



UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY ON
CHILDREN MARKETING OF KFC**

ANG SAE MING

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TESIS

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GSO 1393

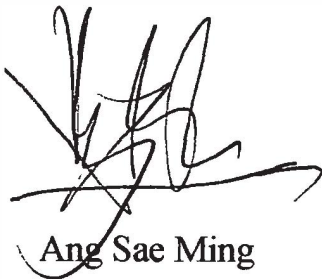
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Pengesahan Laporan

Degan in saya Ang Sae Ming , nombor matrik GSO 1393 pelajar yang mengakhiri pengajian MBA YPM-UPM menyatakan bahawa segala hasil kerja untuk PSN598 ini adalah usaha asal saya sendiri.

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Ang Sae Ming

Kuala Lumpur

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PART 1

CASE



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ABSTRACTS

Children are the important customers to any one of fast-food chain, simply because children will not visit restaurant alone, but go along with family members or having a party there with a group of friends, this translate into sales to restaurants.

When the American fast food were later introduced to other part of the world, other brand of fast food chain follow the tracked and flourished oversea as well, the battle ground since then happened everywhere, the fittest fight for market leadership, the others aimed for survival

KFC came to Malaysia in 1973, since then expanded aggressively and had transformed into integrated food corporation, however, with 275 outlets, KFC still operates chicken fast food core business, the near competitor is McDonalds' which has about 120 restaurants.

The competition is always tense, because, Malaysia and Thailand are the only two countries that McDonalds loose to KFC. Knowing McDonalds is strong in Kids Marketing, KFC Malaysia set up own the first Children Marketing team which only focus children related activities.

Over year, children marketing performance are quite acceptable, as many promotions, toys, children magazine, outdoor activities were organized. Sales generated still below



the projection, though it is recognized that the purpose of children marketing is for long-term loyalty and brand building.

However, when the company undergone ownership change, children marketing strategy is reviewed, the unit needs to be revamped to have new direction and strategy.

The first part is basically the case, followed by analysis on the 2nd part, the second too accompanied with Strategy formulation, implementation and control evaluation.

THE SENARIO

August 1999, Dato Abdullah Omar, a well known corporate figure in Malaysia and another two partners have been invited to join the board of KFC Holdings (Malaysia) Bhd by former major holder cum Managing Director Dato Haji Ishak Ismai. Dato Haji Ishak relinquished the share, as he needs to take long break to concentrate on other oversea business. Dato Abdullah is appointed as CEO cum Managing Director, to oversee the whole fast food business establishment.

In order to get into business operation immediately, Dato has called for departmental meeting starting from key departments like Finance, Operation and Marketing, as these three departments play important role in company's cash flow, one is control the income and expenditure, one is generating sales and another has big budget to spend in advertising and promotions

As an accountant by profession, Dato Abdullah not really believes in advertising expenditure, as it was so difficult to quantify the impact. His opinion to build customers' loyalty is nothing than to offer products at affordable price.

Dato Abdullah was surprised to acknowledge that Children Marketing unit alone was budgeted to RM5 Million in A & P, the amount is about equivalent to profit before tax to major listing company in the second board of KLSE

Though he heard about international praise on Children Marketing activities by Tricon, the franchisor based in Dallas, he was not too impressed with it, in fact he is thinking to scrap off the unit to improve the year end profit margin.

CORPORATE BACKGROUND –

KFC HOLDINGS (MALAYSIA) BHD

KFC come to Malaysia in 1973, the American franchise fast food since has expanding aggressively to become the largest Fast Food chain in Malaysia, it has 275 outlets with market share of 55% versus the closer competitor McDonald's of 130 outlets and 30% market share, A & W with 70 outlets and 16 % market share.

KFC Holdings (Malaysia) Bhd, the sole franchisee and operator of the fast food chain also ventures into other business such as chicken farm, fresh chicken retail, bakery and chilli sauce manufacturing. It is believed that the ventures will support restaurant demand as well as create opportunity for future cash flow.

The franchise has been profitable and dealing in cash business, it has gone through many ownership takeovers by corporate and big conglomerates such as Khong Guan Holding, MBF, MUI, Golden Plus and Leong Hup, the current controlled shareholder is Punca Ibarat Sdn Bhd. Each changes, the new management will implement new strategy and

policy that are different from previous, gratefully the senior executives have adopted well and deliver profit. Business growth as planned

Being one of the two markets that out perform McDonald's globally, another is KFC Thailand, KFC Malaysia has won numerous global award and enjoy prestige status as lead marketer in the eye of franchiser, Tricon Restaurant International USA. Thus there is always a pressure to be the best performer in both in marketing strategy and restaurant operations .

KFC Malaysia once again took the lead by starting up the first children marketing program in the Tricon system.

CHILDREN MARKETING

The idea to set up children marketing unit crossed marketing director's mind about six year ago, the marketing director , Mr. S K Wong joined KFC with twelve years experience in marketing children dairy products formerly working in multinationals like Nestle and Dutch Baby. He was inspired by a research findings sent by his former university professor, Dr James U. McNeal , professor of Marketing in Texas A & M University. Enclosed the research reports, the letter read as below

Dear S K Wong

In response to your request, let me share some interesting facts that might be useful to you, which I have spent my life in children marketing research:

- *There are only 2 sources of new customers for a firm; which is either switch them from competitors or grow them from childhood.*
- *Children directly influence over \$187 billion annually of parent purchase and indirectly influence at least \$300 billion. Such as food, beverages, entertainment apparel as well as household items in US.*
- *Advertising to children should utilize media and should be part of an integrated program utilizing public relations, event marketing, promotion and packaging.*
- *The firm that targets children as a market succeeded as they satisfy children's predominant needs, such as play, sentiment, affiliation, achievement, change exhibition and autonomy.*

USA being the most advanced and powerful country in the world has great influence in this part of the world, the US brands such as Jean, Coke, Hamburger and Hollywood movies had penetrated into everyone's daily life, the children market was just one of small chips

Marketing to children is relatively new, but many started a decade ago, such as McDonald's has started since 24 years ago, Lego and Mattel too have long history

Regards

James



INCEPTION OF KIDS' FUN CLUB

As briefed by Marketing Director, S K Wong, a couple of years ago, he started looking for a suitable person to assign of launching children marketing program, Mr Low Kang Moon was recommended based on his working experience and hard working attitude.

Mr. Low then worked with a group of staff and finally presented a working paper after a year. Among others, the objective of children marketing set as “ To strengthen brand loyalty with kids by reinforcing KFC’S brand personality of fun and emotive appeals that attracts” KFC came to another mile stone when it launched the KFC Kids’ Fun Club on 18 August 1994.

The purpose of the kid’s club is to build the brand loyalty between kids and KFC, as it was believed that if these young customers loyal to KFC, eventually when they grew up as teen and later on have their own family, they will still come back to KFC

The free membership was offered to any kids age 12 and below in Malaysia and Brunei, who signed up at KFC, instantly they would get their credit card look alike membership card with a goodies bag contains chocolate , button badge and stationery set. Kids club members enjoyed benefits like discounted purchase on kids’ club magazine, toys and parties specially organized by KFC.

Dato Abdullah noted membership reached 330,000 people and it is the largest kids’ club in Malaysia. However, no record can be traced if all these member are active, as

membership card did not come with magnetic strip nor smart chip, KFC restaurants too did not have the card reader to keep track the members' transaction.

S K Wong highlighted that the club did not mail any news letter to members due to the high cost of postage, restaurant that well spread in country act as information transmission point. The kids' club concepts had been adopted by KFC franchisor, Tricon Restaurants International and introduce to global market.

CHILDREN MARKETING AND PROMOTIONAL ACTIVITIES

In view of the encouraging response on kids club membership application, the previous managing director felt that it should explore further the potential market, in 1998 alone, one quarter of marketing advertising budget or RM5 million was allocated for children marketing. Below is outline briefed by S K Wong on kids' marketing activities that were launched progressively :

1. Warner Brothers licensing tie-up

Since 1994, KFC has signed up with Warner Brothers for licensing program, a sum of US\$100,000 license fee to be paid to US based consumer products and entertaining company to allow KFC to use the famous Looney Tunes characters in developing point of purchase materials, toys and stationery for kids' club member. The license thus gives leverage to KFC to work with world class production house on children marketing.

So far, the relationship going well, as it is win-win situation, where KFC capitalized the world famous characters for own marketing activities, on the other hand, it helps to promote the Warner Brothers characters to local market , which is currently lag behind by strong Disney's Mickey Mouse and some movie characters like Lion King, Alladin and Winnie the Pooh.

KFC has entered into the 5th year contract, and has intention to continue for another 3 years.

2. Kids Fun Club Magazine

The children magazine release 4 issues yearly, the quarterly publishing contains 60 pages comics , interesting story and activities, KFC food coupons, and contest with marvelous prizes. No advertising page found , except KFC products.

The magazine is also a communication channel, to updates latest happening of club to members, it was available to members at cost, however non members can purchase at much higher cost.

It is understandable that marketing personnel are not experts in children publishing, the magazine is contracted out to a well known local publishing house , the company handles concepts and creative development, editorial, colour

separation and printing jobs. The magazine is only available at KFC outlets, not on any newsstand or book shops.

Customers complained that the magazine's contents is deteriorating , and release date are not punctual , further more is one of expensive magazine in town.

3. TV2 cartoon sponsorship

It is believe that kids like cartoon program, KFC entered into contract with RTM to sponsor Warner Bros cartoon program that is on air 9.05 a.m. every Sunday called "What's Up Doc?" In between the one hour program, there were two hosts to interact and talk about kids' stuff.

The program was later changed to "KFC Hour" to further enhance KFC branding, S K Wong stressed that the selection of cartoon program must be careful, the selection strictly limited to those could cultivate family value and non-valence to reflect the KFC brand image.

The sponsorship cost is RM20,000 per week, it has been the top three kids' program across all TV station in Malaysia , claiming the average rating point of 13. The highest is Disney's Adventure of 18 rating point, the children show however is on Saturday morning at TV3.

However the past three month is a disappointment, the rating dropped to 8 point due to stiff competition from NTV7 which airs more violent and exciting cartoons during the same time belt with KFC Hour.

4. Restaurant Kids' Corner

Each restaurant had a build in display corner with notice board, special develop premium that would be displayed for member purchase. In addition the notice board served the purpose to update any latest news or happening to kids' club members.

The brand manager , Ang Sae Ming rightly said , it is difficult to maintain this corners, as suitable premium and toys are not easily available due to selection procedures, many managers seem want to have final say on criteria, designs, pricing.

Another issue is restaurants crews do not pay much attention on this display unit, as such in certain restaurant, the unit was empty, broken, dirty. It was an eye sore to certain senior management.

5. Kids' Fun Meal

Kids' Fun Meal was emulated from McDonalds Happy Meal, whereby, 4 combo meal comprised KFC food, Iced Milo, and a small Fun Fries were sold at special discounted price. A Free toy is given with every purchase.

Kids' Fun Meal was first launched in 5 June 1996, during the earlier stage, the price and menu kept changing to ascertain the comfortable profit margin, food combination and suitability of toy. Lately the kid's meal renamed Chicky Meal to reflect new image and new combos offers.

The kid's meal promotion launched every six weeks, with different toys sourced from Hong Kong, each was supported with 20 seconds TVC and full POP

McDonald's international has established Happy Meal promotion, whereby total order for toy reaching 60 million pieces for each global promotion, versus 300,000 pieces ordered by KFC Malaysia. Due to the little volume, KFC Malaysia could not enjoy economics of scale, many times, compromise on sub quality and high price due to limited choice.

6. Children Birthday parties

The parties would be organized upon request by parents. With minimum purchase of RM150 for 10 kids, KFC mascot-Chicky will make appearance in the parties which were conducted by hostess at selected restaurant.

The party program received average response due to poor publicity and also inexperience hostesses.

7. Mascot road show

With the permission of Warner Bros, KFC had organized many mascot appearances at various KFC outlets over all country.

Tweety bird, Bugs Bunny , Daffy Duck and Tasmania together Chicky had Visited many outlets to meet members, these were special and memorable occasions for kids

8. Underprivileged Children Fund (Tabung Penyayang KFC)

KFC has allocated RM 2 Million for charity course yearly, besides operating 3 hearing impaired restaurants. Management's philosophy is always want to be a good corporate citizen in line with government's campaign, whereby certain profit gain were donated to underprivileged group in Malaysian society, by doing so, KFC too gain a lot of favorable publicity.

Tabung Penyayang KFC or KFC Love and Care Fund is the latest charity program , the objective is to benefit the orphanages outside the Klang Valley ,

given that privileged peoples in major town are well take care off by other corporate companies.

The Tabung Penyayang KFC was launched in December 1997 by Minister of Welfare and Society Unity .In which , with every Kids' Fun Meal sold, KFC would donate 10 sen to the fund, alternatively customers can donate through little collection box display in front of restaurant cashiers.

The collection will then channel to needy orphanages homes, so far a sum of RM150,000 has been donated for the purpose.

MARKETING OPERATION AND SUPPORTS

Low Kang Moon, marketing manager heads the section currently ,he was also introduced to Dato Abdullah in the departmental meeting together with brand manager Ang Sae Ming and a marketing assistant Cik Haslina. The team had been working together since the inception of kids' Fun Club in1994.

Through their self introduction , it is known that their job function are meeting advertising agency, seeing premium suppliers, outlet visits and planning and execution of marketing program.

Their biggest frustration is inco-operative attitude of operation co-workers , they believe that they could come out marvelous marketing ideas, but without the supports from operation level, they can not succeed. Quoting so many incidents, the marketing team felt

that most of promotion activities fail due to inefficient of operation staff in carrying out the duty, such as displaying POP materials, suggesting selling, stocks projection and sales tracking.

Contrary to this, operations director has briefed Dato Abdullah Omar on another version of story, Dato was told that marketing department fail to focus the company objective, they strongly believe that KFC's main customers are adults, the parents has final say on children' orders, more over the children marketing program are no novelty , mostly are duplicate from competitors. The most serious is promotion brief always come late, they have no choice but to launch as plan, though there are a lot of constrains on training and logistic arrangement.

Operation personnel such Area manager and restaurant manager seemed never had high regards on this children program. Operation personnel felt that this was waste of time to do the child business, as a lot of manual work on kids club membership processing, selling kids' premium and maintenance of kid;s corner. With or without intentions, operations had not provide accurate sales reporting, membership application form to marketing Dept. said the brand manager.

Dato Abdullah wonders this could happen so long without solution, this project earned KFC a status of “ World Class Kid's Marketing “ and always receiving oversea delegates visitation, but in actual facts it is not as great as it looks to be. He plan to meet both marketing and operations directors separately to resolve the issues.

FINANCIAL IMPLICATION

Dato Abdullah interested to find out the return of investment, after all it has been around for about five years, some breakeven analysis should be conducted to justify its' existence

Table 1.1

A & P Budget and Sales tracking for KFC

Year	Chil. Mkt	KFC sales (serving)			Competitor sales		
	A & P Budget	Kids Meal	Toy	Magazine	Happy Me	McD Toy	Mickey Mgn
1994	200,000	0	20,000	80,000	200,000	500,000	30,000
1995	600,000	0	200,000	120,000	300,000	600,000	45,000
1996	2,000,000	500,000	300,000	80,000	500,000	700,000	45,000
1997	3,000,000	1,200,000	400,000	40,000	1,400,000	800,000	40,000
1998	5,000,000	2,800,000	450,000	40,000	3,200,000	900,000	35,000

Source: KFC internal

RESEARCH CONDUCTED

Brand Image Tracking (BIT) and Customer experience Monitor (CEM) are 2 tools developed by Tricon Restaurant International to monitor the brand power and customer satisfaction, both were formerly commissioned to AcNelsen and Sofres Nelson Reasearch.

Table 1.2

BRAND IMAGE TRACKING

Category: Place kid's

Year	KFC	VS	McDonalds'		KFC	vs	A & W
1994	Win		Lose		Win		Lose
1995	Win		Lose		Win		Lose
1996	Tie		Tie		Win		Lose
1997	Win		Lose		Win		Lose
1998	Tie		Tie		Tie		Tie

Table 1.3

CUSTOMER EXPERIENCE MONITOR

Category: Food kid's

Year	KFC	VS	McDonalds'		KFC	vs	A & W
1994	Lose		Win		Tie		Tie
1995	Win		Lose		Win		Lose
1996	Win		Lose		Win		Lose
1997	Win		Lose		Win		Lose
1998	Tie		Tie		Tie		Tie

Source: KFC

COMPETITORS ACTIVITIES

Mr Low Kang Moon has some things to boast about, as McDonald's and other competitors have reacted aggressively after he launched the kids' Fun Club :

McDonalds

The fast food chain too launched Ronald McDonald Kids' club in 1998, members were offered free fries and orange juice on each visit to McDonalds outlets. Subsequently, the chain introduced chicken combo in Happy Meal menu, iced Milo was an option to replace soft drinks.

Almost at the same time, McDonalds International signed up 10 years agreement with Disney to launch Disney series premium /toy in Happy Meal menu. The number of happy meal promotion was also increased from 8 to 10 per annum.

McDonald's also promoting birthday party package heavily by offering better prizes to birthday kids, other than that it also sponsors TV cartoon program too, but only limited to 13 weeks.

Ex marketing vice president from McDonald's Malaysia revealed to one of close friend in KFC that McDonalds International is eyeing on KFC Malaysia, because the success could have repercussion effects on their global market.

