

Yum Brands: Expansive Interview With Public Affairs Chief Reveals Company Priorities

Summary

- China and other developing countries, not the U.S., are the priority for Yum Brands.
- Taco Bell's new breakfast menu is "off to a great start."
- Taco Bell is "aggressively" using social media.
- WingStreet is "a big part of the Pizza Hut business" and will be expanding.

This is the first of a two-part series following Yum Brands' (YUM) 2014 first-quarter earnings release on Tuesday, April 22nd. I had the opportunity to interview Jonathan Blum, Senior Vice President, Chief Public Affairs and Global Nutrition Officer at Yum Brands after the company's earnings call, and I asked him questions about the company's regional priorities, a new chicken concept being tested in Texas, Taco Bell's new breakfast menu, and more. What follows are my questions and Mr. Blum's responses. In my next piece, I will provide analysis and commentary on our conversation.

Denise Lee Yohn: Your earnings report emphasized a lot of international growth. I'm curious to hear your point of view on international versus U.S. domestic. Is the U.S. market nearing saturation?

Jonathan Blum: No. We actually have what we call small box concepts that we're expanding in the United States. Pizza Hut and K.F.C. will have them at some point. Taco Bell is currently going the market with these smaller box concepts.

We obviously have more restaurants here than we do outside of the United States. We had a head start here for many years with the brands. They were all born here. They've been around for over 50 years. Many of our restaurants are in the U.S. In the United States, there are 58 Yum restaurants per million people. Outside of the United States, we only have two restaurants per million people in the top ten emerging markets. You can see what the potential is in these emerging markets.

In China, there are 1.3 billion people. There are considered today to be 300 million people in the consuming middle class. That number is expected to grow to 600 million people by 2020. Those are the consumers who are able to afford our food. We obviously are under-penetrated in that market. We're going to open over 700 new restaurants this year alone in China. So there's a great opportunity there for our growth.

India also has 1.3 billion people. In India, we only have a total of just over 700 restaurants. Again, the consuming class is a couple hundred million people. So you can see just in those two markets.

Any of the BRIC nations plus Africa is where you'll see a lot of our growth.

DLY: Getting back to the domestic question. In the quick-serve category in general, there has been a lot of growth in the fast casual segment, but doesn't seem like Yum is interested in playing in that segment. Why not?

JB: We've got three great global powerhouse brands. Two of them are global today. One has the potential to become global, Taco Bell. We see a lot of growth with those brands. We don't see any reason to expand outside of those brands.

DLY: So you think that the traditional fast food model is still viable relative to fast casual?

JB: Yeah, absolutely. Again my numbers are a little screwed up, I'm sure, but there's something like eight billion people on this planet, and seven billion of them are not impoverished. So seven billion of them are consumers of some kind. Not all of them are able to afford our food, but a number of them are.

We have 40,000 restaurants, but we have a long runway for growth. We have lots of opportunity outside the U.S. We still have opportunity inside the U.S.

DLY: So picking up on something that you said about your three great powerhouse brands. Why are you testing a Super Chix concept in Texas? [Ed. Note: Earlier this month, Yum revealed it had opened a test restaurant in Arlington, TX, featuring a menu very similar to the Chick-fil-A.]

JB: It's funny that people are so fascinated with Super Chix. It's one restaurant out of 40,000 that we have around the globe. I'm not sure why people are fascinated by it. We've done this multiple times. We view it as an incubator. We have a new concept team. That's their job to explore new product concepts and new restaurant concepts just to see whether or not any of the products can translate into our brand. Or if it does well, we would consider opening that concept internationally. Super Chix is brand new. It just opened.

DLY: You would consider opening the Super Chix internationally, is what you're saying?

JB: If it does well. We're two weeks into it. It's done very well in the first week.

DLY: One more question about K.F.C. I noted that you introduced this revamped menu in K.F.C. China with 15 new menu items. Whenever I hear something like that, because I've worked in the fast food industry, I always think, "Oh, execution. How are they going to be able to execute on 15 new items well?" How is that going for you?

JB: It's going really well. It's also a great start. I just want to clarify one thing. It's not 15 new items. Maybe three quarters of them are new. The balance of them were limited-time-only offers that were really popular and successful. We have brought them back now on a permanent basis.

We do extraordinary training in China. Our operations are best in class there for us and for anybody in the restaurant industry. They are awesome. As you just pointed out, for any fast food company to introduce two or three items at one time, that would be quite a feat. We re-launched or launched a total of 15. That's unprecedented. It is off to a great start. We'll see the numbers in the second quarter. It hasn't entered first quarter yet because it was just launched.

DLY: Questions about Taco Bell. How is [breakfast](#) going for you guys?

JB: Again, off to a great start. It's the early days. It's only two weeks in. We're seeing great progress. Consumers so far love the concept. It's gotten a tremendous amount of buzz about our advertising and our above and below the line marketing and the products. So I would say if you have a computer, if you have a cell phone, if you have a television or radio in America, you've heard about the Taco Bell breakfast. It's at a huge awareness level and off to a great start.

DLY: Actually, I'm really very interested in the marketing that was used for the breakfast launch. Now even the new Doritos Locos Taco flavor was announced over Snapchat. It seems like you all are really emphasizing, at least for the Taco Bell brand, much more of the social media and social networks. What does that mean in terms of your spending in broadcast media? Will we see a decline there and more emphasis in the social network and social media going forward?

JB: We're doing 360 marketing. We're trying to touch the consumer in many different ways. Social media clearly is a big part of it. Taco Bell uses many different platforms -- Facebook ([FB](#)), Twitter ([TWTR](#)), Instagram and

others. We're aggressively using social media.

To answer your question, there is absolutely a place for advertising above-the-line -- television, radio. We use them very aggressively because you follow the eyeballs. If people are watching television, which they are, and if they're listening to the radio, which they are, then you've got to be there, too.

Years and years ago, television dominated everybody's marketing calendar. It still does. It gets a larger share of the marketing dollar because it's the most expensive medium to purchase. Plus, when we're on air, our cash registers ring. When we're off air, you can see the effects.

That said, Taco Bell has become very savvy and very entrepreneurial at how they use social media. I put them among the top tier marketers with the use of social media. In fact, last year, they were named marketer of the year by *Ad Age* for their marketing prowess.

DLY: Do you think that your other brands will be taking some cues from Taco Bell in that regard?

JB: They are. We share best practices regularly. Pizza Hut does a lot of business with online and mobile ordering. We're investing heavily in that -- digital and mobile -- to beef it up, because frankly our competitors have outperformed us in that area. So you'll see more aggressiveness there.

K.F.C. has a campaign right now called "How Do You K.F.C." It's a great example of how they're using social media. It was an only below-the-line video of a girl getting a chicken corsage. Did you see that?

DLY: Yes, I did.

JB: Very cool. Got a tremendous amount of awareness and buzz, and all very positive. It had nothing to do with advertising it. It was all done on social media. We're doing this all around the globe. I believe the statistic is true that when you look at Taco Bell, K.F.C. and Pizza Hut, we have more Facebook engagement and more likes than any other company on the planet.

DLY: So we started talking about Pizza Hut a little bit. Your WingStreet concept seems to be kind of more of the winner there. What are your plans for that?

JB: We are on air nationally in the United States with WingStreet. We are delivering great-tasting, award-winning, delicious wings today. We'll be expanding that product line over time. There'll be other chicken platforms that will be delivered. It's definitely here to stay. It's a big part of the Pizza Hut business and more to come. It's doing well.

DLY: My last question is actually going back to Taco Bell. An enhanced coffee offering was not really part of the whole breakfast push. Is that something that you're planning in the future?

JB: They have a great coffee at Taco Bell. When you introduce products to consumers, you pick the ones to focus on. We focused on the A.M. Crunchwrap and the Waffle Taco. They also have a really strong, delicious coffee -- not a strong bean, but a very terrific, delicious coffee.

First of all, we focused on a competitive offering that you probably have seen in our marketing, promoting them in a really playful way. We tried to do it in a cut through the clutter way and create awareness with it. I think we accomplished that. We have some really winning products with those two that I mentioned.