives from around the world were gathered at the end of 2011 at the company's internal planning meeting to share best practices, and show off the new products and marketing materials they had developed in the past year. The presentations reflected how much the company had grown since its spinoff from PepsiCo in 1997 with \$4.6b of debt.

"China's team has just done an outstanding job," said Rick Carucci, the president of Yum! Brands.² In 1998, 78% of Yum!'s operating profits came from its operations in the United States and the company had more than 100 KFC restaurants in China. By 2010 the company made more money in China than the U.S.^a Novak added, "China is our source of know-how for the emerging markets. Now we also look at India. We have more than 100 KFC stores in India; it took us ten years to do it just like it took us ten years to get 100 units in China and now we are ready to take off."³ Yum! China's business took off with KFC, and although KFC remained central when shaping the company's strategy for India, Novak and Carucci thought Taco Bell could also play a big role. Carucci explained the company's approach: "People are not used to Mexican food globally. We intend to stay true to the core of the brand, but allow some experimentation."⁴

With over one billion people, Africa was also seen as a key emerging market for the company. Micky Pant, named CEO of Yum! Restaurants International at the end of 2011, saw potential for the continent, "People underestimate the economic performance of Africa. . . . KFC in South Africa has always been strong, but we see all parts of Africa as having tremendous economic power."⁵ The company now has plans to double the number of KFCs in Africa by 2015.

As a company with multiple brands (see **Exhibit 1**), Yum!'s executives considered both which countries to enter, and what weight to put on Pizza Hut, KFC, and Taco Bell in each market. Finding the next China, and duplicating the mix of standardization and localization that has worked so well there is not easy. Each region presented unique challenges with respect to local cultures, government regulations, and differences in economic development. Should Yum! have focused on Africa? Would

^a 1998 figure from Yum! Brands December 2010 Investor Update Meeting. 2010 figures from 10-K Annual Report.

Professor Jordan Siegel and Doctoral Candidate Christopher Poliquin prepared this case. This teaching case uses the fictional literary device of an annual planning meeting in the opening paragraph as a means of engaging readers, and the concept of the annual planning meeting is being used with the requested permission of all those quoted based on direct interviews. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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India be the company's next growth and profit miracle? Could Yum! sell tacos and burritos to consumers in India and the Middle East, or should relatively more universal offerings such as pizza and fried chicken have been mainstays of the company's global expansion?

Success in China

Many years ago, when we started Yum! China, our future-back vision was to build the best restaurant company not just in China, but the world. With a clear vision, we decided to make every store a training store.

— Mark Chu, President and COO, Yum! Restaurants China⁶

We are a global brand, but we are committed to understanding Chinese consumer needs and to making food available for the Chinese to satisfy the Chinese palate and lifestyle.

— Angela Loh, Chief Concept Officer, Yum! Restaurants China⁷

Regulatory Obstacles and Market Entry

The first KFC store in China opened in Beijing's Tiananmen Square in 1987, and marked the introduction of western-style fast food. "When we started in China you had to use a joint venture, had to have somebody . . . approved by the government," Carucci recounted. "Now we are mostly company owned."⁸ Yum!'s China business has been highly profitable, and the company has tried to own restaurants where profit margins exceed 15% and use franchisees in riskier countries like Vietnam where local know-how is crucial. "I have a very simple formula, or mantra, that I use," explained Novak. "Wherever we own restaurants I say, 'You have to earn the right to own.' That means you need to earn well above the cost of capital. Because the franchise business is a great business, it is highly lucrative because we collect franchise fees and we don't put capital in."⁹ Yum! was forced to take a different approach to its expansion in China than it would normally use. The company formed joint ventures in Beijing and Shanghai with multiple partners, the first of which included a state-owned bank and a food distributor. The Chinese government did not abandon the requirement that foreign companies use joint ventures until 2004, and when it did about 60% of newly approved retailers adopted a wholly foreign-owned model.^b By 2011, Yum! owned 83% of its restaurants in China.

Menu Variety and Innovation

Yum! China expanded the KFC and Pizza Hut menus to include new dayparts and a wider range of product offerings designed for Chinese consumers. The Pizza Hut menu in China is 40 pages long and contains more than 120 items organized into nine categories. Each category contains low price, entry-level items as well as fancier items for customers in a more celebratory mood. The company replaces 25% of the menu every six months as a way to increase frequency. KFC has also regularly launched new products and done seasonal, limited-time offers. Chris Pan, director of marketing at KFC, explained, "We have around 55 items here and we launch another 30 to 40 limited time offers."¹⁰

Yum! China's approach to product innovation, however, went beyond using new items to generate same-store sales growth. GDP per capita grew 610% in China in the 20 years following the opening of the first KFC. Yum! has continuously adapted its business as the brand has matured, and as China has urbanized. The excitement of eating at a western, fast food restaurant was a sufficient reason to visit

^b Liu, Warren K. "KFC in China: Secret Recipe for Success." John Wiley & Sons (Asia) Pte Ltd: Singapore, 2008. pp. 47–48.

KFC in the 1980s; some couples even held their wedding at the first store. After nearly 24 years in China, however, Yum! has based its strategy more around Chinese consumer insight than the novelty of American food. Angela Loh, chief concept officer, explained that Chinese consumers value variety more than Americans and that the Pizza Hut menu expanded in order to satisfy that desire:

The need for variety in China is much stronger than for Westerners. . . . It is the culture; it is deeply rooted in the Chinese consumer's eating habits to have varieties on the table. For the first few years after entering a market, pizza is exciting enough, but consumers will quickly start to demand more variety. Pizza Hut's brand positioning is pizza and more, so we position ourselves as a Western casual dining concept. It is not a pizza concept; it is a Western casual dining concept. So we are actually introducing a Western casual dining culture to the consumer.¹¹

Western casual dining means that customers start with a drink and appetizer then have the main course followed by coffee and a dessert. "So if you look at our menu, it's a complete meal concept instead of just going there for pizza tonight," Loh said.¹² Although the company added rice dishes, the majority of items unique to the Chinese menu have not been Chinese (see **Exhibit 2**). Customers in Boston will not find the American style beefsteak or the New Orleans flavored chicken on menus at the local Pizza Hut. In 2011, delivery and take-out accounted for about 70% of Pizza Hut's business in the U.S., but at its more modern, upscale Chinese units, customers spent an average of \$20 and 50 minutes dining in the restaurant. Menu localization at Chinese Pizza Huts meant introducing a wide range of products at multiple price points with flavors that appealed to Chinese customers.

Pizza Hut in China created new sales opportunities through additional dayparts. The restaurant attracted customers between lunch and dinner by offering a limited "Tea Time" menu from 2-5pm that includes coffee, teas, appetizers, and desserts. This period is not a traditional tea time in China, instead it is a concept that Yum! developed in response to growth in the number of Western-style coffee shops in the country. Pizza Hut's trendy, modern store designs in China resembled the relaxed, comfortable atmosphere of Starbucks—which had over 500 stores in mainland China as of 2011—and allowed it to compete with cafes mid-afternoon when sales are usually slow.¹³ Yum! developed desserts that its tea time competition could not easily duplicate. The bread pudding and ice cream cake desserts are two examples (see **Exhibit 2**). Bread pudding is hot and partially caramelized, then topped with ice cream and served before melting. Most of Pizza Hut's local competitors lacked the kitchen equipment to copy products with hot and cold ingredients, so the company positioned them as unique offerings and as a reason to visit its restaurants. "Tea Time" accounted for 18% of sales in 2011, and was still growing.

Unlike Pizza Hut, product adaptation and innovation at KFC involved adding more familiar and traditional Chinese foods to the menu. While Pizza Hut is a casual dining concept, KFC is a more functional brand that fit into the increasingly hectic lifestyles of urban customers. Loh said that the goal was to integrate KFC into daily life:

If you see our positioning, we want to be part of Chinese consumers' life. When you say you want to be part of their life that means you are 24 hours around them. That is why our penetration, our KFC restaurant counts are over 3,700 as of the end of 2011. So you have to have the actual asset penetration, you also have the daypart penetration, the age group penetration, and you have the food category penetration.¹⁴

Yum! began testing breakfast at KFC in 2003 and eight years later it accounted for 7% of sales. It also added 24-hour service with a limited menu in high traffic areas and home delivery. Each of these developments was a response to lifestyle changes within China that created an opportunity for Yum!

to expand its brand and user base. An increase in the number of young, urban workers created an opportunity for breakfast. "A lot of young people are far away from their parents and they have no time, or less culinary skills, so they cannot cook for themselves. So they eat out," explained Pan. "The biggest eat out daypart is breakfast, but [for breakfast] most people buy products from booths, retailers, and street stalls. They are familiar with the food, and the price is low."¹⁵ Yum! capitalized on the trend of eating out at breakfast and lowered its prices to be more competitive with street vendors. Pan estimated that KFC breakfast was originally two or three times more expensive than eating at a street cart. "In 2011, we did some promotions. For example, congee plus the dough stick for 6 RMB. That is more affordable, so a lot of people tried KFC breakfast."¹⁶ Congee, a rice-based porridge, has accounted for 60% of sales at breakfast. Building the breakfast menu (see **Exhibit 3**) around traditional products like congee, dough sticks, and soy drinks was a strategic decision based on the insight that consumers reach for more familiar foods in the morning. "For breakfast the consumer needs are quick, familiar food, the affordable price, and the convenience," Pan explained.¹⁷

The addition of delivery was another decision based on insights about changing consumer profiles, in this case increasing wealth. Chris Pan elaborated on the change: "Several years ago, most Chinese families lacked air conditioning, so they liked to go out to eat and enjoy a more comfortable ambience. Now the lifestyle in the modern cities means they like to enjoy food at home."¹⁸

Executives also monitored trends beyond China for clues as to how the Chinese fast food market might develop. The growing concern in the west about the nutritional value of fast food is an example of a trend that Yum! addressed early in China. Yum! sponsored a youth basketball league to promote exercise, and focused on selling items à la carte. When Yum! offered combo discounts, it let consumers choose their preferred side and drink instead of serving French fries as the default.

Yum! China entered China's largest retail food segment, Chinese food, in 2005 with the launch of East Dawning. Yum! used the same model and equipment it developed for KFC, but changed the menu to be exclusively Chinese (see **Exhibit 4**). "There is a huge amount of local food being consumed, it's just not in chains in a consistent format," explained Sam Su, Chairman and CEO of Yum! Restaurants China. "If we can make it work it could be the biggest business opportunity out there."¹⁹ Yum! faces more competition in the Chinese food market than it does with American-style cuisine, and profit margins are lower than at its KFC restaurants. Ninety-eight percent of customers, however, have been repeat purchasers, and the upscale, clean restaurant interiors help differentiate the concept from its local competition. East Dawning had nearly 30 stores in 2011. Chinese food and protein preferences vary between provinces (see **Exhibit 5**) and many dishes, like dumplings, are time consuming to make and not easily adapted to fast-food style restaurants. Yum! Restaurants International has watched the development of East Dawning with an eye toward adapting the concept to other Asian markets. "We would like to bring it to other countries," Pant said. "The acid test is selling Chinese food in China. The model having been developed, there is a potential to take that to other countries."²⁰

One System Operational Excellence

People tend to emphasize the differences, whereas in reality there is a lot more in common across markets than there is different... Our basic operating systems for KFC and for Pizza Hut are pretty standard across the world.

— Graham Allan, retired in early 2012 after serving as CEO of Yum! Restaurants International²¹

Despite the freedom that China and other markets have to innovate, Yum! has an underlying business model that is central to its success. Yum! depends on its employees in local markets to be

innovators with respect to marketing and product development, but relies on leadership at the core to recognize and apply best practices across markets. This way, the company can achieve economies of scale through the application of global standards without sacrificing the benefits of adapting to local tastes. For example, the company uses the same franchise contract in all countries, and the fryers at KFC are identical worldwide.

Customer Mania

What we are trying to do is make our brands dynamic and vibrant everywhere, with operational excellence as our foundation, where we really run great restaurants and give people trusted experiences so that our customers talk about the experience.

– David Novak, Chairman and CEO, Yum! Brands²²

Yum! calls its approach to operations CHAMPS, which stands for cleanliness, hospitality, accuracy, maintenance, product quality, and speed. The company uses this acronym everywhere and has the same standards for all employees. The execution may be slightly different depending on the market, but the expectations are the same. Zhang Ye, a KFC restaurant general manager in Shanghai, said that she trains employees in hospitality and ensures accuracy by teaching them to confirm all orders. The standard for service in KFC is that the time from when a customer finishes ordering to when she receives her food should not exceed one minute. Pizza Hut has similarly specific standards.

The company measures execution against these standards using a mystery shopper program, which is also global and used for all brands. The program consists of someone visiting the store as a regular customer to assess each of the six areas. The U.S. operations manual for Pizza Hut is specific about what the mystery shoppers look for. Under the standard that “Every customer receives a smile with eye contact during a greeting, taking order and serving food” the manual lists the following questions:²³

- Are customers greeted with a sincere smile within four feet at every point in the restaurant?
- Are children acknowledged, greeted, talked to at eye level and made to feel welcome?
- Are greetings original and enthusiastic?

Yum!’s corporate culture promotes recognizing exceptional employees at all levels, although the form of that recognition is different in each market. Leaders throughout Yum! develop their own awards that reflect their personalities and the personalities of the brands they manage. Pizza Hut’s award is called the big cheese, and Novak presents his Yum! Award—a walking pair of teeth—to those who “walk the talk” as leaders. The recognition culture is a worldwide component of Yum!’s business model. Zhang Ye, a general manager in Shanghai, refers to her exceptional employees as “butterfly people,” after the butterfly effect and the idea that small actions by a single employee can have big consequences.

Market Entry

Yum! has a standard approach to entering new markets that it rarely modifies. On the demand side, the company looks for countries with a growing middle class that is receptive to western brands (see **Exhibit 6**). On the supply side, its major considerations are the experience and vision of potential franchise partners, the ability to operate within the local regulatory environment, and the capability of local suppliers to meet its food quality and nutrition standards. Yum!’s international restaurants

outside of China are 88% franchise owned.^c The company distributes manuals detailing specific procedures that all franchisees are expected to follow. As of 2011, Yum! had 17 business units around the world to ensure compliance with these standards and support new restaurant openings. Carucci explained the company's business model:

We have a lot of restaurants in a lot of countries, we run multiple brands, and because of that we've gone with a versatile ownership structure. Multiple-franchisees and franchises are great because they help us manage most of our business around the world. Importantly, we have company ownership as well. We think the combination of company and franchise ownership is the right way to develop a global business.²⁴

Pizza Hut and KFC standardized their kitchen designs around the world for food quality and safety reasons, and to achieve product consistency. For example, every restaurant uses a pressure fryer manufactured by one of two suppliers. By using only two manufacturers, KFC ensures that the fryers in all kitchens are safe and that product taste will not vary because of equipment differences. Yum! does not allow restaurants to modify its core products, the most important of which is Colonel Sanders' original recipe. "We don't let anyone mess with that," Pant said. "So the eleven herbs and spices, you can't do like twelve herbs and spices, or ten."²⁵

This same principle is applied to the ovens at Pizza Hut. "You can go from here to China, Indonesia, Latin America, all of these countries the back of the house of a Pizza Hut is exactly the same. It's a double deck oven, with two key manufacturers, and they are pretty standard," Pant explained.²⁶ This standardization means that products developed for a specific market can be used in similar countries without having to modify the recipes.

Because the equipment is identical across countries, employee training can also be standardized. Yum! converted its training materials from books to an electronic system called "Yum! Learning Zone" that offers online training in every restaurant. Some aspects of the restaurant exterior are also standardized. The color palette and materials used to construct the buildings are nearly the same across markets, and are regularly updated to keep the brands current.

The first KFC restaurant in Cambodia opened a few years ago and is an example of the standardized approach to market entry. Yum! partnered with QSR Brands Bhd, a multinational holding company that operates more than 850 restaurants across Asia, as its franchise partner.^d The initial product offerings were all taken from Yum!'s core menu, and then the locals were left to innovate further.

Lessons in labor law from Brazil Yum! has occasionally deviated from its formula for market entry with disappointing results. When the company initially entered Brazil it operated its own stores instead of finding a local partner and soon faced lawsuits for violating the country's complicated labor laws. Graham Allan, who retired in early 2012 explained: "When you are a western company you tend to have to play by the book. In places where labor regulations are really difficult, like in Brazil, you end up competing with people who are not playing by the same rules, same regulations."²⁷

Negotiating favorable leases was another problem. Yum! partnered with Brazil Fast Food Corp. — owner of the Bob's hamburger chain — in 2007 to run its operations in Brazil (see **Exhibit 7**). "They have been doing business in Brazil for a long time, so they understand how the market works," Allan

^c Yum! Brands December 2010 Investor Update Meeting.

^d Source: Capital IQ

said. "They have negotiated much better deals on rents than we were ever able to do. They certainly have managed the labor better."²⁸

An innovative approach in Russia KFC, Pizza Hut, and Taco Bell typically grow slowly after first entering a new country. This allows Yum! to test ideas, set appropriate prices, and establish its supply chain before building out. Usually the company will have about twenty stores after two or three years, and after ten years it can achieve 100 units. "When we reach 100 to 150 stores we get on television," Pant said. "That causes explosive growth thereafter."²⁹

Russia was an exception to this pattern. With its acquisition of Rostik's, a fried chicken chain based in Moscow, Yum! went from a small base of stores in St. Petersburg to over 100 restaurants, and eliminated a competitor that posed a serious threat to its expansion in Russia. "We tried a unit in Moscow and it didn't work," Carucci explained.³⁰ Yum! adapted its approach and partnered with Rostik's with an option to buy the company. Carucci described the transaction:

We didn't want to run the business in Russia because we weren't ready to. We didn't want to be a minority joint venture partner. So we ended up with an arrangement where we actually bought the Rostik's trademark, licensed it back to them, and then we had an option to buy the business. We thought that was the best way of . . . getting us experience before we committed to the business.³¹

On July 1, 2010, Yum! completed the exercise of its option, gained full management control of the KFC-Rostik's brand, and began rebranding its 150 units as stand-alone KFC restaurants. Pant said, "Ninety-percent of the products we sell in Russia are KFC menu items. Same store sales growth is about 20%, and profit margins are in the high teens. We feel optimistic about our prospects there for KFC."³²

India's Potential

There is clear evidence that we are at the same stage of development as we were in China at a similar juncture in its life cycle, and I'm confident we will turn India into a major growth engine for Yum!

– David Novak, Chairman and CEO, Yum! Brands³³

The kitchen is very similar, and even the front of the house, the restaurant, is very similar. So the asset is generally not that different. What is very different is the products that are sold in it.

– Micky Pant, CEO, Yum! Restaurants International³⁴

Yum! used the franchise approach to start its India business, but China has become the template for growth. The company switched to a model based on company ownership in China once it was no longer required to be a joint venture, and in India, Yum! has expanded using the company's equity instead of franchisees. Novak explained that similarities between India and China justified company ownership of its operations there. "We looked at India for the same reasons as China: population, huge emerging market . . . all the signs were there that you could have a huge business someday."³⁵

Yum! had 156 KFC restaurants in India in 2011. India also had 215 Pizza Hut restaurants in 2011. Beginning in 2012, Yum! separated its India business from Yum! Restaurants International and created a standalone reporting division to underscore the potential of the market.

Betting on Taco Bell

In the past two or three years, we have opened Taco Bell in more than 10 new markets outside the U.S. It takes time to get the brand tailored, localized, and supply chains established, but we will make Taco Bell a global brand someday, and we are seeing good progress on that front.

— David Novak, Chairman and CEO, Yum! Brands

During the initial phases of Taco Bell's international expansion (see **Exhibit 9**), Yum! placed bets on India because of its large population of young people and their preference for spicy food. Furthermore, tortilla-based products work well in India because the culinary tradition includes unleavened breads like chapattis and roti. In 2011, restaurant chains accounted for only 2% of the food service market in India, and 60% of the population was under 30 years old.

Both of these are factors that Yum! considered when deciding to invest heavily in the country. Although India's consuming class has expanded quickly, much of the country is still poor. Yum! lowered prices on the Taco Bell menu to start at \$0.40 in India—compared to \$0.89 in the United States—in order to attract consumers with low incomes.

The company evaluated the potential of Taco Bell using a two-by-two matrix of population size and the inherent appeal of Mexican food (see **Exhibit 10**). The Philippines had four Taco Bell restaurants as of 2011 and was chosen because of its historical connection with Spain. Spain itself, and Mexico, also made the list. Yum! tried the Mexican QSR concept in China in 2003 with the launch of Taco Bell Grande—a sit down Mexican restaurant—but ended that experiment in 2008.

The lack of consumer experience with Mexican food was a unique challenge to marketing Taco Bell abroad. "The secret I think to global brands is when you can bring a unique image to a known quantity," said Novak. "With Taco Bell we are bringing a unique image, but we are bringing it to an unfamiliar category."³⁶ Pant reframed this challenge as a strength and used it to Yum!'s advantage in marketing. Yum! positioned Taco Bell as "the bold choice," but in many emerging markets it was the only choice for Mexican food. In India, the company ran "how to eat a taco" commercials and taught people to pronounce quesadilla. "People don't know how to," said Pant. "You have to bend your neck to eat it. So we had fun with that sort of thing."³⁷

Yum! opened new Taco Bell units in 12 countries between 2008 and 2011, and had approximately 275 restaurants outside the United States. Yum! pursued this expansion expecting Taco Bell to lose money abroad for the first five years, but the company did not wait until markets became definitively attractive before investing in expansion. "You have to force the organization to make those bets," Carucci said. "It is not a huge amount of P&L investment, but it is a huge amount of people capability. It is hard to start brands in new countries."³⁸

In 2011, system-wide sales grew 35% to \$289m in India, and store margins were 7%. Yum! forecasts that it will have over 1,000 restaurants earning \$100m in profits in India by 2015.^e

Beef and Vegetarian Food in India

Yum! used its U.S. store designs, brand positioning strategy, and the "think outside the bun" tagline for Taco Bell in India, but adapted the products to suit the country's eating habits, which are influenced by Hindu religious practices.

^e Company Document. Store margin is for restaurants that have been open more than 13 months.

The first challenge was that most Taco Bell products contain beef. Yum! tested lamb, chicken, and goat meat as replacements, and chicken was found to be the best substitute for multiple reasons. “Beef has got a number of qualities. It is chewy, it’s got a holding quality to it, it holds heat, and it’s got its intrinsic taste,” explained Pant. “When we were trying to replace that with other meats we found that chicken was the most amendable.”³⁹ Chicken is also easy to flavor, whereas lamb and mutton have a distinctive, more polarizing taste. Furthermore, chicken had the advantage of being protein that was widely available and well-liked by consumers in many emerging markets, including India (see **Exhibit 6**).

Another major opportunity in India was creating vegetarian products. About 30% of people are vegetarians, and 70% eat meat on a limited basis (see **Exhibit 11**). Taco Bell India used potatoes as a meat replacement in its burritos and hard shell tacos, and offered meatless quesadillas and nachos topped with beans and onions instead of beef. At Pizza Hut, the menu was divided into vegetarian and non-vegetarian sections. None of the pizzas had meat toppings. Instead of pepperoni, customers were offered more traditional, and spicier Indian flavors like kadai paneer.

Runway for Growth in Africa

Africa will continue to surprise us in terms of the contribution it makes not just to Yum!’s business, but to the world overall. Our KFC brand is dominant in Africa. People love fried chicken...and we continue to enter new countries in Africa with our franchise partners. We are excited about our future growth in this growing, emerging market.

– Micky Pant, CEO, Yum! Restaurants International⁴⁰

Opportunities and Challenges

Yum! has planned a large expansion in Africa that will double the number of KFCs on the continent and bring the brand to 12 new markets by 2015 (see **Exhibit 12**). As of 2011, McDonald’s had fewer than 200 units in Africa, compared to 650 KFCs. Yum! wants to have more than 1,200 units on the continent by 2015, and plans to reach that goal by investing about \$500 million with its franchisees in the project.^f A new KFC in South Africa costs approximately \$800k, which is higher than Asia, but the build costs are recouped in about two years as opposed to slightly less than three years for China.

Cross-border trade is one potential barrier to growth. Nigeria, where Yum! intends to add 130 units, bans the import of chicken, so Yum! will need to find local suppliers that can scale with the business. “Our only constraint to growth [in Nigeria] is the availability of chicken, but we have partnered with exceptional suppliers,” Pant said. “The suppliers have to make substantial investments in the processing of chicken, which fortunately they have been willing to do because they see the potential.”⁴¹

South Africa’s Value Menu

Yum! has been in South Africa longer than other countries on the continent, and the success of KFC there has made the country a source of innovation for other markets. Carucci cited the Street Wise value menu developed for South Africa as an example of a local innovation that has become a system-wide standard:

^f Jargon, Julie. “KFC Savors Potential in Africa.” *Wall Street Journal*. 7 December 2010.

South Africa was the first market that did a great job at what we call a branded value menu. They call it Street Wise. . . . People were copying elements of that value menu for quite a few years. Just recently we have said, "You know, why don't we just use the name in more markets?" Some cases it doesn't translate totally so you can't use it, but now the default is to use Street Wise as the branded value menu.⁴²

Sixty countries were using Street Wise in 2011, and Yum! required franchisees to use the name unless they could prove there was a better alternative for their market. Indonesia was an exception, and illustrates how Yum! has given license to its franchisees, and then incorporated their innovations into its worldwide business model based on performance data. Indonesia launched a value menu before South Africa created Street Wise, and as a result it has gotten to keep its original name. Carucci explained:

Over time I will be surprised if that doesn't become Street Wise. We need to make sure that what we have is actually better than what they have. They have been at it longer than we have. We will have to be careful about that . . . They were ahead of their times; they called it something different because we didn't have that as a standard in our system. That is an example of how people develop and you bring them back in.⁴³

Yum! headquarters would be unlikely to approve a name other than Street Wise in countries adding value menus to KFC for the first time. However, it does not examine every detail of every new idea. "You could wait forever," Carucci said. "If it is a good idea you don't want to kill it for two years in lab."⁴⁴

From Local Insight to Global Implementation

We are a system in which most of the origination actually happens out in the field and what the center does is take examples of things that are done really well out in the field and cycle those around the rest of the world.

— Graham Allan, retired in early 2012 after serving as CEO of Yum! Restaurants International⁴⁵

The Street Wise value menu is just one example of an idea developed in the field that has become a worldwide standard. Yum! Brands does not rely on centralized research and development facilities in the United States to generate new product ideas for its international business. Instead, the company depends on its foreign business units and the employees closest to customers to drive innovation, and then creates opportunities for best practices to be shared across markets. Once it has identified something that is working well, it standardizes the approach and adopts it in other countries.

New Products from Australia and France

Yum! has frequently taken product ideas that were developed in a specific country and used them across heterogeneous markets. The Australian business developed the Krusher, a blended, dairy-based drink with bits of candy, cookies, or fruit that subsequently became the basis for a beverage sales layer at KFC restaurants in Europe, Southeast Asia, and India (see **Exhibit 13**). Sales layers are groups of products that develop from an initial offering and expand the brand's concept. Allan explained the introduction of the Krusher as the basis for a new sales layer: "It was putting a toe into the water of trying to build a broader beverage platform. The vision was we saw ourselves as a place that people would come to for beverages as well as for food. A little bit like McDonald's has done with McCafe."⁴⁶

Although Krushers are sold in multiple markets, Yum! customized the product slightly for different countries. In Malaysia, the product was targeted at teenagers with flavors like cucumber and strawberry/banana, whereas Australia introduced a triple choc crunch version, and Germany offered a strawberry 'n biscuit Krusher on its dessert menu.

France developed a grilled sandwich called the Brazer as part of KFC's strategy to offer a variety of non-fried options. Yum! began to ensure that new KFC restaurants installed ovens in addition to pressure fryers so they could cook baked and grilled products like the Brazer.

Cross-Country Performance

People use fast food as a trade down option in developed markets; it is very much a trade up option in emerging markets. It is an aspirational thing to do.

— Graham Allan, retired in early 2012 after serving as CEO of Yum! Restaurants International⁴⁷

While Yum!'s international business has thrived, domestic sales and unit growth has been slow (see **Exhibits 14** and **15**). Operating profit for its U.S. restaurants contracted 12% in 2011. China experienced profit growth of 15%, and the number of YRI restaurants grew by 9%.⁸ Economic factors such as labor costs and competition in the fast food industry explain a lot of the performance differences, but cultural and historical factors have also played an important role.

KFC offers fewer dayparts in the U.S. than in China. Novak explained that U.S. consumers' perception of the brand has been a barrier to duplicating some of Yum!'s international strategies domestically:

We have a much broader, appealing concept outside of the United States than we do inside of the United States because Colonel Sanders' influence was small box, fried chicken on the bone, mashed potatoes and gravy and coleslaw. The goal was not to over complicate things, and just make those great and that's it. So that was the mindset of the U.S. franchisee, whereas the mindset of the international franchisee was that it wasn't enough. So they broadened the concept dramatically, which is why you see . . . much more variety, much more asset utilization outside of the United States than you see inside the United States.⁴⁸

Increased competition in the U.S. has been another factor. Yum! Brands restaurants were the first of their kind in many emerging markets, and the company benefited from first-mover advantage; it was the first company to offer pizza delivery and western casual dining in China.

The relatively undeveloped QSR market in Asia and Africa created what Yum! calls a "runway for growth." Yum! already had 60 units per million people in the United States as of 2011, but in China the ratio was 3.1, and in India there were just 0.3 units per million.

Furthermore, U.S. consumption of chicken in fast food restaurants has not grown as quickly as chicken consumption generally, and overall consumption declined from 2005 to 2009 (see **Exhibit 16**). To counter these trends, KFC in the U.S. focused on improving store assets, and developing more portable products like sandwiches to improve sales. As of 2011, the stores in the United Kingdom were more modern, and sandwiches accounted for 40% of sales, whereas in the United States they

⁸ 2010 Annual Report. Note: YRI overseas Yum!'s international restaurants outside of mainland China.

were just 5%. Yum! also reduced company ownership of U.S. stores through refranchising (see **Exhibit 17**).

People view Western brands as aspirational in emerging markets, so Yum! has been able to attract more restaurant employees with college degrees. In 2011, more than 80% of restaurant general managers in China had a college degree, and even many store employees were college educated. Zhang Ye, a KFC general manager in Shanghai with a degree in electrical engineering, joined Yum! expecting to develop a career with the company. Jojo Jin, manager of a Pizza Hut Delivery, joined Pizza Hut after college with a degree in Economics.

Yum!'s restaurants in China have had greater per-unit profitability than in the United States (see **Exhibit 14**). In the company's other international markets, the profit margins of company run stores have been similar to the United States. Most YRI and U.S. units are franchises, so franchise and licensing fees have been a more significant revenue source than restaurant operations (see **Exhibit 17**). In 2011, franchise income for YRI and the U.S. was \$868m and \$786m respectively. General and administrative expenses for YRI were more than 5% less than for the United States, and the operating margin was about 5% higher.

Yum! is much larger and more profitable than McDonald's in China, but not in the United States. Sam Su said that the difference in China could be explained by the divergent approaches the two companies have taken in Asia:

We have expanded the menu offering and used different cooking methods. We have introduced ovens and used roasting, and we have innovated with products in other categories. We made the brand much broader and much more consistent with the kind of life people wanted to lead.⁴⁹

In addition to the different strategies pursued by the two companies, there are historical and country-specific factors that have played a role in the relative success of the brands. McDonald's had a first-mover advantage in Western Europe, but not in China, and preferences for chicken and beef vary considerably between countries (see **Exhibits 6 and 18**). Pant said that local preferences do affect revenue: "In Germany, Argentina, and Brazil for example, these are countries with high consumption of beef, and chicken products have historically sold less. . . Whereas fried chicken is widely available in Africa [and] that is one of the reasons we are seeing such dramatic success in Africa." Yet, local tastes have not been entirely deterministic of sales. "Pork is one of the leading proteins in China, but both McDonald's and Yum! seem to succeed despite not having pork on the menu," he explained.⁵⁰

Current Decisions to Be Made

So in our business one of the things you have to decide on is how many irons are you going to have in the fire for future growth? . . . When I first went to India, it was a challenging place. China was communist, Russia was communist, and Brazil had hyperinflation. Now you go there and you see that these countries are growing, vibrant economies.

— Rick Carucci, President, Yum! Brands⁵¹

Restaurant chains claim over 50% of the food service market in the United States and Canada, but in developing countries there is considerably more room for growth. Where does Yum! have the best chance to replicate its success in China, and which of the strategies that have worked well there might be adapted to other markets? The company could invest heavily in Africa, where McDonald's is still small and the population loves fried chicken. India, however, with its large number of young people

and taste for spicy food might be the ideal location to build Taco Bell. Which countries deserve Yum!'s attention, and what emphasis should the leadership team place on Yum!'s different brands?

Exhibit 1 Worldwide Restaurants by Brand, 2011

Concept Name	United States	International	China	# Countries
KFC	4,780	8,920	3,701	119
Pizza Hut	7,600	5,383	764	96
Taco Bell	5,670	275	0	24
East Dawning	0	0	28	1

Source: 2011-Annual Report and company documents.

Note: International figures do not include restaurants operated by Yum! China.

Exhibit 2 New Items Menu, Pizza Hut, China

New Products
新品推荐

饮料 Drinks

麒麟果粒茶/麒麟芒果绿茶 ¥17
Red/Green Tea with Mango Bits and Floating Green

晶莹玛瑙石榴汁 ¥19
Pomegranate Juice

琥珀水晶乌梅汁 ¥15
Sour Plum Juice/Acerola Cherry Juice

蓝色梦幻 ¥20
Blue Lagoon

草莓冰沙 ¥16
Strawberry Smoothie

香芒凤梨 ¥16
Mango and Pineapple Delight

红豆冰沙 ¥16
Red Bean Smoothie

蜜桃冰沙 ¥16
Sweet Peach Smoothie

小吃 Appetizer

超值炸鸡小吃拼盘 ¥32
Assorted Platter

和风美人鱼 ¥15
Toriya! Octopus with Quail Egg

缤纷蔬菜沙拉 ¥15
Mixed Veggie Salad

汤 Soup

鲜虾鱼子卷 ¥15
Crabby Shrimp Roll

芝香鸡皇卷 ¥12
Chicken & Is King

欧式精炖牛肉汤 ¥15
Beef Consommé with Vegetables

比萨 Pizza

德克萨斯风情小牛排比萨 ¥62起
Texas Mini Beef Steak

甜点 Dessert

草莓雪域蛋糕 ¥19
Strawberry Ice Cream Cake

冰凉滑蛋布丁 ¥18
Beef Pudding with Ice Cream

扒类 Entrées

美式黑椒铁板牛排 ¥40
American Style Beefsteak

新奥尔良风情烤鸡排 ¥32
New Orleans Flavored Chicken

饭类 Rice

葡式咖喱猪排饭 ¥28
Portugal Curry Pork Chop with Rice

芝香熏式肉排饭 ¥28
Gratin Rice Bolognese with Cheese and Bacon

南洋风味沙茶牛肉饭 ¥28
Beef in Sa Cha Sauce with Rice

意面 Pasta

西西里风情肉酱千层面 ¥32
Gratin Lasagna Bolognese

美式牛肉沙茶面 ¥28
Spaghetti with Beef in American Style Sauce

新菜单, 新滋味,
必胜客全心奉献!

Source: Yum! company document.

Exhibit 3 Breakfast at KFC China

主 食 Meal

美味汉堡 Burger  培根芝士汉堡 Cheese Bacon Burger ¥10.50	足料好粥 Congee  香糯薏米粥 Sticky Rice & Coarse Congee ¥6.00	 皮蛋瘦肉粥 Preserved Egg & Lean Pork Congee ¥6.00	法风烧饼 Flaky Pastry  培根蛋法风烧饼 Bacon Egg Flaky Pastry ¥10.00
 芝士猪柳蛋堡 Cheese Sausage Burger ¥10.00	 香菇鸡肉粥 Mushroom Chicken Congee ¥6.00	 牛肉蛋花粥 Beef & Egg Congee ¥8.00	 熏鸡法风烧饼 Smoked Chicken Flaky Pastry ¥10.00
 田园脆鸡堡 Herb Burger ¥9.00 加蛋 Add Egg ¥10.00	配餐 Side Item		
 安心/香糯油条 Dough Stick ¥3.50	 香脆薯棒 Potato Stick ¥4.00	 葡式蛋挞 Classic Egg Tart ¥5.50 全蛋 Full Egg ¥27.50	 脆皮甜筒 Ice Cream Cone ¥3.00 圣代 Sundae ¥7.00
热饮 Hot Drink  醇豆漿 Soy Milk ¥5.50	 经典咖啡 Classic Coffee ¥6.00	 香醇奶茶 Creamy Milk Tea ¥7.50	 牛奶 Milk ¥5.50
 麦维 Wheat ¥5.50	 红茶 Red Tea ¥5.50	冷饮 Cold Drink  醇豆漿 Soy Milk ¥6.50	 九珍 Juice ¥8.00
 百事可乐/七喜/美年达 Pepsi/7-Up/Mountain Dew ¥5.00/¥6.00/¥7.00	 雀巢冰爽茶 Nestle Ice Tea ¥6.00	 柠乐 Lemonade ¥8.00	6:00 早餐供应

全国P3-反

活力加分 买任意套餐 送

+3 元可得 安心油条 或 香脆薯棒

+5 元可得 葡式蛋挞

超值经典早餐 Super-Value Classic Combo

¥10

A 田园脆鸡堡 + 经典咖啡

B 培根蛋法风烧饼 + 经典咖啡

C 熏鸡法风烧饼 + 经典咖啡

超值精选早餐 Super-Value Select Combo

¥14.00

芝士猪柳蛋堡 + 经典咖啡

¥14.50

培根芝士蛋堡 + 经典咖啡

超值美味早餐 Super-Value Delicious Combo

¥6

A 香煎鸡肉堡 + 经典咖啡

B 火腿蛋堡 + 醇豆漿 (热)

C 香糯薏米粥 + 安心油条

D 皮蛋瘦肉粥 + 安心油条

E 香菇鸡肉粥 + 安心油条

全国P3-正

Source: Yum! company document.

Exhibit 4 East Dawning Menu

Rice	Noodles	Main Meal Combo Build Your Own		Side Dish/Soup	Drink	Snack
 Teriyaki Chicken Chop Rice ¥18  Spicy Chicken Rice ¥19.5  Chicken Chop Noodles ¥19	 Tomato Beef Noodles ¥20  House Specialty Noodles with Soy Bean Paste ¥16  Chef Pork Chop Noodles ¥18  Shrimp Noodles with Bamboo Shoot ¥23	1 Rice/Noodle + Side Dish/Soup Drink/Desserts/Snack Save ¥2 For 1 Item Save ¥4 For 2 Items		 Black Fungus with Spicy Sauce ¥5.5  Hot and Sour Seaweed ¥5.5  Sweet and Sour Cucumber ¥5.5  Lettuce with Seasoned Ground Pork ¥6.5  Broccoli with Oyster Sauce ¥6.5  Spicy Pig Ear with Vegetables ¥9.5  Hot and Sour Soup ¥4.5  Fuzhou Fish Ball Soup ¥4.5  Steamed Egg with Mushroom ¥5.5  Vermicelli with Fried Tofu ¥8.5	 Chef Juh Milk Tea ¥6 (Small Hot/Cold) ¥7 (Regular Cold)  Oolong Milk Tea ¥6 (Small Hot/Cold) ¥7 (Regular Cold)  Pudding (Only for Cold Drinks) ¥5  Black Pearl ¥5  Soy Bean Milk (Sweet) ¥4 (Small Hot/Cold) ¥5 (Regular Cold)  Soy Bean Milk (Sweet) ¥4 (Small Hot/Cold) ¥5 (Regular Cold)  Ice Lemon Black Tea ¥5 (Small) ¥6 (Regular)  Ice Peach Black Tea ¥5 (Small) ¥6 (Regular)  Ice Lemon Green Tea ¥5 (Small) ¥6 (Regular)  Ice Mango Green Tea ¥5 (Small) ¥6 (Regular)  Chinese Plum Juice (Cold) ¥5 (Small) ¥6 (Regular)  8 Treasure Fruit Juice (Cold) ¥6.5 (Small) ¥7.5 (Regular)	 New Orleans Roasted Wing ¥4.5 (1pc) ¥8.5 (2pcs)  Steamed Dumpling (Ground Pork) ¥5 (1pc) ¥10 (2pcs)  Steamed Dumpling (Shrimp) ¥5 (1pc) ¥10 (2pcs)  Mini Sausage Kebab ¥5 (1pc) ¥10 (2pcs)  Turnip Cake ¥5 (1pc) ¥10 (2pcs)  Fried Sushi ¥6 (1pc) ¥12 (2pcs)  Coconut Flavored Sweet Purple Rice ¥5.5  Red Bean Sago Sweet Soup ¥5.5  Mango with Sago Sweet Soup ¥6  Box of Egg Tart/Hong Kong Style Baked Bread 1 Piece ¥13.5 (1pc) ¥27 (2pcs)

Signature Fungi species may alter dependent on seasons. Small: 250ml Regular: 350ml Mix and Match combo can NOT be used in conjunction with any other offers Product shots are for reference only.

Great Food News Every Month

Source: Yum! company document.

Exhibit 5 China, Per Capita Meat Consumption in Urban Households

	Pork	Beef & Goat	Poultry	Population	Disposable Income	KFC	Pizza Hut	Total
Northern Provinces								
Gansu	13	6.9	2.2	25.9	10,271	21	1	22
Hubei	13	3.2	1.4	68.5	13,205	111	8	119
Heilongjiang	13	3.9	2.8	38.2	12,772	86	10	96
Henan	13	2.4	5.1	97.7	14,084	60	5	65
Inner Mongolia	11	6.8	3.2	23.9	17,024	32	5	37
Jilin	14	3.9	3.1	27.2	12,811	56	6	62
Liaoning	16	4.6	3.3	42.2	14,607	149	26	175
Ningxia	7.5	8.2	4.2	6	12,185	6	0	6
Qinghai	13	13.5	4.4	5.4	10,636	5	0	5
Shaanxi	12	1.8	3.1	37.2	12,662	65	9	74
Shandong	23	4.3	8.5	92.4	18,005	208	20	228
Shanxi	11	2.1	2	33.6	13,745	57	8	65
Xinjiang	5.1	14.7	6.8	20.1	11,373	20	2	22
Tibet	15	13.9	5.7	2.8				
Southern Provinces								
Anhui	14	2.6	8.3	65.2	13,426	65	6	71
Fujian	17	2.2	6.3	35.3	16,765	104	23	127
Guangxi	21	2.4	4.3	49.3	12,955	43	5	48
Guizhou	14	1.3	6	39.3	12,781	15	2	17
Hainan	18	2.1	13.5	8.3	12,289	20	2	22
Hunan	20	1.6	7.7	67.3	16,153	98	7	105
Hubei	17	1.7	3.2	60.3	14,358	93	15	108
Jiangsu	19	1.6	9.4	74.7	20,317	373	61	434
Jiangxi	20	1	4.9	43.1	13,253	46	2	48
Sichuan	19	1.9	2.7	87.5	14,849	71	18	89
Yunnan	23	2.4	6.6	44.5	12,021	32	6	38
Zhejiang	14	1	9.3	49	21,689	303	54	357

Sources: Liu, Warren K. "KFC in China: Secret Recipe for Success." John Wiley & Sons (Asia) Pte Ltd: Singapore, 2008; CEIC; Yum! company documents

Note: Meat consumption presented in kilograms. Population in millions. Disposable income figures are RMB.

Exhibit 6 Country Differences and Fast Food Abroad

Country	Op. Profit ¹	Yum! Units	KFC	Pizza Hut	Taco Bell	McDonald	Chicken	Cattle	Pig	Spices	Total Pop	Middle Class ³	Disposable Income Per Capita ⁴	US FDI Abroad ⁵	USA Pct Merchandise Imports ⁶	Contract Enforce ⁷	Pct Food Chained ⁸
Australia/NZ ⁹	\$98m	1054	698	356	0	990	36,89kg	44.08	29.39	0.46	26.64m	9.44m	\$31,056	\$48,00b	11.10%	20.70%	27.82%
Brazil	3.56	26	9	17	0	616	36,275	47.12	15.23	0.24	194.95	48.56	6,789	21.32	15.07%	16.50%	5.67%
Canada	46.8	1094	725	311	58	1434	30.80	37.27	57.76	0.86	34.02	12.93	27,802	197.77	51.58%	22.30%	58.40%
China	755	3886	3244	642	0	1287	8.38	4.44	36.52	0.26	1,372.15	292.31	2,378	16.78	7.73%	11.10%	8.10%
Egypt		161	101	60	0	63	7.84	4.45	0.03	0.84	81.12	19.26	2,346	4.56	10.57%	26.20%	11.61%
France	9	234	117	117	0	1193	16.64	23.49	32.10	0.27	62.79	27.16	28,035	58.57	6.43%	17.40%	26.67%
Germany	5	125			0	1386	9.54	13.87	63.89	0.75	82.30	39.63	26,228	58.88	5.92%	14.40%	31.52%
India	-3	278	105	171	2	210	2.30	1.60	0.40	2.00	1,224.61	198.61	1,129	6.92	6.38%	39.60%	2.09%
Indonesia	24.57	805	396	209	0	109	5.93	1.72	2.68	1.05	239.87	49.15	1,799	9.62	7.33%	122.70%	6.76%
Japan	35.91	1528	1140	365	0	3302	11.02	4.09	10.35	1.29	126.54	50.42	27,350	64.01	10.99%	22.70%	44.19%
Malaysia	33.08	778	514	220	0	204	34.06	0.83	7.12	5.20	28.40	6.11	4,553	7.22	11.35%	27.50%	30.09%
Mexico		498	322	176	0	397	23.44	15.22	10.38	1.25	113.42	26.79	6,507	41.18	48.11%	32.00%	15.80%
Philippines		367	209	154	4	309	8.20	2.01	18.65	0.39	93.26	14.59	1,491	5.79	12.02%	26.00%	38.65%
Poland		171	120	51	0	258	27.71	10.54	45.36	0.26	38.38	14.32	7,851	4.59	2.28%	12.00%	16.56%
Russia	-1	163	148	15	0	275	16.17	12.17	15.16	0.15	142.96	49.89	5,827	5.14	5.06%	13.40%	36.05%
South Africa	50.29	614	614	0	0	144	19.42	15.62	6.29	0.49	50.13	9.42	4,087	4.61	7.76%	33.20%	32.02%
South Korea		447	142	304	1	242	10.38	5.90	20.85	0.67	48.18	17.92	12,955	11.85	9.05%	10.30%	31.65%
Thailand	28.35	527	410	76	0	146	15.65	3.09	11.00	1.36	69.12	16.00	3,095	6.91	6.44%	12.30%	22.60%
UK	74.52	1384	731	651	2	1194	23.64	13.73	11.64	0.82	62.27	27.26	23,053	263.24	9.61%	23.40%	33.17%
United States	668	17461	4979	6006	5190	14016	53.09	38.65	33.94	0.81	310.38	116.58	33,904			14.40%	51.11%

Notes:

- 1 Source: Estimates based on Yum! company documents, except for Brazil, which represents franchise royalty payments as reported in Brazil Fast Food Corp's 2010 Annual Report.
- 2 Food consumption per capita figures are estimates from FAO and Foreign Agricultural Service. "Livestock and Poultry: World Markets and Trade." USDA, April 2011.
- 3 Households with at least \$5,000 (PPP) of disposable income in 2010. Source: Euromonitor International.
- 4 Source: Euromonitor International, presented in USD using 2010 exchange rates and population figures from Euromonitor International.
- 5 Source: BEA. "U.S. Direct Investment Abroad (USDIA) Final Benchmark Data" November 2008.
- 6 Percentage of 2010 total merchandise imports by value from the United States. Source: UN Comtrade.
- 7 Cost of enforcing a contract as a percentage of the claim. Source: World Bank.
- 8 Percentage of food service market by food service value occupied by chain restaurants. Source: Euromonitor International.
- 9 Calculations of Australia and New Zealand are weighted averages.

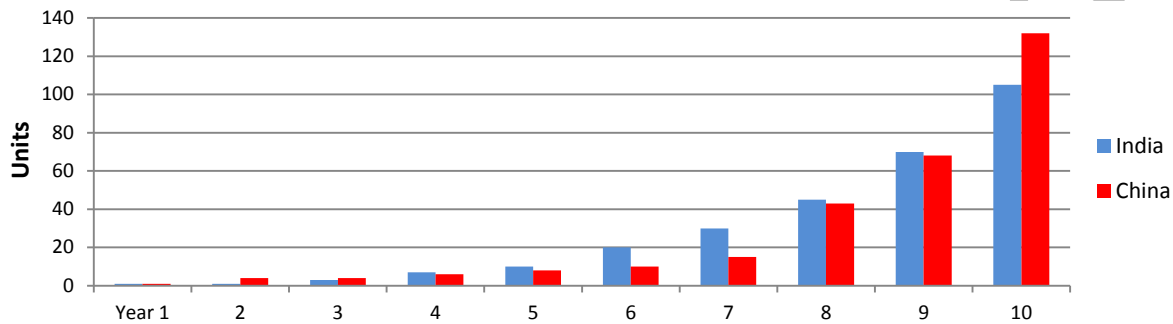
Exhibit 7 Brazil Fast Food Financials

Totals (R\$ '000)	KFC		Pizza Hut*			
	2010	2009	2008	2010	2009	
Revenue	21,690.00	18,868.00	10,640.00	58,522.00	48,764.00	
Food and Packaging	-7,975.00	-7,293.00	-4,082.00	-17,032.00	-14,808.00	
Labor	-5,465.00	-4,617.00	-3,156.00	-11,223.00	-10,442.00	
Occupancy	-2,981.00	-2,417.00	-1,437.00	-6,680.00	-4,377.00	
Contracted Services	-3,239.00	-2,393.00	-1,653.00	-7,112.00	-5,191.00	
Profit Before Royalties	2,030.00	2,148.00	312.00	16,475.00	13,946.00	
Profit Margin Before Royalties	9.36%	11.38	2.93	28.15	28.60	
Royalties	-1,070.00	-555.00	-271.00	-4,962.00	-3,537.00	
Profit	960.00	1,593.00	41.00	11,513.00	10,409.00	
Profit Margin	4.43%	8.44	0.39	19.67	21.35	
Company Owned Stores	9.00	12.00	7.00	17.00	15.00	
Average Check Size R\$		13.47			31.35	
Average Per Company Unit	As Reported (R\$ '000)		As Percentage of Revenue		Millions USD**	
	2010	2009	2008	2010	2009	2008
KFC Brazil						
Revenue	2410.00	1572.33	1520.00	100.00	100.00	100.00
Food and Packaging	-886.11	-607.75	-583.14	36.77	38.65	38.36
Labor	-607.22	-384.75	-450.86	25.20	24.47	29.66
Occupancy	-331.22	-201.42	-205.29	13.74	12.81	13.51
Contracted Services	-359.89	-199.42	-236.14	14.93	12.68	15.54
Profit Before Royalties	225.56	179.00	44.57	9.36	11.38	2.93
Profit Margin Before Royalties	9.36%	11.38	2.93			
Royalties	-118.89	-46.25	-38.71	4.93	2.94	2.55
Profit	106.67	132.75	5.86	4.43	8.44	0.39
Profit Margin	4.43%	8.44	0.39			
Pizza Hut Brazil						
Revenue	3442.47	3250.93	2008	2010	2009	2008
Food and Packaging	-1001.88	-987.20		100.00	100.00	1.86
Labor	-660.18	-696.13		29.10	30.37	-0.56
Occupancy	-392.94	-291.80		19.18	21.41	-0.40
Contracted Services	-418.35	-346.07		11.41	8.98	-0.17
Profit Before Royalties	969.12	929.73		12.15	10.65	-0.20
Profit Margin Before Royalties	28.15%	28.60		28.15	28.60	0.53
Royalties	-291.88	-235.80				
Profit	677.24	693.93		8.48	7.25	-0.13
Profit Margin	19.67%	21.35		19.67	21.35	0.40

Source: Brazil Fast Food, 2010 Annual Report.

* Pizza Hut financials for 2008 are not included because Brazil Fast Food did not begin operating Pizza Hut restaurants until December of 2008.

** Based on year end exchange rate as reported by the U.S. Federal Reserve (USD/R\$ was 2.4, 1.75, and 1.7 for 2008, 2009, and 2010 respectively).

Exhibit 8 Ten Years of KFC Unit Development

Source: Yum! Brands. December 2010 Investor Update.

Note: China data for 1987–1996, India data for 2001–2010.

Exhibit 9 International Taco Bell Units, 2009–2011

	Company			Franchise			License			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
Aruba	0	0	0	3	3	3	0	0	0	3	3	3
Bahrain	0	0	0	1	1	1	0	0	0	1	1	1
Canada	0	0	0	57	58	59	1	1	2	58	59	61
Costa Rica	0	0	0	25	24	21	0	0	0	25	24	21
Cyprus	0	0	0	1	1	1	0	0	0	1	1	1
Dominican Rep.	0	0	0	11	10	9	0	0	0	11	10	9
Great Britain	0	0	0	3	2	0	0	0	0	3	2	0
Guam	0	0	0	7	7	6	0	0	0	7	7	6
Guatemala	0	0	0	26	24	22	0	0	0	26	24	22
Iceland	0	0	0	1	1	2	0	0	0	1	1	2
India	3	2	0	0	0	0	0	0	0	3	2	0
South Korea	0	0	0	4	1	0	0	0	0	4	1	0
Kuwait	0	0	0	4	1	12	0	0	0	4	1	12
Mexico	0	0	2	0	0	0	0	0	0	0	0	2
Panama	0	0	0	7	4	2	0	0	0	7	4	2
Philippines	0	0	0	4	4	4	0	0	0	4	4	4
Puerto Rico	0	0	0	34	34	34	0	0	0	34	34	34
Spain	0	0	0	6	4	2	0	0	0	6	4	2
UAE	0	0	0	3	3	1	0	0	0	3	3	1
Total International	3	2	2	237	182	179	35	1	2	275	185	183
United States										5,670	5,634	5,604

Source: Yum! company documents.

Exhibit 10 Taco Bell International Expansion and Country Characteristics

Country Name	Spanish Colony	Tortilla-Like Breads	Distance to Mexico (km)*	Taco Bell Units
Canada			3,591	59
Costa Rica	Independence 1821	Tortilla	1,925	24
Cyprus		Pita	12,143	1
Dominican Republic	Independence 1865	Tortilla	3,063	10
Guatemala	Independence 1821	Tortilla	1,065	24
Iceland		Flatkaka	7,454	1
India		Chapattis, Roti	14,703	2
Mexico	Independence 1821	Tortilla		0
Panama	Independence 1821	Tortilla	2,415	4
Philippines	Ceded to U.S. 1898		14,240	4
Spain		Coca	9,071	4
United Arab Emirates		Raqaq	14,387	3
United Kingdom			8,932	2
United States		Tortilla	3,024	5,190

* Source: CIA World Factbook; Yum! Company Documents; Gleditsch, Kristian. "Distance between Capital Cities." Accessed 2 October 2011 at < <http://privatewww.essex.ac.uk/~ksg/data-5.html> >.

Note: Mexico declared independence in 1810. The Dominican Republic became independent in 1821, rejoined the Spanish Empire in 1861, and ultimately gained independence in 1865.

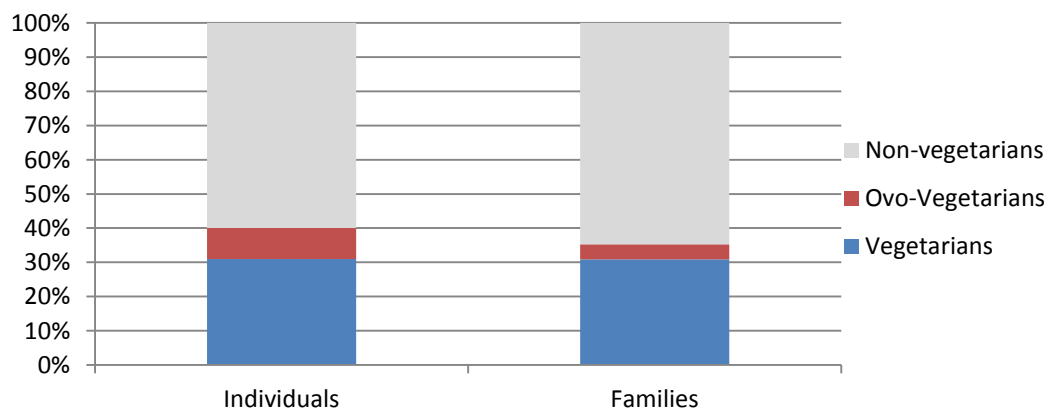
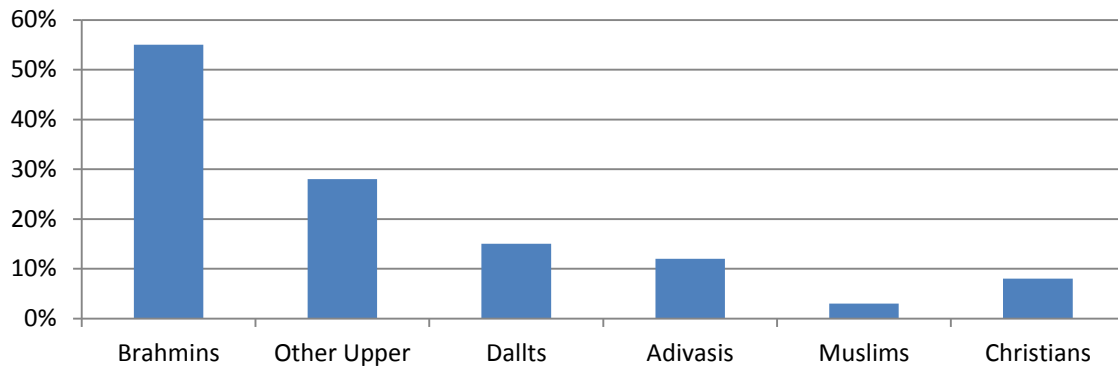
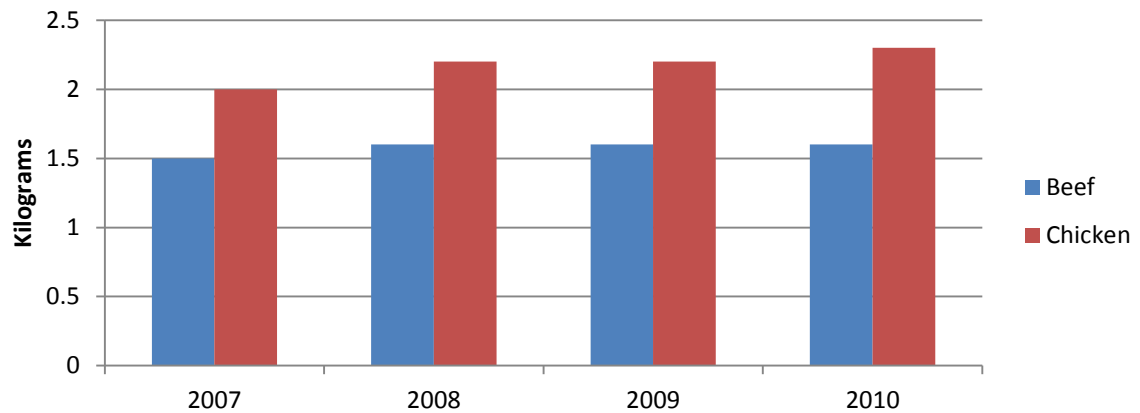
Exhibit 11 Vegetarianism in India**Individuals and Families**

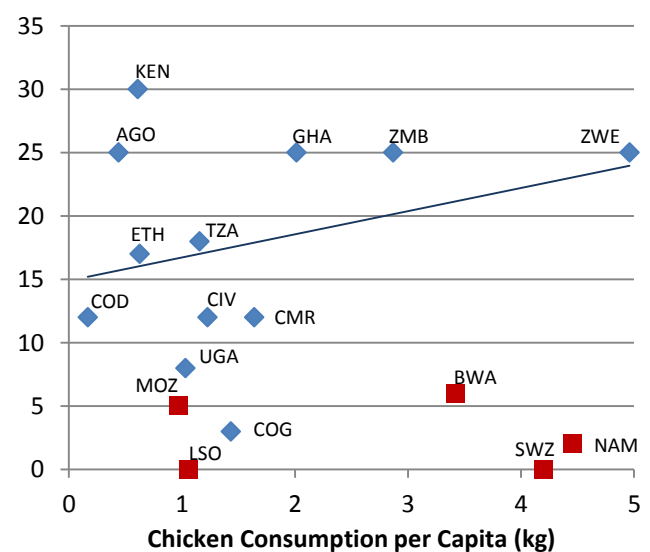
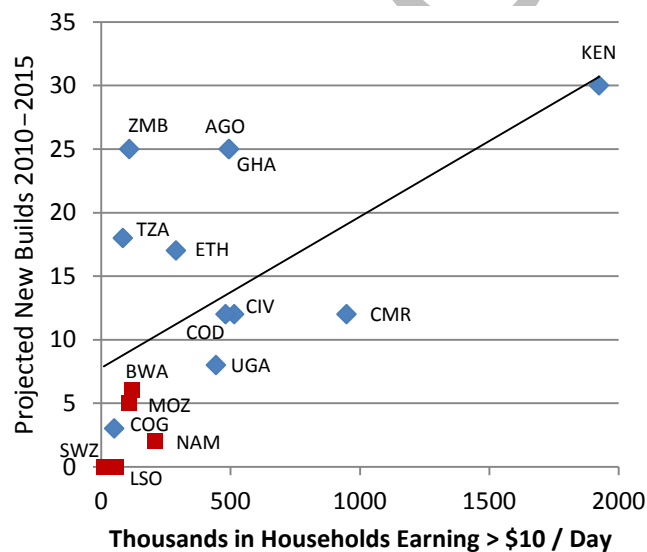
Exhibit 11 (continued)

Vegetarianism by Caste/Religion**Per Capita Meat Consumption in India**

Sources: Yadav, Yogendra and Sanjay Kumar. "The food habits of a nation." *The Hindu*. 14 Aug 2006; Foreign Agricultural Service. "Livestock and Poultry: World Markets and Trade." 2011.

Exhibit 12 2010–2015 Expansion in Africa

		2010 Units	2015 Units	Chicken Per Capita	Beef Per Capita	Middle Class \$10/day ('000)	Median Age
AGO	Angola	0	25	0.44	5.63	494.22	16.5
BWA	Botswana	6	12	3.42	18.16	119.02	22.9
CMR	Cameroon	0	12	1.64	5.26	948.59	19.2
COG	Congo	0	3	1.43	0.55	51.35	19.6
COD	D.R. Congo	0	12	0.17	0.21	481.55	16.6
ETH	Ethiopia	0	17	0.63	4.80	290.32	18.6
GHA	Ghana	0	25	2.01	1.07	495.16	20.5
CIV	Ivory Coast	0	12	1.23	1.70	515.16	19.1
KEN	Kenya	0	30	0.61	10.03	1,924.37	18.3
LSO	Lesotho	7	7	1.06	5.32	59.27	20.2
MOZ	Mozambique	4	9	0.97	0.82	107.60	17.7
NAM	Namibia	10	12	4.46	16.05	208.21	21.1
NGA	Nigeria	5	135	1.66	1.93	427.74	18.5
ZAF	South Africa	614	815	30.80	14.00	9,214.45	24.9
SWZ	Swaziland	4	4	4.20	15.32	10.20	19.5
TZA	Tanzania	0	18	1.16	5.79	85.20	17.4
UGA	Uganda	0	8	1.03	3.81	444.55	15.7
ZMB	Zambia	0	25	2.87	4.72	109.95	16.6
ZWE	Zimbabwe	0	25	4.96	8.35		19.3



Sources: FAO; PovcalNet: The online tool for poverty estimation; Company Documents; Euromonitor International.

Exhibit 13 Krushers in Malaysia (left) and Philippines (right)

Source: Yum! company documents.

Exhibit 14 Company-Owned Restaurants

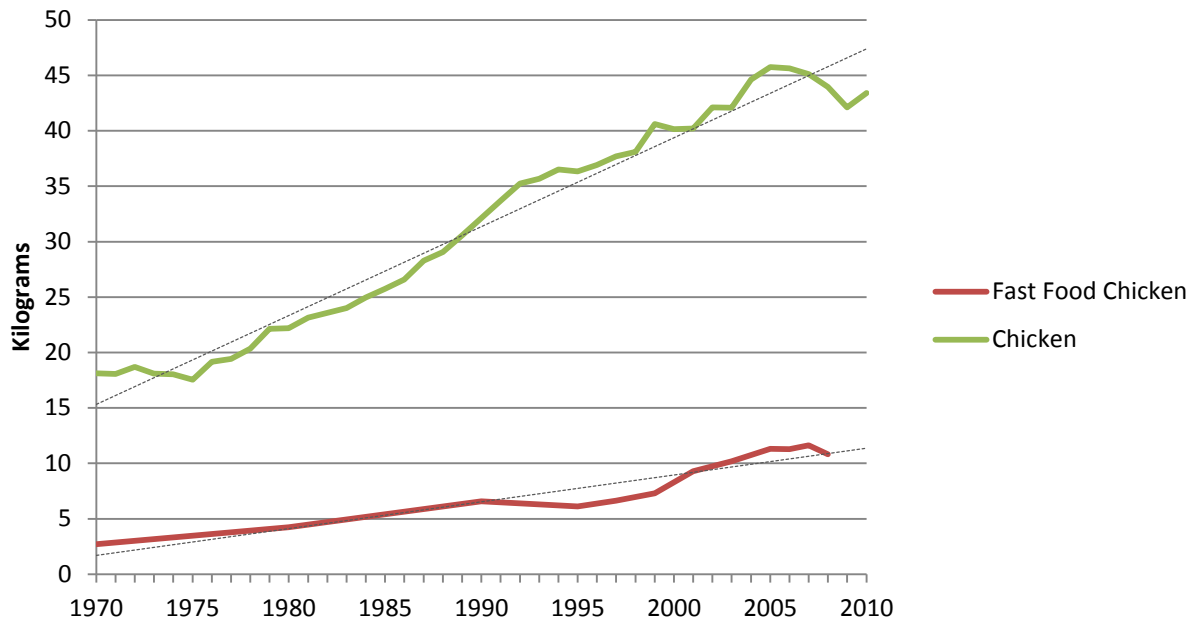
	<i>Millions USD</i>	2011	2010	2009	2008	2007
China	Sales	5,487	4,081	3,352	2,776	2,075
	Cost of Goods Sold	-1,947	-1,362	-1,175	-1,049	-756
	Cost of Labor	-890	-587	-447	-364	-273
	Occupancy and Other Costs	-1,568	-1,231	-1,025	-827	-629
	Restaurant Profit	1,082	901	705	536	417
	Profit Margin	19.7%	22.08%	21.03%	19.31%	20.10%
	Company Unit Count	3,705	3,228	2,866	2,272	2,087
YRI	Sales	2,406	2,347	2,323	2,657	2,507
	Cost of Goods Sold	-769	-753	-758	-855	-751
	Cost of Labor	-616	-591	-586	-677	-655
	Occupancy and Other Costs	-726	-727	-724	-834	-794
	Restaurant Profit	295	276	255	291	307
	Profit Margin	12.3%	11.76%	10.98%	10.95%	12.25%
	Company Unit Count	1,593	1,559	2,000	1,982	1,642
United States	Sales	3,000	3,355	3,738	4,410	4,518
	Cost of Goods Sold	-917	-976	-1,070	-1,335	-1,317
	Cost of Labor	-912	-994	-1,121	-1,329	-1,377
	Occupancy and Other Costs	-809	-908	-1,028	-1,195	-1,221
	Restaurant Profit	362	447	519	551	603
	Profit Margin	12.1%	13.32%	13.88%	12.49%	13.35%
	Company Unit Count	2,139	2,484	2,800	3,314	3,896

Source: 2010 and 2009 Annual Reports.

Exhibit 15 Total Unit Count 2001–2010, Selected Countries

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America											
Canada	1,211	1,213	1,170	1,138	1,125	1,122	1,104	1,110	1,111	1,094	1,102
Mexico	403	449	490	497	498	495	502	512	506	498	486
United States	17,017	18,856	18,660	18,471	18,291	18,117	17,977	17,796	17,619	17,461	16,006
Asia-Pacific											
Australia	842	838	842			844	843	842	858	871	884
China	612		1,107	1,415	1,789	2,115	2,546	2,996	3,434	3,886	4,465
India					129	161	171	202	230	278	374
Indonesia	236	303	352	397	463	535	611	680	741	805	661
Japan	1,413	1,465	1,518	1,495	1,501	1,497	1,524	1,538	1,531	1,528	1,526
Korea	462	499	508	514	513	498	481	458	445	447	455
Malaysia	390	447	467	502	517	545	604	644	711	778	795
New Zealand	180	181	185			200	193	186	184	183	181
Philippines	201	224	247	260	289	306	313	314	345	367	366
Thailand	365	411	404	389	397	398	421	468	512	527	492
Europe											
France	144	148	150	154	149	156	165	180	208	234	252
Germany	116	122	122			121	124			125	140
Poland		107	113	119	117		123	137	159	171	200
Russia								162	173	163	174
Spain	147	146	148	141	157	158	164	167			75
United Kingdom	456	1,107	1,147	1,217	1,378	1,323	1,330	1,344	1,364	1,384	1,397
Middle East / Africa											
Egypt	111	115	122	128	127	127	137	148	148	161	171
Saudi Arabia	133	147	151	162	185	185	222	251	271	288	321
South Africa	335	346	363	387	417	444	480	533	585	614	656
UAE		86							136	147	153

Source: Yum! company documents.

Exhibit 16 U.S. Per Capita Chicken Consumption, 1970–2010

Sources: National Chicken Council; FAO; U.S. Department of Agriculture

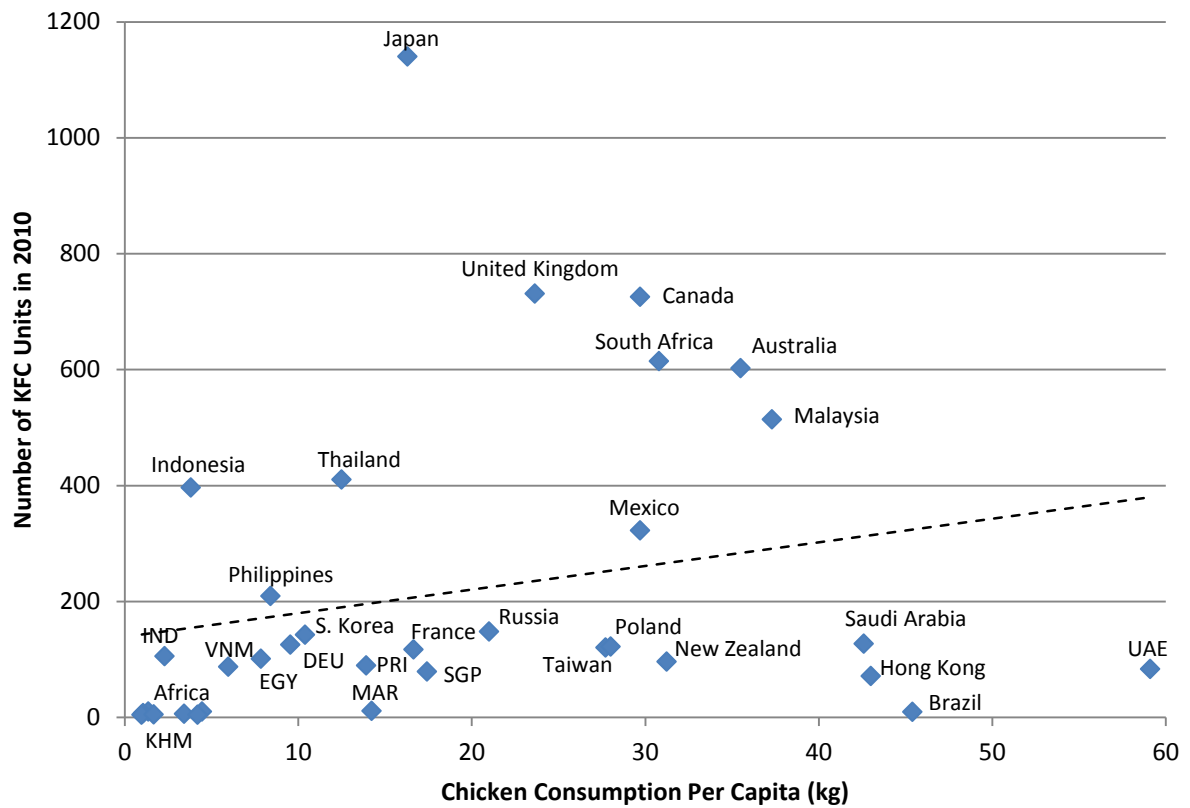
Exhibit 17 Company Ownership and Licensing Income by Reporting Segment*Company Ownership*

	2011	2010	2009	2008	2007
China	83%	83%	71%	63%	68%
YRI	11%	11%	15%	16%	13%
United States	13%	14%	16%	19%	22%

Licensing Income

	2011	2010	2009	2008
China	79	\$54m	55	64
YRI	868	741	665	675
United States	786	765	735	722
Unallocated			-32	
Worldwide	1,733	1,560	1,423	1,461

Source: Yum! Brands 2010 and 2009 Annual Reports.

Exhibit 18 Chicken Consumption and International Fast Food

Sources: Yum! Company Document; FAO; United States Department of Agriculture.

Note: The points labeled "Africa" include Nigeria, Lesotho, Namibia, Botswana, and Swaziland. KHM is Cambodia. China and the United States are excluded. China had 3,244 units and consumption of 9.2 kg in 2010. The figures for the U.S. are 4,979 and 43.4 respectively.

Endnotes

- ¹ Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ² Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY., Personal Interview with Rick Carucci. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ³ Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ⁴ Personal Interview with Rick Carucci. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ⁵ Class Discussion with Micky Pant. Global Strategy. HBS. September 2011 in Boston, MA.
- ⁶ Email communication with Yum! Brands. January 2012.
- ⁷ Personal Interview with Angela Loh. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ⁸ Personal Interview with Rick Carucci. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ⁹ Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ¹⁰ Personal Interview with Chris Pan. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹¹ Personal Interview with Angela Loh. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹² Personal Interview with Angela Loh. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹³ Starbucks Corp. "Starbucks Celebrates its 500th Store Opening in Mainland China." Company Press Release. October 25, 2011. Accessed January 27, 2012 at http://news.starbucks.com/article_display.cfm?article_id=580.
- ¹⁴ Personal Interview with Angela Loh. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹⁵ Personal Interview with Chris Pan. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹⁶ Personal Interview with Chris Pan. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹⁷ Personal Interview with Chris Pan. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹⁸ Personal Interview with Chris Pan. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ¹⁹ Personal Interview with Sam Su. Conducted by Chris Poliquin, June 2011 in Shanghai, China.
- ²⁰ Class Discussion with Micky Pant. Global Strategy. HBS. September 2011 in Boston, MA.
- ²¹ Personal Interview with Graham Allan. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ²² Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ²³ Yum! Company Document.
- ²⁴ Email communication with Yum! Brands. January 2012.
- ²⁵ Personal Interview with Micky Pant. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ²⁶ Personal Interview with Micky Pant. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ²⁷ Personal Interview with Graham Allan. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ²⁸ Personal Interview with Graham Allan. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ²⁹ Personal Interview with Graham Allan. Conducted by Chris Poliquin, May 2011 in Plano, TX.
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- ³¹ Personal Interview with Rick Carucci. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ³² Email communication with Yum! Brands. January 2012.
- ³³ Email communication with Yum! Brands. January 2012.

- ³⁴ Personal Interview with Micky Pant. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ³⁵ Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ³⁶ Personal Interview with David Novak. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ³⁷ Personal Interview with Micky Pant. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ³⁸ Personal Interview with Rick Carucci. Conducted by Chris Poliquin, May 2011 in Louisville, KY.
- ³⁹ Personal Interview with Micky Pant. Conducted by Chris Poliquin, May 2011 in Plano, TX.
- ⁴⁰ Email communication with Yum! Brands. January 2012.
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