

Business Internationalization: A Management Strategy Analysis of Kentucky Fried Chicken's Entry into Uzbekistan

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Abstract--- Business internationalization refers to the practice of expanding across borders. The intention is to get closer to the product and service users, the overall outcome being the creation of new customer bases. Notably, this process has been necessitated by stiff marketplace competition in which customer-centeredness has been cited to be central to the success of company operations.

Keywords--- Business Internationalization, Strategy Analysis, Kentucky Fried Chicken (KFC), Business Environment.

I. INTRODUCTION

THE intention is to get closer to the product and service users, the overall outcome being the creation of new customer bases (Denison and Guidroz, 2011). Notably, this process has been necessitated by stiff marketplace competition in which customer-centeredness has been cited to be central to the success of company operations. According to Hill (2007), the need to create customer bases and value their contribution implies that cross-border operations are inevitable. Similarly, business internationalization has been associated with aspects of creativity in which the needs of users in specific regions have driven the modes of entry. Some of the notable and U.S.-based companies that have continually strived to operate across borders include Kmart, Wal-Mart, Coach Inc., and Apple. Whereas these firms are determined to maintain their strategic positions and competitive advantages – through brand images, Kentucky Fried Chicken (KFC) remains crucial to the consumer group in Uzbekistan. This paper provides an analysis regarding the potentiality of KFC's entry into Uzbekistan, a business internationalization practice that is predicted to yield better outcomes on the sides of both the customers or citizens of Uzbekistan and KFC's stakeholders.

Objectives

In research work, objectives serve to lay a foundation on which specificities regarding the forces driving an inquiry are illustrated (Schultz, 2008). In this paper, the main aim is to study the feasibility of setting up a KFC branch in Uzbekistan. Other objectives include:

- To find out potential barriers to entry that KFC might face while seeking to enter Uzbekistan
- To determine the nature of Uzbekistan's socio-cultural, economic, and political environment in relation to KFC's cross-border investment
- To determine the nature of consumer buying behaviors and their implications to KFC's entry into Uzbekistan
- To find out some of the success factors that might contribute to positive outcomes of KFC's entry into Uzbekistan

II. BACKGROUND INFORMATION – FOCUSING ON KFC



Specializing in fried chicken, KFC chain is a global renowned fast food restaurant. The company is headquartered in Kentucky's Louisville, coming in the second position after McDonald's (in terms of restaurant chain sizes). By

December 2013, KFC had been established in 118 countries and operated 18,875 outlets.

The origin of KFC is that which involves operating as a subsidiary of Yum! The latter brand owns major chains such as Taco Bell and Pizza Hut (Wild & Wild, 2013). It is further notable that KFC's founder was Harland Sanders, establishing the company in 1930.

In 2015, the number of KFC's locations increased to 19,420, with Muktesh Pant operating as its CEO. Besides offering fried chicken, other specific company products at KFC include desserts, salads, soft drinks, French fries, wraps, and breakfast (Zhang, 2010). Indeed, efforts towards economic resilience led to total revenues of US\$23 billion in 2013. The following figures provide summaries of KFC's recent financial performance.

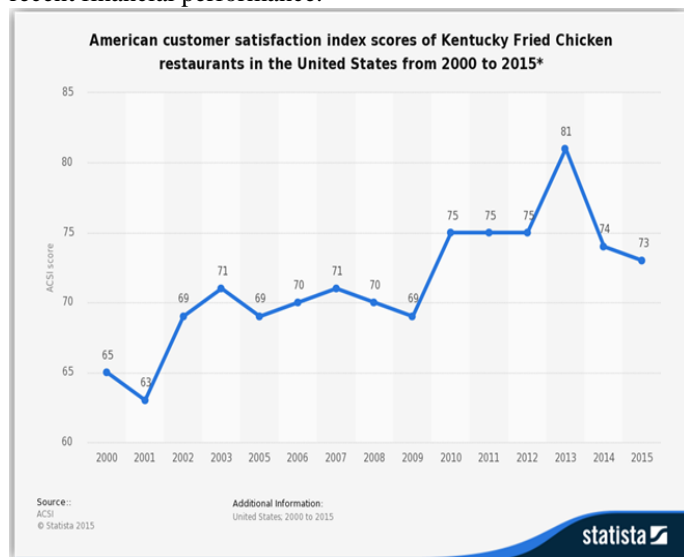


Figure 1 - KFC's Customer Satisfaction Index at the Regional Level

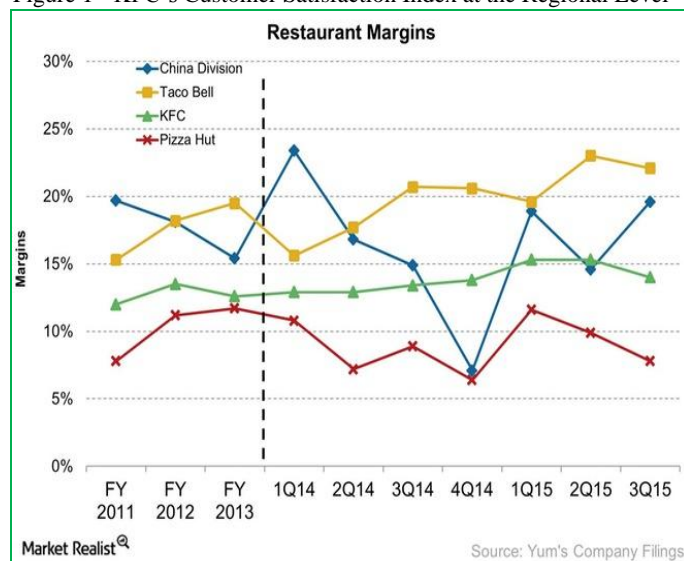


Figure 2 - A Comparative Illustration of Restaurant Margins

From the figures, it is evident that KFC's performance in 2015 dropped further, compared to its financial outcomes in 2014. The figures indicate further that KFC's optimal economic outcomes were realized in 2013. Also, it is evident

that the user satisfaction index reflects a deviation in the firm's brand image.

As such, the recent trend depicting a reduction in company returns and a lower customer satisfaction index prompts an exploration of KFC's potentiality to enter into Uzbekistan.

Justification for KFC's Entry into Uzbekistan

As noted earlier, the need for business internationalization has been prompted by company quests to create more customer bases. In this case, Uzbekistan has been selected as an ideal location into which KFC's operations can be extended while focusing on improved company performance.

Various reasons account for the choice of Uzbekistan as an ideal country. For instance, aspects of the consistency of reforms, confidence in tomorrow, and political stability characterize Uzbekistan. This environment is, therefore, suitable and promising towards improved performance at KFC, should the company enter the country.

Also, cultural diversity characterizes the country. Specifically, dozens of religions and over one hundred ethnic groups live in concord and peace (Hill, 2007). Also, the post-independence reign has seen Uzbekistan develop a course of development in terms of a socially oriented economy; attributed to the need for a step-by-step transition. These plans have yielded growth currency reserves, equilibrium of foreign and domestic sectors of the economy, and macroeconomic stability.

Additionally, internal factors have yielded a framework responsible for the maintenance of annual economic growth rates averaging eight percent (Denison and Guidroz, 2011).

Other promising economic attributes have been associated with Uzbekistan. For instance, structural transformations have been complemented by the creation of sustainable finance and banking systems, as well as a significant reduction of the aggregate tax burden. Other supportive mechanisms include energy self-sufficiency, the availability of natural resources, a favorable geographic situation, intellectual potential, and skilled labor (Zhang, 2010).

Overall, Uzbekistan is ideal for KFC's entry because of the availability of recreation infrastructures (such as international class airports and hotels), tourism, multiculturalism, hospitality, natural scenery, and a desirable state of climate (Schultz, 2008; McSweeney, 2002). Coupled with the aspect of demand availability, these factors make Uzbekistan a desirable destination for company expansion and the creation of KFC's customer base.

Uzbekistan's Business Environment

A summary of this demographic state is shown in the figures below.

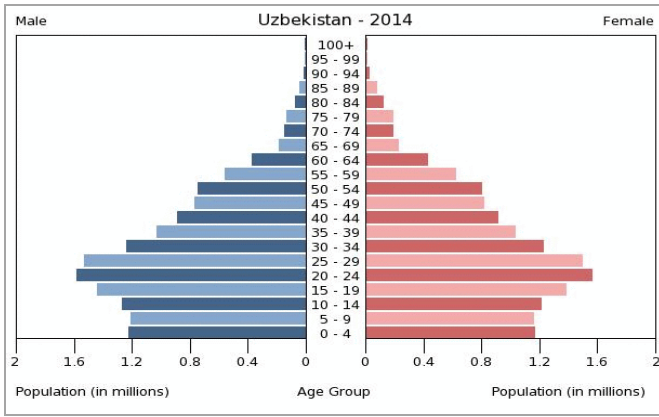


Figure 3 - Uzbekistan's Population Pyramid

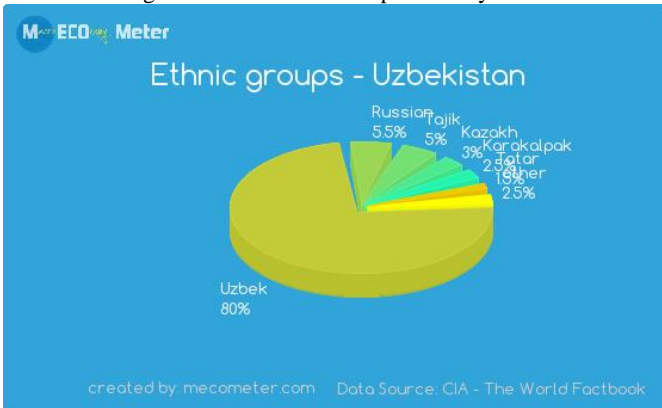


Figure 4 - Uzbekistan's Ethnic Composition

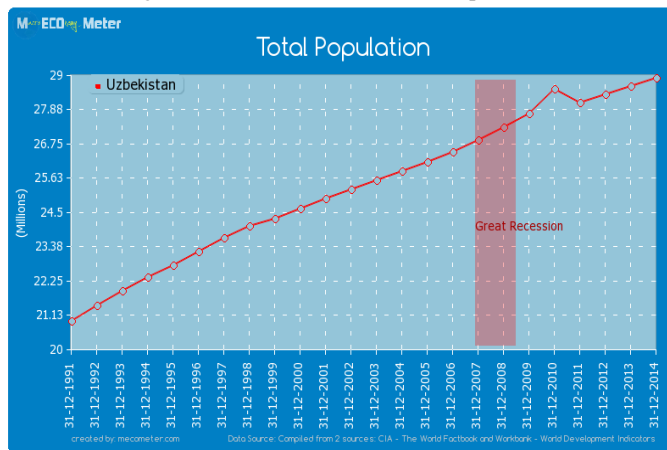


Figure 5 - Trends in Uzbekistan's Total Population

III. EXPLORING OPPORTUNITIES AND PERCEIVED CHALLENGES

Opportunities

From the findings, it is evident that Uzbekistan poses central Asia's largest population that constitutes a fast-growing economy. Therefore, the country offers a number of opportunities for the U.S.-based company. For instance, the U.S. Embassy Economic group helps the U.S.-based companies to obtain market research reports, launch their companies, find local trading partners, and identify trade opportunities. Additionally, the Embassy engages in the exportation processes through trade delegations. Therefore,

KFC could utilize this section to understand the consumers' buying behaviors while selecting strategic locations in Uzbekistan. It is also worth noting that the Foreign Commercial Service offers a variety of information regarding the country's major trade shows. In the end, copies of the country's investment climate are availed to the public. Therefore, KFC could use these documents to understand the prevailing state of the country's food industry.

It is further worth highlighting that the Embassy offers business facilitation practices to the U.S. organizations. Specific services include the search for agents or distributors, company profile reports, company match-making, and the aspect of organizing business meetings. The fast-growing state of Uzbekistan suggests further that aspects of innovation, invention, and creativity are likely to be achieved; implying that KFC's entry into the country might yield more desirable outcomes. Furthermore, a large population in the central Asia-based country implies that the demand for KFC's products is likely to be high. Another notable opportunity is that which entails the availability of skilled labor from local populations; as the number of working-age individuals surpasses that of members in the old age.

Perceived Challenges

The potentiality of Uzbekistan depicts it as a strong economy in Eurasia. Have challenges or weaknesses may stall progress for both the established and potential foreign investors. Existing outcomes indicate that the country has enjoyed strong annual growth rates that range between 6 and 8 percent while the public debt has been relatively low. Recent data suggests that Uzbekistan's unemployment rate is as low as 1.3 percent (Wild & Wild, 2013). Also, the government has made an effort to attract more foreign investors by diversifying its economy. However, weaknesses characterizing this economy involve the wanting state of its infrastructure, strict rules on the tax rates, and rigid controls of currency conversion. Another challenge involves the difficulty faced by foreign investors in securing long-term work visas. These challenges are critical and may dissuade potential foreign investors. Another challenge involves the opaqueness of Uzbekistan's procurement process that complements informal and formal trade barriers of trade – with its neighboring regions. Afghanistan, the country's neighbor, has experience turmoil for a significant period. This state poses a security challenge to KFC, should it invest in Uzbekistan.

The Entry Strategy

In business practices, an entry strategy refers to a planned approach for producing and supplying goods and service to a new and target market. Some of the techniques adopted include licensing, contracting, franchising, the use of mergers and acquisitions, and foreign direct investment. Regarding the process of KFC's entry into Uzbekistan, it is recommended that the company adopts the foreign direct investment (FDI) strategy. As affirmed by Schultz (2008), FDI refers to a business entry strategy in which a company,

headquartered in one country, builds a new facility or makes an entity into an economy other than that in which it operates. In Uzbekistan, the state protects and guarantees the rights of foreign investors. Also, foreign direct investors are granted additional opportunities in situations where their businesses involve priority projects and areas; with the aim of sustaining economic growth. The country's trend in FDI is illustrated below.

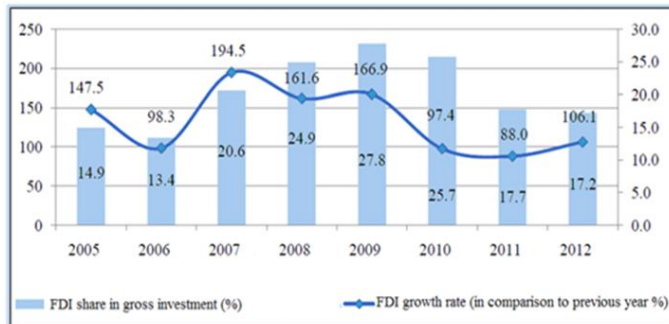


Figure 6 - Uzbekistan's Trend in FDI

Source: State committee on Statistics of the Republic of Uzbekistan.

Various merits accrue from the adoption of FDI. For instance, the entry strategy creates new employment opportunities that, in turn, boost the host country's economy. Also, FDIs develop human capital resources through knowledge and competence of the labor forces or workforces. By supporting economic development simulation, FDIs are advantageous because they create supportive, positive, and conducive environments for both the local economy and the investors (Denison and Guidroz, 2011). It is also worth highlighting that FDIs support knowledge exchange and resource transfer across borders, leading to innovative, inventive, and creative approaches to role performance and task completion. Other merits include an increase in income, increased productivity, and a reduction in the disparity between costs and revenues (Hill, 2007).

IV. FINAL DECISION AND CRITICAL SUCCESS FACTORS

Final Decision

From the findings, there is a need for KFC to go ahead with the decision of entering Uzbekistan. By proceeding with this option, various merits accrue. For instance, a larger customer base will be created. In turn, the new user groups will lead to an improvement in the company's financial and overall economic performance. Also, the need for KFC to proceed with the entry process has been informed by the host country's large population; projecting the availability of a ready market or demand for fried chicken. Additional demographic characteristics, which suggest a significant portion taken up by a younger population, add to the need for implementing the entry strategy; as the population exhibits skilled labor. Another element necessitating KFC's entry into Uzbekistan entails the aspect of cultural diversity. Given that multiculturalism is a nearly inevitable element in most of the

current business environments, political stability and cultural tolerance implies that KFC's new operations in Uzbekistan might experience economic stability and effective management processes. Lastly, there is a need to proceed with the investment because the government of Uzbekistan, alongside the U.S. Embassy, has continually supported multinational companies in terms of searching for agents or distributors, providing company profile reports, fostering company match-making, and organizing business meetings. As such, the business environment in the host country is conducive in support of KFC's stakeholder preferences.

Critical Success Factors

One of the critical success factors entails KFC's brand image. As noted earlier, KFC is a renowned restaurant chain that comes after McDonalds. Therefore, the brand name gives the company a competitive advantage that is likely to attract a significant number of customers in Uzbekistan and its neighborhoods. Another factor entails the concept of the workforce in Uzbekistan. A broad knowledge base and young population imply that both quality and sound quality customer services might be provided. In turn, the base level of task forces will be that which retains loyal customer bases. Lastly, information technology arising from social media platforms and Internet-based provisions adds to KFC's critical success factors. By utilizing these platforms, the company is projected to promote the new products and create an awareness regarding the products' existence. Overall, KFC's entry into Uzbekistan is likely to yield improved financial and economic outcomes – by creating customer bases at the local and regional levels.

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