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# Multibranding at Yum! Brands Inc.: Thinking Outside the Bun

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# Multibranding at Yum! Brands Inc.: Thinking Outside the Bun

## **Abstract**

[Excerpt] Multiple branding is likely to be a part of the future for all of the major players as they rethink their strategies. While McDonald's strategy has been to develop its brands separately, the company could capitalize on cobranding in the future. In contrast, Yum! Brands Inc. is betting on a multibranding strategy, in which the firm puts more than one of its brands into the same store in the hope of raising sales and leveraging operating efficiency. This Fortune 300 company, based in Louisville, Kentucky, is able to execute a multibranding strategy easily because it operates five well-known brands: A&W All-American Food, Kentucky Fried Chicken (KFC), Long John Silver's, Pizza Hut, and Taco Bell. Sales for the global system totaled \$24.2 billion in 2002, up from \$22.3 billion in 2001.

## **Keywords**

Yum! Brands, quick-service restaurants, cobranding

## **Disciplines**

Hospitality Administration and Management

## **Comments**

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# Multibranding at Yum! Brands Inc.: Thinking Outside the Bun

Cathy Enz, Cornell University

Intense competition, slow same-store sales, and a sluggish economy have plagued quick-service restaurant (QSR) chains for several years. By June 2003, McDonald's same-store sales had fallen for each of the previous twelve months, with the first quarter of 2003 producing McDonald's first quarterly loss since becoming a public company in 1965.<sup>1</sup> Based on fifteen years of market and demographic trends, McKinsey and Company consultants projected that the fast-food segment of the industry would grow revenues by just 1 percent a year over the next eight years, less than half the 2003 rate.<sup>2</sup> Among the largest restaurant chains, aggressive efforts to retain their market shares led to excessive discounting. To regain profitability, they have moved away from price discounting and are scrutinizing potential site locations, upgrading menus and decor, investing in training programs for crew members, and developing customer-loyalty marketing programs.<sup>3</sup>

Yum! Brands Inc., with three top-ten chains, is one of the major players in the highly competitive fast-food segment of the industry and is the world's largest restaurant company with 33,000 stores in more than 100 counties.<sup>4</sup> The other large holding companies with multiple brands include McDonald's Corporation, Diageo PLC, Brinker International, CKE Restaurants, Wendy's International, Darden Restaurants, Allied Domecq Quick Service Restaurants, Outback Steakhouse, and AFC Enterprises. Together these large companies account for \$107.5 billion in sales, or 51.8 percent of total restaurant industry sales.<sup>5</sup>

The top 400 largest chains reported a total sales gain of 5.6 percent in 2002 for a total of \$207.6 billion. McDonald's was at the top of the list with around \$40.5 billion in sales, followed by Burger King with \$11.3 billion. The third and fourth largest chain restaurants were Kentucky Fried Chicken (KFC) (\$10.3 billion sales) and Pizza Hut (\$7.8 billion sales), both owned by Yum! Brands.<sup>6</sup> While the burger segment is the largest, accounting for 33.7 percent of the top 400 chains' sales, the fastest growing segment is coffee/snacks, which includes concepts like Starbucks and Krispy Kreme Doughnuts.

The maturing of the fast-food industry has forced the key players to rethink their strategies and reinvent their operations. Management reorganization, new product development, aggressive marketing, and strategic redirection helped the industry leaders rebound in late 2003. McDonald's

same-store sales were flat in 2001 and dropped 1.5 percent in 2002. However, in October 2003 the corporation posted its strongest monthly U.S. sales gain in five years, with a 15 percent increase after an extensive global reorganization of senior management.<sup>7</sup> Wendy's International Inc. attributed customer response to the chain's new Homestyle Chicken Strips as one explanation for its reported same-store sales jump of 7.6 percent during the same period.<sup>8</sup>

In spite of recent sales turnarounds, some observers wonder if fast food will continue to prosper given changing consumer tastes and recent obesity lawsuits.<sup>9</sup> Burger King, the second largest fast food chain in the United States, has struggled recent years. Diageo PLC, an international brewing and spirits conglomerate, sold the chain in the fall of 2002 for a low price of \$1.6 billion.<sup>10</sup> In fact, an estimated 18 to 20 percent of Burger King franchisees were behind on royalty payments, although the chain was "encouraged" in 2003 by sales of the new low-fat chicken baguette line.<sup>11</sup> Nevertheless, one of Burger King's largest franchisees, AmeriKing, with 320 units, was in Chapter 11 bankruptcy in 2003 and intended to sell its entire portfolio of restaurants.<sup>12</sup>

The first Americans to grow up with fast food, the baby-boom generation (individuals born between 1946 and 1964), have matured and are seeking alternative dining options. The emergence and rapid growth of the "quick casual" segment is evidence of this trend. Quick-casual restaurants provide limited or self-service concepts, usually featuring "upscale" menu items such as gourmet soups, salads, and sandwiches.<sup>13</sup> As the baby boomers search for fresher and more nutritious food, fast casual chains such as Panera Bread Co., Atlanta Bread Co., Cusi Inc., Cafe Express LLC, Corner Bakery Co. and Pei Wei Asian Diner are capturing lunchtime. Most fast-food chains have responded by altering their menu items, adding salads, and changing ingredients. Market Fresh sandwiches, introduced by Arby's, and artisanal breads at Subway, Quiznos Sub, and Togo's Eateries are just a few examples of product innovations. In July 2003, Taco Bell introduced its "Outside the Bun" Caesar salad and a chicken Caesar grilled stuffed burrito. The burrito contains grilled all-white-meat chicken, romaine lettuce, crunchy red tortilla strips, and a Caesar dressing, wrapped in a tortilla.<sup>14</sup> Analysts attribute McDonald's line of premium salads as a major factor in its mid-2003 rebound.

As part of its strategy, McDonald's has made a variety of investments in fast-casual concepts, including the acquisition of Boston Market, Chipotle Mexican Grill, and Donatos Pizza. Boston Market, a quick-casual concept, was purchased in 2000, and McDonald's immediately began a turnaround effort that including remodeling stores and the menu. Russ Smyth, a senior manager responsible for the fast-casual activities at McDonald's, notes that these partnerships enable the firm to reach a different type of consumer. In reference to the healthy-dining consumer, "No matter what we do," he says, "we won't

be able to attract those people to the Golden Arches.”<sup>15</sup> McDonald’s also owns a 33 percent share in Pret A Manger, a fresh- sandwich concept, with an option to buy the chain outright in 2005.<sup>16</sup> With a recent revitalization plan, McDonald’s hopes to attract new customers, encourage existing customers to visit more often, and create brand loyalty. The plan includes upgrading service, improving training, and enhancing the taste and relevance of its food.<sup>17</sup> The chain will focus its brand loyalty on young adults, kids, and moms. Jim Cantalupo, McDonald’s chairman and chief executive officer, explained the plan as follows:

When we embarked upon our revitalization plan earlier this year, we announced that in 2003 we would sharpen our focus and take the actions necessary to optimize the business. We’ve made progress toward this goal with October marking the first full month that our unprecedented “i’m lovin’ it” campaign reached customers around the globe. This new brand positioning is bringing a new attitude and energy to life for our customers and crew. The management changes we announced earlier this week are another example of how we are making the best use of our talent and resources. During the fourth quarter, we will take additional actions to revitalize the business. These will include making decisions related to our Partner Brands and implementing the recently announced plans for revitalizing our business in Japan. These actions, along with the completion of annual impairment testing, will result in charges in the fourth quarter 2003.<sup>18</sup>

Multiple branding is likely to be a part of the future for all of the major players as they rethink their strategies. While McDonald’s strategy has been to develop its brands separately, the company could capitalize on cobranding in the future. In contrast, Yum! Brands Inc. is betting on a multibranding strategy, in which the firm puts more than one of its brands into the same store in the hope of raising sales and leveraging operating efficiency. This *Fortune* 300 company, based in Louisville, Kentucky, is able to execute a multibranding strategy easily because it operates five well- known brands: A&W All-American Food, Kentucky Fried Chicken (KFC), Long John Silver’s, Pizza Hut, and Taco Bell. Sales for the global system totaled \$24.2 billion in 2002, up from \$22.3 billion in 2001.<sup>19</sup>

Before May 2002, Yum! Brands Inc. was called Tricon Global Restaurants to represent its three major brands, Kentucky Fried Chicken, Pizza Hut, and Taco Bell. Tricon was established as an independent, publicly owned company when it was spun off from PepsiCo, which owned and franchised the three quick-service restaurant brands worldwide.<sup>20</sup> The name change to Yum! Brands Inc. came in March 2002 after the acquisition of Yorkshire Global Restaurants. With this acquisition, the company added two additional QSR brands: Long John Silver’s and A&W All-American Food. With five brands in

hand, the name change better reflects the entire portfolio of restaurants as well as the company's New York Stock Exchange ticker: YUM. Exhibit 1 provides a brief overview of the company's earnings per share (EPS).

### **Five Leading Restaurant Brands**

In 2002, Yum! Brands opened a record 1,051 new international system restaurants. Key to the company's continued growth, the international business represents 35 percent of system sales, 31 percent of revenue, and one-third of operating profits with about 12,000 restaurants, compared to McDonald's more than 16,000 units internationally.<sup>21</sup> McDonald's is considered the primary competitor internationally with earnings of over \$1 billion in international profit, compared to Yum! Brand's \$400 million and Burger King's \$50 million.<sup>22</sup>

The brands that drive international growth are primarily KFC with 6,800 restaurants and Pizza Hut with 4,400. With a goal of doubling the number of international restaurants by 2013, Yum! Brands is focused on China, Mexico, the United Kingdom, and South Korea. These four countries receive the majority of the firm's capital investments because of high returns.<sup>23</sup> Brand operations in China include approximately 800 KFCs and 100 Pizza Huts. The company has carefully positioned itself in China with the largest real estate team of any company in any industry and a distribution system that gives it coverage in every major province and hence access to most of China's 1.3 billion residents. Other parts of the world offer challenges, as the firm tries to get up to scale in Continental Europe, particularly in Germany with KFC, and in India with Pizza Hut. A recent joint venture in Brazil will help expand the KFC brand in South America.

Since 1999, the corporation has been strategically reducing its share of total system units by selling company-owned restaurants to existing and new franchisees. A total of 174 units were refranchised (sold) in 2002, although the bulk of refranchising was conducted in 2000, with sales of 757 restaurants, and in 2001 with sales of 233 units.<sup>24</sup> In addition, 224 restaurants were closed in 2002 because of poor performance or relocation. For several years Yum! Brands has worked to help franchisees struggling under high levels of debt. In 2001, it waived past-due royalties owed by overleveraged Taco Bell operators.<sup>25</sup> In addition, it sold or closed approximately 5,200 company-operated restaurants. The closing and selling of stores helped the company reduce the \$4.5 billion in long-term debt that it carried after being spun-off by PepsiCo in 1997.<sup>26</sup> In 2002, the company charged expenses of \$8 million to operating profit to allow for doubtful franchise and license fee receivables in the Taco Bell system. Compared to 2001, franchise and license expenses decreased by \$10 million or 18

percent in 2002, as a result of financial restructuring of certain Taco Bell franchisees in 2001. Overall, system sales increased by 9 percent to \$1,243 million in 2002, with same-store sales up 2 percent. Exhibit 2 provides a summary of operating performance.

	<b>YUM! BRANDS INC. EARNINGS PER SHARE FOR 2002 AND 2001</b>					
	2002	2002	2002	2002	2002	2001
	Q1	Q2	Q3	Q4	FY	FY
Ongoing operating EPS	\$ 0.40	\$ 0.45	\$ 0.49	\$ 0.56	\$ 1.91	\$ 1.61
Impact of NFAs	(0.02)	(0.02)	(0.03)	(0.01)	(0.09)	0.01
	<b>0.38</b>	<b>0.43</b>	<b>0.46</b>	<b>0.55</b>	<b>1.82</b>	<b>1.62</b>
Impact of unusu-als	0.02	0.02	0.01	0.01	0.06	—
<b>Reported EPS</b>	<b>\$ 0.40</b>	<b>\$ 0.45</b>	<b>\$ 0.47</b>	<b>\$ 0.56</b>	<b>\$ 1.88</b>	<b>\$ 1.62</b>

*Source:* Yum! Brands, "Investor Relations," <http://www.yum.com/investors/sss.htm> (December 2, 2003).

The corporation is divided into five divisions— A&W All-American Food combined with Long John Silver's, KFC, Pizza Hut, Taco Bell, and Yum! Restaurants International. Each division is led by a president, a president and chief operating officer, a president and chief concept officer, or, in the case of the international division, a chairman. The board of directors is composed of thirteen individuals, with two from Yum! Brands, five from retail companies like Target Corporation and Kohl's Supermarkets, and another five from banks or investment firms.<sup>27</sup> The other member is the chairman of the board of Harman Management Corporation, one of KFC's largest franchisees. David C. Novak, the chairman of the board and chief executive officer of Yum! Brands, served as president of the company and was a brand group president for KFC and Pizza Hut when they were owned by Pepsi-Cola.

Four of the Yum! brands are global leaders in their categories of chicken, seafood, pizza, and Mexican food. As a percentage of QSR category sales, Yum! Brands holds 65 percent in the Mexican-style category with Taco Bell, 46 percent in chicken with KFC, 33 percent in seafood with Long John Silver's, and, 15 percent in pizza with Pizza Hut.<sup>28</sup> Although a smaller player in the large hamburger segment, A&W is the longest-running quick-service restaurant in America. The top twenty-five quick-service chains' sales and unit volumes are shown in Exhibit 3. As the table indicates, four of the brands are in the top twenty-five in the quick-service sector.

**EXHIBIT 2 WORLDWIDE OPERATING RESULTS (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)**

	2002					2003		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Company sales	\$1,426	\$1,571	\$1,705	\$2,189	\$6,891	\$1,597	\$1,723	\$1,765
Franchise and license fees	188	196	210	272	866	205	213	224
Revenues	1,614	1,767	1,915	2,461	7,757	1,802	1,936	1,989
Food and paper	439	482	517	671	2,109	492	532	544
Payroll and employee benefits	395	422	457	601	1,875	450	473	473
Occupancy and other operating expenses	369	405	450	582	1,806	430	462	481
Company restaurant expenses	1,203	1,309	1,424	1,854	5,790	1,372	1,467	1,498
General and administrative expenses	182	215	219	297	913	203	208	212
Franchise and license expenses (b)	10	9	12	18	49	7	6	7
Other (income) expenses (c)	7	5	9	—	21	(4)	(2)	(7)
Refanchising net loss (gain) (c)	(3)	(3)	(3)	(10)	(19)	7	—	6
	1,399	1,535	1,661	2,159	6,754	1,585	1,679	1,716
Operating profit before special items (d)	215	232	254	302	1,003	217	257	273
Interest expense, net	34	33	45	60	172	42	42	39
Income tax provision	64	65	65	71	265	57	70	67
Earnings before special items (d)	\$117	\$134	\$144	\$171	\$566	\$118	\$145	\$167
Tax rate before special items (d)	35.3%	32.5%	31.0%	29.8%	32.0%	32.6%	32.3%	29.0%
Company sales	100%	100%	100%	100%	100%	100%	100%	100%
Food and paper	30.8	30.7	30.3	30.6	30.6	30.8	30.9	30.8
Payroll and employee benefits	27.7	26.9	36.8	27.5	27.2	28.2	27.4	26.8
Occupancy and other operating expenses	25.9	25.7	26.4	26.5	26.2	26.9	26.9	27.3
Restaurant margin	15.6%	16.7%	16.4%	15.4%	16.0%	14.1%	14.8%	15.1%

Source: Yum! Brands, "Investor Relations," <http://www.yum.com/investors/sss.htm> (December 2, 2003).



**EXHIBIT 3****TOP 25 QUICK-SERVICE/LIMITED-SERVICE CHAINS**

<b>Chain</b>	<b>2002 Sales (in millions)</b>	<b>Number of Units (as of 1/1/03)</b>
1. McDonald's	\$40,457.6	30,025
2. Burger King	11,300.0	11,400
<b>3. KFC</b>	<b>10,300.0</b>	<b>12,362</b>
<b>4. Pizza Hut</b>	<b>7,800.0</b>	<b>12,030</b>
5. Wendy's	7,500.0	6,253
6. Subway	5,773.0	17,558
<b>7. Taco Bell</b>	<b>5,400.0</b>	<b>6,432</b>
8. Domino's Pizza	3,961.7	7,230
9. Starbucks	3,382.0*	5,886
10. Dunkin' Donuts	3,000.0	5,500
11. Dairy Queen	2,730.0*	5,710
12. Arby's	2,695.0	3,403
13. Sonic Drive-In	2,243.0	2,576
14. Jack in the Box	2,239.6	1,871
15. 7-Eleven	2,118.5	5,823
16. Papa John's	1,857.6	2,792
17. Hardee's	1,813.6	2,229
18. Tim Hortons	1,700.0	2,348
19. Popeyes	1,432.0*	1,672
20. Chick-fil-a	1,372.8	1,074
21. Little Caesars	1,200.0	2,700
22. Carl's Jr.	1074.6	987
23. Baskin-Robbins	913.8	4,700
24. Church's Chicken	900.0*	1,481
<b>25. Long John Silver's</b>	<b>828.0*</b>	<b>1,249</b>

Source: "400 Rankings," *Restaurants & Institutions*, 15 July 2003 pg. 25.

\* *Restaurants & Institutions* estimate.

### *Kentucky Fried Chicken*

Kentucky Fried Chicken (KFC) was founded in 1939 by Colonel Harland D. Sanders, who pioneered what he called "Sunday Dinner, Seven Days a Week" and what is now frequently referred to as "home meal replacement"—selling complete meals to carry out.<sup>29</sup> KFC specializes in chicken dinners that include Original Recipe, Extra Crispy, Twister, and Colonel's Crispy Strips chicken with a variety of "home-style" sides. More than 300 other products, such as Chunky Chicken Pot Pie in the United States and a salmon sandwich in Japan, are offered in various locations worldwide.

Franchising began in 1952, and the unit count had risen to 6,600 units by the time KFC was acquired by PepsiCo in 1986.<sup>30</sup> Now almost eight million customers are served daily in the more than

11,000 restaurants. This long-established brand is located in more than eight countries and territories. Trying to differentiate the brand from other QSR products, in 2002 the company introduced the “There’s fast food. Then there’s KFC” advertising campaign with Jason Alexander, a well-known actor from the *Seinfeld* show. In spite of these efforts, sales remained flat. Entering 2003, the entire QSR segment came under harsh criticism by activists who claimed the rise of obesity in children is attributed to meals that are high in fat and calories. In an effort to present its chicken products as “healthy,” KFC developed an advertising campaign that has many crying foul. KFC began in late 2003 airing a national advertising campaign that identifies the fried chicken products as low fat. In the advertisements KFC Original Recipe Chicken Breasts are compared to Burger King Whoppers. A company press release stated:

“We want to set the record straight. Consumers should no longer feel guilty about eating fried chicken,” said Scott Bergren, KFC’s Executive Vice President, Marketing and Food Innovation. “Consumers will be surprised to learn they can enjoy fried chicken as part of a healthy, balanced diet. Of course, they should eat all food in moderation, and balance that with an appropriate amount of exercise—it’s all about energy in, energy out.”<sup>31</sup>

Many have criticized KFC for jumping on the healthful-alternatives bandwagon without having a healthful product. An editorial in *Advertising Age* characterized the ad campaign as “laughable, and damaging.” The editorial called for the ads to be pulled off the air immediately. As the editorial suggested, “In the long history of absurd, misleading and ludicrous ad claims, the campaign’s positioning of KFC’s breaded, fried chicken as a part of a healthy diet merits special derision. It damages the credibility not just of KFC but of the entire marketing industry.”<sup>32</sup> A 6 percent decline in same-store sales was reported by KFC for September 2003 compared to the previous year.<sup>33</sup> The troubles may not stop there; the U.S. Federal Trade Commission (FTC) is investigating the television commercial’s claims, asking the company to explain and justify with evidence the claim that its products can help consumers eat more healthfully and lose weight.<sup>34</sup>

### *Pizza Hut*

Pizza Hut, the recognized leader in the \$33 billion pizza category, is the largest pizza restaurant chain in the world, with 10,600 units in more than 100 countries; more than 6,600 units are in the United States. The company was named Best Pizza Chain in America in a national consumer survey published by *Restaurants & Institutions* magazine. Like many restaurants started by entrepreneurs, the company began when two college-age brothers borrowed \$600 from their mother to purchase second-hand equipment and rent a small building on a busy intersection in Wichita, Kansas.<sup>35</sup> The year was

1958, and the concept of a pizza parlor was new but promising. A year later the first franchise unit was opened, and the first international restaurant opened in 1968 in Canada. Units in Mexico, South America, Australia, Europe, the Far East, and Africa were quick to follow. Nearly 3,200 units were in operation by 1977, when PepsiCo acquired the company.

Pizza Hut is known for six core pizzas: Pan Pizza, Thin 'N Crispy, Hand-Tossed Style, Stuffed Crust, The Chicago Dish, and The Big New Yorker. The company continues to refine and develop products, including the Fit 'N Delicious Pizzas. These pizzas have half the cheese of the regular Thin 'N Crispy recipes, generous portions of tomato sauce, and toppings that include lean meats and fresh vegetables. Fitting in with the trend for lower-fat foods, a slice contains only 3.5 to 5 grams of fat, depending on the selection of available toppings— according to the company, that is 25 percent less fat than a regular recipe, Thin 'N Crispy pizza.

### *Taco Bell*

Taco Bell was started in 1962 by Glen Bell in Downey, California. Until the company went public in 1966, the banks would not lend the company money and financing was often secured by private borrowing.<sup>36</sup> A former Los Angeles policeman, Kermit Becky, bought the first Taco Bell franchise in 1964. This store did tremendous volumes from the beginning, inspiring other franchisees, as Becky himself frequently cleared \$10,000 in one month. In 1975, Glen resigned as chairman of the board, and three years later, he sold Taco Bell's 868 units to PepsiCo, Inc.<sup>37</sup> The deal made Glen Bell a major PepsiCo shareholder and an enormously wealthy man.

A variety of innovations followed in the 1980s, including the installation of drive-through windows, value pricing, and free drink refills. Taco Bell's compact carts, kiosks, and in-line units begin appearing in airports, gas stations, retail stores, cinemas, stadiums, and schools in the early 1990s. These Express businesses provided Taco Bell food in a variety of locations that would not merit a full-store operation.

With 6,000 restaurants in the United States and more than 35 million consumers served each week, Taco Bell generated \$5.4 billion in systemwide sales in 2002. Like the other brands in the company, Taco Bell has introduced a variety of advertising campaigns, including the popular talking Chihuahua campaign. This effort received the advertising industry's highest honor, the EFFIE, in 1998.

### *Long John Silver's*

The recently acquired Long John Silver's brand is the largest quick-service seafood chain, with more than 1,200 units and 14,000 employees worldwide. This seafood concept, begun in 1968, was

inspired by Robert Louis Stevenson's classic book *Treasure Island*. The restaurants offer seafood prepared in a secret batter of wheat, corn, and other natural ingredients.<sup>38</sup> As the concept grew, the menu expanded beyond the familiar hush puppies and batter-dipped fish, chicken, and shrimp to include sandwiches, salads, and desserts. One new promotional item in stores during the fall of 2003 was lobster-stuffed crab cakes. While one of the smaller brands in the Yum! corporation, Long John Silver's serves 3.8 million customers per week and sells 45 million pounds of fish per year.<sup>39</sup>

For years Long John Silver's was a publicly traded company called Jerrico Inc. A leveraged buyout in 1989 led by the company's senior management and a New York investment firm resulted in the company's becoming private.<sup>40</sup> The next year the company's other restaurant concepts were divested and the firm devoted all of its resources to the operation of Long John Silver's. A decade later, Long John Silver's merged with A&W Restaurants, resulting in the creation of Yorkshire Global Restaurants.

#### *A&W All-American Food*

It was 1919 when, using a formula he had purchased from a pharmacist in Arizona, Californian Roy Allen made a batch of creamy root beer, selling the first glass for a nickel.<sup>41</sup> Allen took on a partner, Frank Wright, and together they started America's first fast-food chain, A&W, in 1923 in Lodi, California. By 1933, there were more than 170 franchised outlets operating in the Midwest and West. Allen retired and sold the business in the early 1950s to a Nebraskan named Gene Hertz who formed the A&W Root Beer Company with more than 450 A&W restaurants nationwide. The company was sold in 1963 to the J. Hungerford Smith Company, which had manufactured A&W Root Beer concentrate since 1921. A few years later the company was purchased by the United Fruit Company of Boston. In 1970, United Fruit was acquired by the AMK Corporation, which formed a new corporation, United Brands Company. A&W was sold again in 1982 to A. Alfred Taubman, a developer of shopping centers and real estate. In 1994, Sagittarius Acquisitions, Inc., headed by Sidney Feltenstein purchased the company from Taubman. Yorkshire Global Restaurants was created in 1999, following the merger of Long John Silver's and A&W All American Food Restaurants. Yorkshire, becoming the parent company for both brands in 2000.

### **A Strategy for Growth**

The vision of Yum! Brands Inc. is to offer customers food they crave so that they will return again and again, while using customer-focused teams. With 750,000 associates worldwide, customer service training is a key priority. The company developed a program called CHAMPS to guide operations training. CHAMPS stands for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality, and

Speed. The company has developed a “Customer Mania” training program that its proponents argue puts process and discipline around all aspects of operations related to customer satisfaction.<sup>42</sup> The skills managers are teaching the front-line team members include how to listen to the customer, how to be empathetic to customer needs, how to exceed expectations within reason, and how to recover from mistakes.<sup>43</sup> To guide employees, Yum! has developed a list of founding truths (see Exhibit 4) and a statement of how employees work together (see Exhibit 5).<sup>44</sup>

Customer Mania includes a CHAMPS Excellence review, in which 150 of the company’s best managers are sent out to the restaurants to inspect the stores and ensure that the CHAMPS standards are being met. The company has made an \$18 million investment in this training program in the hopes that it will give the firm a competitive advantage. Aylin Lewis, chief operating officer of Yum!, notes, “Typically you see a company roll something out, and that’s the end of it. We will be training four times a year. This is a permanent commitment to quality training. Once is not going to be enough.”<sup>45</sup>

The entire fast-food industry struggles with poor customer service. For example, in a company memo sent to a McDonald’s franchisee, the following message was bluntly summarized:

We are meeting our speed of service standard only 46% of the time, and 3 out of 10 customers are waiting more than four minutes to complete their order. Our 800 number has confirmed that... the number of complaints ... for rude service, unprofessional employees and inaccurate service has risen steadily.<sup>46</sup>

#### **EXHIBIT 4    FOUNDING TRUTHS**

### **Our Founding Truths**

People Capability First . . . satisfied customers and profitability follow  
Respond to the Voice of the Customer . . . not just listen  
The RGM is Our #1 Leader . . . not senior management  
Run Each Restaurant Like It’s Our Only One . . . avoid the trap of the averages  
Recognition Shows You CARE . . . people leave when you don’t  
Great Operations and Marketing Innovation Drive Sales . . . no finger pointing  
Operation Discipline Through Process and Standards . . . consistency—not “program of the month”  
Franchisees are Vital Assets . . . operate as one system, not two  
Quality in Everything We Do . . . especially the food

*Source:* Yum! Brands, “Yum! Values,” [http://www.yumcareers.com/yumvalue\\_framesetup.html](http://www.yumcareers.com/yumvalue_framesetup.html) (December 2, 2003).

The Hardee’s chain also has a new program that focuses on employee training. Andrew Puzder, the president and CEO of CKE, has made a commitment to customer service in the poorly performing Hardee’s chain. He notes, “Our program focuses on taking care of the customer. It’s our only solution.

The fact is that if the customer comes in and the restaurants aren't ready, the customer isn't coming back. We want people to have an opportunity to find out how good our food is. So our emphasis now is on training, changing the culture, and paying more attention to cleanliness and service."<sup>47</sup> According to industry watchers, it's about time, while Hardee's franchisees are mixed on CKE's efforts. In contrast, Yum! is getting results. One Taco Bell restaurant manager from Florida described the Customer Mania program as follows:

Customer Mania has provided us with a super edge in hiring great Team Members and in keeping the great ones we've put so much effort into training. We're building a reward and recognition culture, one that gets our team pumped up and excited about satisfying each and every customer. It's a great culture we're creating and it makes a big difference in the store day to day and makes people want to stay.<sup>48</sup>

## **EXHIBIT 5 HOW WE WORK TOGETHER**

### **How We Work Together**

#### **Customer Mania**

We not only listen and respond to the voice of the customer, we are obsessed to go the extra mile to make our customers happy.

#### **Belief in People**

We believe in people, trust in positive intentions, encourage ideas from everyone and actively develop a workforce that is diverse in style and background.

#### **Recognition**

We find reasons to celebrate the achievements of others and have fun doing it.

#### **Coaching and Support**

We coach and support each other.

#### **Accountability**

We do what we say, we are accountable; we act like owners.

#### **Executional Excellence**

We beat year ago results by continuously improving and innovating. We follow through with daily intensity.

#### **Positive Energy**

We execute with positive energy and intensity ... we hate bureaucracy and all the nonsense that comes with it.

#### **Teamwork**

We practice team together, team apart after productive conflict.

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Source: Yum! Brands, "Careers at Yum!," [http://www.yumcareers.com/yumvalue\\_framesetup.html](http://www.yumcareers.com/yumvalue_framesetup.html) (December 2, 2003).

Yum! hopes to become the best restaurant operator in the world through the execution of the Customer Mania program. This program is viewed as an important strategy implementation activity, while five long-term growth drivers help shape corporate strategy. Below are the five dimensions believed to be essential to corporate progress and growth.

1. *International Expansion:* Yum! Brands' number-one goal is to drive global expansion with its category-leading brands. In 2002, the company opened a record 1,051 international restaurants and increased international system sales 9 percent prior to foreign currency conversion.
2. *Multibrand Expansion:* Yum! Brands is the worldwide leader in multibranding, offering consumers more choice and convenience at one restaurant location from a combination of two of the company's brands. The company and its franchisees operate more than 1,975 multibrand restaurants, generating \$2 billion in annual system sales. Approximately 350 systemwide multibrand restaurants were opened in 2002.
3. *Portfolio of Leading Brands:* U.S. systemwide same-store sales increased approximately 4 percent in 2002 while U.S. same-store sales at company restaurants increased approximately 2 percent.
4. *Global Franchise Fees:* Global franchise fees, a significant factor in annual profits and cash flow, grew 6 percent to \$866 million in 2002. Global franchise net restaurant growth was 2 percent.
5. *Strong Cash Generations and Returns:* Yum! Brands generated \$1.3 billion in cash from all sources in 2002, more than fully funding capital expenditure needs, allowing free cash flow for share repurchase and some repayment of debt. Return on invested capital is 18 percent, in the restaurant industry's top tier.<sup>49</sup>

Accomplishing the growth that Yum! envisions will require careful measurement and attention to performance results. To benchmark its performance, the company has identified five key measurement areas, shown in Exhibit 6. Adding more multibrand units is one of the key performance targets.

### **Transforming the Industry through Multibranding**

Higher unit volumes are at the heart of the corporate multibranding strategy. For years, McDonald's has been the envy of the industry with twice the volume of the typical KFC or Taco Bell. McDonald's has seven types of food (burgers, chicken, fish, salads, eggs, waffles, and pancakes), but KFC and Taco Bell are each focused on one food category. No one looks for a KFC or Pizza Hut burger. According to Dave Deno, chief financial officer at Yum!, "The biggest thing that multi-branding offers is the chance to leverage our existing assets that have lower volumes than say a McDonald's for instance."<sup>50</sup> Early efforts at cobranding were combinations of KFC-Taco Bell and Taco Bell-Pizza Hut. The

net result of these efforts was the addition of between \$100,000 and \$400,000 per unit in average sales increases. One franchisee, Larry Durrett, president of Southern Multifoods, Inc., opened the first cobranded Taco Bell-Long John Silver's and explains why multibranding is such a powerful idea for franchisees.

Multibranding has a dramatic impact on the customer. It's a barrier-breaker for families, meaning that sometimes kids like to eat different things than adults. If you've got an A&W/Long John Silver's, like we do in South Texas, you can see how it offers something for everyone. More globally, though, if you have a KFC/Taco Bell, you might get someone who wants a taco one day and who will come back the next day for chicken. When we add volume to these restaurants through multibranding, we add incremental profits that we could not have gotten any other way. For example, if you take a good restaurant—like a \$900,000 Taco Bell—and add a \$400,000 Long John Silver's, you have added incremental profits that would be impossible to get any other way.<sup>51</sup>

Soon the company began to try combinations of KFC and Taco Bell with Long John Silver's and A&W. Before the acquisition of Yorkshire Global Restaurants, the two parent companies engaged in four years of partnering with multibranding. Testing the concept with eighty-three KFC-A&W units, six KFC-Long John Silver's operations, and three Taco Bell-Long John Silver's gave Yum! an opportunity to experiment with the concept. It was not until the concept had yielded positive results that Yum! Brands acquired Yorkshire Global. Yum! CEO David Novak plans to aggressively drive Yum!'s growth with multibranding, arguing, "Multibranding is going to transform the industry. Consumers do want more choice."<sup>52</sup> Now with the addition of the two new brands, the company gained the advantage of attracting franchisees with even more brands under the same corporate entity.

While Yum! Brands is the most aggressive company to use this strategy, Allied Domecq PLC has combined its Baskin-Robbins, Dunkin' Donuts, and Togo's Eateries into a single location to boost lunch business. Carl's Jr., a regional brand operated by CKE Restaurants, has cobranded with Santa Barbara Restaurant Group's Green Burrito chain to enhance its dinner business. Both of the parent companies of these brands share the same chairman, William Foley.<sup>53</sup> For McDonald's, "It is certainly a matter of when, not if," it experiments with multibranding, according to a spokesperson for the company back in 2001.<sup>54</sup> The time appears to be now, as McDonald's began in 2003 to experiment with new concepts in existing stores. Eleven units in Indiana have added a diner, and one unit in Nebraska has a three-in-one concept with a McDonald's traditional menu, an upscale sandwich shop, and a separate treat area with baked goods and desserts.<sup>55</sup> Indeed, the chairman of Yum! Brands may be correct that multibranding



will be the biggest sales and profit driver for the fast-food segment since the advent of the drive-through window.

The benefits of multibranding include increasing sales volumes and unit profitability. Yum! reports that each time it combines brands in a unit, sales have jumped 30 percent.<sup>56</sup> In addition, putting two or more concepts under the same roof can spread business out during several parts of the day. For Allied Domecq, the addition of the Togo's chain allowed them to move beyond impulse snack or breakfast items into lunch and dinner periods. By offering two or more brands these companies can also enter into smaller trade areas with expensive real estate. "Now we can go into trade areas that we couldn't go into with an individual brand," notes Chuck Rawley, chief development officer for Yum!<sup>57</sup> Sharing crew, storage, and production space permits a more efficient use of the asset.

The dramatic improvements in unit sales and the need to modernize and remodel outdated stores have motivated Yum! Brands to remodel much of its existing asset base. Unit design in the past had been decentralized to the brand level, but in 2002 it was centralized with the creation of a new corporate position, senior vice president for concept design and multibranding.<sup>58</sup> Design is now connected to brand marketing and consumer preferences rather than a development function.

Multibranding is not without challenges. Potential problems may include encroaching on existing units' sales, and the ability to operate substantially more complex store level operations. While encroachment does not appear to be a serious issue, execution of these new concepts is. To handle the needed operational capability to operate more complex restaurants the company has developed simplified operating and training systems.<sup>59</sup>

The goals, as stated by CEO David C. Novak, are to take both KFC and Taco Bell to the distribution levels of Burger King, which has 8,000 units in the United States and to have volumes of at least \$1.1 million per restaurant.<sup>60</sup> The company operates more than 1,975 multibrand restaurants worldwide, which generate sales of \$1.2 billion each year. It hopes to more than triple its cobranded units by 2007.<sup>61</sup> Exhibit 7 shows the number of multibranded restaurants by concept combination.

The latest experiments include the partnering of Pizza Hut with the fifteen-unit fast-casual Pasta Bravo chain, headquartered in Aliso Viejo, California.<sup>62</sup> Pasta Bravo serves a variety of freshly prepared pasta dishes family style. Menus include a \$12.95 bucket of spaghetti and meat sauce serving four to six people. The partnership is in the form of a licensing agreement, in which limited tests in primarily franchisee-operated dine-in units will determine whether this pairing is viable for expansion.

**EXHIBIT 7 NUMBER OF MULTIBRANDED UNITS**

	Worldwide							
	2001	2002				2003		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>KFC</b>								
Taco Bell	665	665	673	690	703	708	714	719
Pizza Hut	183	186	191	208	229	239	240	244
A&W	71	81	94	118	161	182	199	230
Taco Bell/Pizza Hut 3'n'1	45	48	49	50	51	50	51	52
Long John Silver's	5	6	7	7	12	16	19	35
Chock Full o' Nuts	3	2	—	—	—	—	—	—
Wing Works	1	1	13	16	24	24	26	26
<b>Total</b>	<b>973</b>	<b>989</b>	<b>1,027</b>	<b>1,089</b>	<b>1,180</b>	<b>1,219</b>	<b>1,249</b>	<b>1,306</b>
<b>Taco Bell</b>								
Pizza Hut	554	574	587	608	608	610	614	625
Long John Silver's	2	3	3	5	7	21	21	26
Backyard Burgers	—	—	1	2	3	3	8	8
A&W	—	—	—	—	—	1	2	2
<b>Total</b>	<b>556</b>	<b>577</b>	<b>591</b>	<b>615</b>	<b>618</b>	<b>635</b>	<b>645</b>	<b>661</b>
<b>Pizza Hut</b>								
KFC	—	—	1	1	1	1	1	1
Taco Bell	—	—	5	5	5	5	6	6
Wing Works	—	—	—	—	1	3	3	3
Pasta Bravo	—	—	—	—	1	1	3	3
Wing Streets	—	—	—	—	—	—	2	29
Backyard Burgers	—	—	—	2	2	2	2	—
<b>Total</b>	<b>—</b>	<b>—</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>12</b>	<b>17</b>	<b>42</b>
<b>Long John Silver's</b>								
A&W (a)	—	—	133	149	167	171	174	196
<b>Total</b>	<b>1,529</b>	<b>1,566</b>	<b>1,757</b>	<b>1,861</b>	<b>1,975</b>	<b>2,037</b>	<b>2,085</b>	<b>2,205</b>

Source: Yum! Brands, "Investor Relations," <http://www.yum.com/investors/sss..htm> (December 2, 2003).

### The Future

Should Yum! Brands partner or acquire another quick-service or a fast-casual chain? What would be a good menu category to add to the current portfolio? "If you pair a hot emerging brand with a proven one, in a real estate context that already has strong drawing power, you can take advantage of complementary natures for frequency, reach and freshness," according to Sarah Palisi-Chapin, CEO of the restaurant research and development firm Energyst.<sup>63</sup> While the fast-food industry struggles to reinvent itself and hold on to the affluent, quality-driven baby boomers, new concepts may need to be developed for the emerging Generation X and Y palates. If so, how should Yum! Brands experiment with its multiple branding?

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