



Identifying franchise partners in China

Case study

BA identified potential partners for expansion into the Chinese market for a US-based fast foods restaurant chain

Client Background

- The client is one of the largest restaurant chains in the world with over 4,000 restaurants in more than 40 countries
- Globally, the client sales is the second largest restaurant chain in its food category. China forms a key strategic country for the client as a part of its global expansion plan
- The client is looking for opportunities in the Chinese quick service restaurant market. The client would like to better understand the market, strength of key competitors and identify specific strategies for growth
- Also, the client wanted to identify, assess, shortlist and select potential partners for franchise

Key Highlights

- BA leveraged its primary research capabilities in China to conduct over 60 interviews with industry experts, regulatory authorities, consumers and end users across the country, and competitor companies, to understand the market dynamics and opportunities for the client's products and services
- BA estimated the size of market opportunity and expected growth rate using both demand and supply side elements
- BA conducted primary research to determine best practices of major competitors to develop market entry plan for the client
- BA also identified over 100 potential master franchisee partners for the client and developed filters to shortlist the same. BA also conducted workshops with the client and potential partners to score, rank and select the best partner for the client

Key Business Questions



Market sizing and opportunity estimates were developed for the geographic areas of interest from both demand and supply sides

1

What is the size and growth prospects of the Chinese quick service restaurant market?

2

Who are the major players in the market, their market shares and best practices?

3

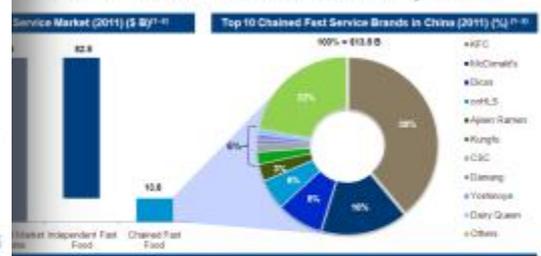
What are the key strategies for the client to enter the Chinese market and who is the potential master franchise partner?

Fast service restaurants in China are classified in **Illustrative** by the amenities and services provided at the restaurant



BA identified size of the Chinese quick service restaurant market and segmented it on various parameters in order to identify the relevant market.

Fast food market in China represents **Illustrative** market in 2011 with KFC and McDonald's as the major chains



Key Highlights

- The top 10 brands represented 79% of the total chained fast food market in China with the top two brands, KFC and McDonald's, occupying more than half of the overall chained fast food market in 2011.
- The chained fast food market has both Asian and Western fast food brands. KFC dominates the chained fast food market with a market share of about 39%. McDonald's and Dairy Queen are the only other western players that feature in the top 10 fast food chains in China.
- Other foreign players with significant shares in the Chinese market include Haagen-Dazs (0.6%), Subway (0.4%), Burger King (0.4%), Dunkin' Donuts (0.2%), 7-Eleven (0.1%) and Baskin-Robbins (0.1%).
- Though Dicos is a Chinese chain, it is famous for its western style chicken casseroles and baked food in the overall chained fast food market in 2011.

BA analyzed the regionalization of Chinese quick service restaurants based on local taste preference, price preferences and key competitor strategies.

Regional taste preference in China varies greatly from the west and sweet in the south... **Illustrative**

China Regional Palate!

- Beijing Food and the North**
 - Northern Chinese food is dominated and set apart in China by wheat flour foods including noodles, dumplings, steamed buns and pancakes.
 - Northern food emphasizes light and subtle flavors.
 - Meat is eaten as a staple in the north, but not as singularly as in the south.
 - Northern food is hearty, with root vegetables, beef, lamb, duck, seashells, beans, and garlic featuring strongly in it.
- Sichuan Food in the West**
 - Chop suey or fried chicken, garlic and ginger are some of the most common ingredients in the hot and spicy Sichuan food.
 - Sichuan Cuisine is the most widely served cuisine in China.
 - The ingredients used include pork, beef, fish, vegetable and tofu.
 - Deep frying is the most widely used cooking method.
 - Very popular Sichuan dishes are Ma Po Tofu and Kung Pao Chicken.
 - Hot Pot is considered a local specialty in these regions.
- Cantonese Food in the South**
 - Cantonese dishes are characterized by their tender and slightly sweet taste.
 - Light and delicate cuisine are a classic seasoning including Tofu, sea urchin, yam, plum sauce and sweet and sour sauce.
 - Other popular ingredients include spring onions, soy bean, sea urchin, corn starch, vinegar and sesame oil.
 - Dumplings used frequently in some dishes, especially those with internal organs, such as intestines, that may emit unpleasant odors.
 - Cantonese food specializes in stir-frying, steaming and braising.

BA identified the major players in the market and benchmarked their key strategic practices to develop entry strategy for the client

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Most Western fast food restaurant chains have localized offerings according to the local and regional Chinese palate

Western Brands Catering to the China Regional Palate⁽¹⁾

Company	Overall	Beijing Food and the North	Sichuan Food and the West	Common Food in the South	Fujian Food and the East	Hunan Food and the Center
KFC	<ul style="list-style-type: none"> Chicken changes into porridge Fried dough sticks, egg tarts, string burgers, and soy milk drink 	<ul style="list-style-type: none"> "Old Beijing Twister" — chicken wing resembling Peking Duck 			<ul style="list-style-type: none"> Soup made of spinach, egg and tomato 	
McDonald's	<ul style="list-style-type: none"> Beefsteak sauce and Seasonal Chinese Plain Year meals including the Calfed Chicken Burger and curly fries Soy milk for breakfast 	<ul style="list-style-type: none"> Crispy Buffalo chicken wings, called "hot wings" 	<ul style="list-style-type: none"> Honey and hot mustard, or chili garlic sauce 		<ul style="list-style-type: none"> Variants of Filet-O-Fish 	<ul style="list-style-type: none"> Sweet and sour sauces
Burger King	<ul style="list-style-type: none"> Hot chili flavored chicken burgers 	<ul style="list-style-type: none"> Introduced "Sleeping Giant" burger 				
Subway	<ul style="list-style-type: none"> Soy milk for breakfast 	<ul style="list-style-type: none"> Tasting sandwiches such as "string bean chick" 	<ul style="list-style-type: none"> Local sauces like "hot spicy Sichuan sauce" 		<ul style="list-style-type: none"> Focus on home and other fish balls 	

Source: IT, BA Analysis

BA conducted primary research to identify different strategies of key competitors in various geographies of China and developed a detailed profile for each competitor.

Strategy in China is focused on showcasing owned extensive supply chain and regional food options

Illustrative

The diagram illustrates KFC's strategy in China, focusing on showcasing its owned extensive supply chain and regional food options. Key points include:

- Local Sourcing:** KFC has established a robust supply chain for local ingredients, ensuring freshness and quality.
- Local Production:** KFC has invested in local production facilities to reduce costs and improve efficiency.
- Local Distribution:** KFC has a well-developed distribution network to ensure timely delivery of products to its stores.
- Local Consumption:** KFC has adapted its menu to cater to local tastes and preferences, offering a variety of regional dishes.
- Target Consumer:** KFC's target consumer is the middle-class urban population in China, who value convenience and quality.

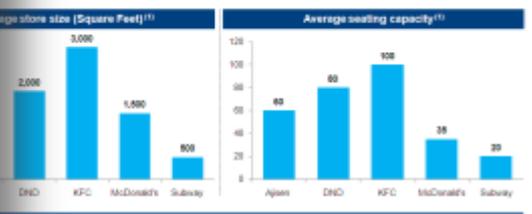
Additional text from the slide:

- The expansion KFC tried (Chicken) did, along with easy accessibility to the key selling point of KFC in China.
- The main KFC food chicken didn't fly because for the Chinese, average Chinese.
- Local products — products adjusted for each province and then, updated every few months.
- Clearance and hygiene are standardized.
- Appl. formulae across chicken sauce.
- KFC's Chinese menu is a mix of local and healthy food.
- KFC has standardized from a Texas born company to "be more like in China".
- In China, KFC is a process with chicken and has also adapted its menu for the regional palate.
- The most early strategy showcased KFC's strategy in China. The food options include Chinese staples like rice, dumplings, fried dough sticks, and soy milk to name a few.
- Additionally, KFC has been very successful in different provinces to cater to local preferences.
- KFC utilizes local suppliers for many items, from food products.
- Again from many options, KFC also localized its operations in China. KFC has its own supply chain in China, including sources of ingredients and transport fleets.
- It now has 11 full-service franchises and its available centers serving every province.
- Wanted: Start

Quote: "In recent years, there are a lot of Asian fast food companies coming up. They provide quick, clean service as well. Perception of people about Western food being more explicit is fading. So, we are trying not to lose any market through constant innovations in our menu."
—Lanning Langer, KFC

BA determined the best practices of major competitors to develop the market entry plan for the client.

Large stores seating about 100 customers as smaller stores of about 500 sq.ft. seating only 20 people



Key Highlights

- Depended on the strategy of the company.
- While KFC is the most successful brand in China, it focuses on getting the people into the store making them spend a lot of time and thus, spend money at the restaurant.
- However, Subway focuses on quick customer turnaround and thus has very small stores with a capacity of seating only about 20 people at a time.
- Carlsberg and McDonald's both have an in-between strategy with large store sizes and seating capacities in the range of 40-60 people.
- Asian Karens being a fast casual eatery has comfortable seating for about 60 people at a time.
- The store sizes and seating capacity also depend on the kitchen size.
- With large equipment, KFC and McDonald's have huge kitchen spaces.
- Subway has a very small open kitchen and thus can accommodate 20 people in its small 800 sq. ft. stores.

Growth strategies were defined for key expansion markets

- 1 What is the size and growth prospects of the Chinese quick service restaurant market?
- 2 Who are the major players in the market, their market shares and best practices?
- 3 What are the key strategies for the client to enter the Chinese market and who is the potential master franchisee partner?

Summary: YPX Cayman Holdings Pvt. Ltd. Illustrative

Organization Details		Contact Person	Contact Details	
Organization	YPX Cayman Holdings Pvt. Ltd.		Name	Chris Tay
Office Address	Unit D and E, 5th Floor, No. 331, Caode Building, Xuhai Road, Xuhai District, Shanghai		Office/Phone	021-61213198
Year of Incorporation	2010		Cell/Phone	-
Estimated Annual Revenue	= RMB 60,000,000	Email	christay@ypxfood.com	
Estimated Total Work	= RMB 158,000,000	Website	www.cloud-8.cc	

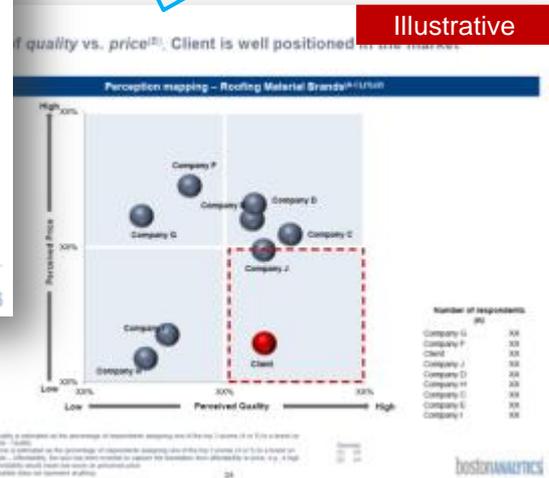
Business Details			
Experience in Fast Food Industry	23 years	Number of Outlets	34 (Total)
Number of Employees	>608	Major Cities/Province covered	Shanghai, Beijing, Tianjin, Hangzhou, Nanjing, Chengde, Hefei, Suzhou, Changsha
Type of Food	Asian	Fast Master Franchise Partners (Total)	Yoshinoya, Dairy Queen

Activities Illustrative

	Communication Tranche 1 ⁽¹⁾	Communication Tranche 2	Communication Tranche 3
Proposals (total date)	143 (25-Jan, 26-Jan)	90 (26-Jan)	8 (8-Feb)
CPI	Restaurant chains, food groups	Restaurant chains, food groups including Taiwanese	Restaurant chains, food groups, corporate houses
Tranche 1	25-Jan	4-Feb (18)	28-Feb (18)
Tranche 2	4-Feb (20)	8-Feb	5-Mar
Tranche 3	20-Jan (30)	30-Jan (30)	15-Mar (5)
Tranche 4	4-Feb (18)	30-Feb (18)	-
Tranche 5	20-Feb (17)	-	-
Total responses	14	13	2
Initial positive responses	2	1	0
Meetings set-up	1 (Cyber Dining)	1 (YPX Cayman)	0

BA identified various parameters to score, rank and shortlist the identified master franchisee partner for the client in China.

BA developed a list of over 100 potential master franchisee partners for the client in China with experience in catering, retail and food industry and profiled shortlisted companies for workshops conducted with the client.



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