

When Eat Meets West

Can a Kentucky fast-food company bring Chinese food to China—and tacos to Mexico? Call it to the “glocalization” of cuisine

By **LISA TAKEUCHI CULLEN**

WITH ITS CHINESE LETTERING AND UNREMARKABLE name, the fast-food outlet in a Shanghai shopping mall looks like many others selling local fare. East Dawning is crowded with customers on this winter evening, and they're sampling a menu that includes pork fried rice, marinated egg and plum juice. Stanley Yao, a restaurateur from Hong Kong who is opening a sushi joint nearby, dines here once a month. The food is “a little too oily,” he says, but he likes the soy-milk drinks, and “the prices, of course, are very reasonable.” (A meal of noodles, tea and custard dessert costs \$4.) With eight storefronts around Shanghai, East Dawning could soon give China's biggest fast feeder, KFC, a run for its money. Good thing for them they're playing on the same team.

Starbucks has the gall to sling its lattes for coffee connoisseurs in Vienna, and Budweiser peddles its brew in Belgium. So why shouldn't Yum Brands—the Louisville, Kentucky-based company that owns KFC, Pizza Hut, Taco Bell and more—sell dumplings in a fast-growing market where Chinese food is just called food? Yum's iconoclastic CEO, David Novak, likens it to how Ray Kroc of McDonald's brought hamburgers to America. “I asked, What's the hamburger in China?” He says, “Obviously, it's Chinese food.” Except Kroc was an American selling American food to Americans. Is this brilliant, or is Novak half-Kroc-ed?

Since it was spun off from PepsiCo in 1997, Yum has radically transformed its overseas business. With Americans stuffed on fast-food options and domestic sales growth a skinny 2% annually, companies like Yum must go global to give Wall Street what it craves. Ten

years ago, Colonel Sanders was losing the global fast-food war to the Golden Arches. PepsiCo had spread its restaurant division too thin, planting capital-consuming, company-owned-and-operated stores in 32 countries instead of franchising them as it does in the U.S. A decade ago, stores overseas brought in less than 20% of profits; today it's 50%. In 2006 the company earned \$824 million in net income on total revenue of \$9.6 billion.

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KFC and Pizza Hut restaurants now number more than 12,000 in 110 countries outside China, says Graham Allan, president of Yum Restaurants International (YRI). And then there's China, where Yum is so big that it has reported earnings separately since 2005. Profits from Yum's restaurants in China, Thailand and Taiwan popped 37% in 2006,

while all other international profits grew 11%, domestic a mere 3%. A KFC opened nearly every day in China last year, and KFCs and Pizza Huts now number more than 2,300. (McDonald's has about 1,000 restaurants, not that Yum keeps track.) Sam Su, who runs Yum in China, projects 20,000 stores someday. “We're nowhere close to saturation at all,” he says. “The sky is the limit.”

As millions of Chinese find their wealth swelling and their time shrinking, sit-down meals involving several generations no longer fit the needs of a hurried and harried middle class. “The lifestyle is changing,” says Su. “People are getting more urbanized and busy, with less time to cook at home.” KFC's grab-and-go menu items were a novel solution, while Pizza Hut launched the concept of eating out at a casual restaurant with the whole family. KFC opened its first drive-through in 2002 just as China was becoming a car-owning culture. In 2001 Pizza Hut Home Service began introducing the idea of hot meals delivered to the door. That concept

may seem ironic to Americans, for whom Chinese food is the ultimate delivery meal.

Pizza and fried chicken are tasty treats, but they're not staples in China like, say, noodles and dumplings—and that's where Yum thinks it can really score. And if a Yank selling egg rolls to the Chinese seems a bit impractical, then Novak, 55, is the right man for the job. The CEO of Yum since 2000, he's a plain-talking, cheerleading executive who boasts of never having attended business school. He's given to goofy team-building tactics like passing out rubber chickens (and \$100) to KFC managers whose stores are performing well. A former \$7,200-a-year advertising copywriter, Novak took his marketing chops to PepsiCo in 1987. Though he suffered his biggest failure there—Crystal Pepsi, which he still contends was the right idea at the wrong time—he was handed the reins to the KFC and Pizza Hut units in 1996. He chronicled a childhood spent in 32 trailer parks and an otherwise unconventional path to the corner office in a 2007 book titled *The Education of an Accidental CEO*.

This time, Novak's idea might be the right one at the right time. The menus at East Dawning restaurants don't offer overtly American fare but still attract Chinese consumers because of the quality and service associated with an American brand. The formula developed by Yum's other banners overseas—cheap food delivered in cheerful surroundings—has provided a welcome mat for the company. Diner Frank Li, a project engineer on a trip from Suzhou, says the restaurant's link to KFC and Pizza Hut is a draw, not a drawback. "Those places are good quality," he says. "You know what you're going to get. They are a very professional company that must know what it's doing, and I think the quality here shows that."

The success of Yum in China hasn't come without some controversy, however. Fast foods—even those that mimic local cuisines—represent a dramatic change in

diet for many cultures. "When you offer high-calorie food to a thin population, they go from small to large very quickly and begin to develop signs of heart disease, diabetes and high blood pressure at much lower weights," says Marion Nestle, a New York University professor and the author of *Food Politics*. "You can expect to see these problems in India and China in very short order."

For its part, Yum argues that it's not exporting fatty foods so much as offering tasty options to the global public. "The answer to the nutrition issue is balance and exercise," says Novak, pointing to a basketball tournament sponsored by KFC in China and a menu there that includes healthier alternatives like roasted chicken. In fact, the roasted menu items are such a hit in China that Yum executives are testing them out in the U.S. It's an interesting twist: Yum is looking to the soaring international business to expand its appeal at home. What about bringing its Chinese-food chain to the U.S.? "Now that," says Novak, "would be a Class A opportunity." To put it another way, that's thinking outside the sticky bun. ■

Questions

1. Why is China's middle class now finding fast food outlets appealing?
2. What are some drawbacks to covering China with fast-food outlets?

QUICK SERVICE

East Dawning's menu features local favorites on the cheap:

- Sweet-and-sour pork ribs19 yuan (\$2.60)**
- Fried eel20 yuan (\$2.75)**
- Ground meat and chicken wings19 yuan (\$2.60)**
- Spicy beef with noodles20 yuan (\$2.75)**
- Crispy wok-fried chicken19 yuan (\$2.60)**