

# Yum Brands Zeroes In On China For Growth

## Summary

- YUM plans to open 700 units in China and 1,250 other international locations in 2014.
- New menu at K.F.C. China is company's biggest new product bet.
- Marketing -- not new products and platforms -- leads the plan for U.S.

*This is the second of a two-part series following Yum Brands' (YUM) 2014 first-quarter earnings release last 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 wrote up the interview [here](#). This piece provides analysis and commentary based on our conversation.*

Former Secretary-General of the United Nations Kofi Annan once remarked, "You have to listen to not only what is being said, but what is not said -- which is often more important than what they say." This was quite evident from what Jonathan Blum, head of public affairs at Yum Brands, chose to emphasize after his company's Q1 2014 earnings release, which reported 4% worldwide system sales growth, 19.2% restaurant margin increase, and 22% worldwide operating profit increase.

When you read between the lines, it is clear Yum is likely to continue on this strong growth track because of its focus on expansion in China, and to a lesser extent India and other emerging markets -- and not because of any substantive changes in the United States.

**Unit growth in China will outpace same-store growth in the U.S.** Blum eagerly spoke about the significant unit growth potential in China and other international markets, quoting statistics like the 58 Yum restaurants that exist per one million people in the U.S. compared to the two restaurants per million that it has in its top ten emerging markets. He was much less specific about domestic expansion, stating only that there is "still opportunity in the U.S."

The 700 new restaurants the company plans to open in China this year and the 1,250 other planned international openings will turn in far greater results than anything the company could be planning to increase the volume in existing units in the U.S. This syncs up with [reports](#) from industry research firm Technomic, which forecasts only 3.5% growth in 2014 for limited service restaurants.

The speed with which Yum recovered from the food safety issues and avian flu incidents that challenged its performance in China in late 2012/early 2013 indicates the strength of its operations and the appeal of the K.F.C. brand in that market. Also the company has restructured, separating China and India from its brand divisions. So these regions will benefit from dedicated resources and increased management attention.

**New menu in China has more potential than test concepts in the U.S.** Blum highlighted the company's revamped menu in K.F.C. China, which features 15 new menu items. Calling the breadth of the new menu "unprecedented," he explained that K.F.C. operations in China are "best in class" and it is leveraging "extraordinary" training to ensure top-notch execution of the new menu.

At the same time, he downplayed the company's test of a new concept, Super Chix, in Dallas, TX. He didn't make any comparison of Super Chix to Chick-fil-A, the privately-held 1775-unit chain that has been growing steadily in sales and customer loyalty while K.F.C. has been struggling. Nor did he talk up any of Super Chix's offerings, which include a classic chicken sandwich, hand-cut fries, and frozen custard.

He also made no mention of U.S. Taco and Urban Tap Room, a new fast casual concept that Taco Bell will be opening this summer in Huntington Beach, CA. U.S. Taco seems like a big move for Yum. It involves new operating challenges including running an open kitchen, using premium ingredients (e.g., a Maine lobster taco), and selling alcohol (e.g., milkshakes spiked with beer). Plus, the fast casual restaurant segment is growing at a faster rate than traditional fast food. So U.S. Taco could signal the company's assessment of where domestic growth will come from in the future.

But Blum's reluctance to promote these new concepts reveals that the company is placing its bets in China for now.

## **Creative marketing - not new products and platforms -- leads the plan for U.S.**

The big news for Yum in the U.S. is its marketing campaigns in social media. Blum described Taco Bell's "aggressive" social media efforts, including the recent breakfast launch, which used a teaser campaign involving Twitter and messaging on packaging designed specifically for Instagram. He reported that the Taco Bell team was named Marketer of the Year by industry journal *Advertising Age* for its marketing prowess. He also cited the company's new YouTube video campaign for K.F.C., called "How Do You K.F.C.?"

He only briefly mentioned the actual products that these marketing campaigns were promoting, and he didn't indicate any future menu development at the brands. Blum was also silent on the possibility of an expanded coffee program at Taco Bell, saying only that its current coffee is "delicious." With new products a key driver of restaurant foot traffic, the company will certainly continue to introduce new menu items, but perhaps its expectations for these introductions are tempered. This is not surprising given the complexity they add to restaurant operations, not to mention the diminishing returns that most fast feeders are experiencing with new products.

Blum's one domestic product highlight was WingStreet, Yum's chicken wing concept that is currently offered at 5,000 Pizza Huts nationwide. WingStreet was introduced over 10 years ago as a separate concept, with locations adjacent to Pizza Hut restaurants. But in recent years, the units have combined, and WingStreet kitchens are now located within Pizza Huts. WingStreet has a long way to go before catching up to the chicken wing restaurant leader, Buffalo Wild Wings ([BWLD](#)). But that brand's rapid growth (revenue was up from \$422 million in 2008 to approximately \$1.3 billion in 2013) indicates the potential for Pizza Hut. Blum acknowledged, "[WingStreet] is a big part of the Pizza Hut business and [there's] more to come," adding "there are other chicken platforms that will be delivered."

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