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Fast Food Business: Taking McDonald's and KFC for Example

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Abstract: Nowadays, the development of fast food industry is more and more popular with people, especially young people. When it comes to the fast food industry, most people will think of McDonald's and KFC. It is undeniable that these two companies account for most of the fast food market share in the market, but most people will think that there is no difference between the two companies. Therefore, the author wants to know whether there are some differences and similarities between them. The author invests in this situation by comparing data and business models to understand how these companies coexist. In fact, the profit of McDonald's and KFC is almost the same. Because McDonald's and KFC operate in a somewhat different way. The author conducted the survey because it can let more and more people understand the subtle differences between two similar companies. The research in this paper has important practical significance for the fast food industry to achieve precision marketing.

Keywords: McDonald's, KFC, fast food, business operation

1. Introduction

Fast food has become an important force in catering market and has vigorously promoted the development of the catering economy. It is mainly manifested in the increase in quantity, and its quality and connotation have also undergone profound changes; the business field and market space of the industry have been continuously broadened, and the level of enterprise management has been continuously improved; the business format has become richer and richer, and the number of outlets and the number of employees continue to expand; the market is more prosperous; the pace of branding has accelerated, and the social status and role have been improved [1]. The purpose of this passage is to compare two similar companies' state business to find out the difference between them. Because of the fast pace of the world, more and more people are pursuing fast and simple food.

For fast food, its explicit feature is fast so that people can finish their lunch quickly. This compression time provide people more time to work. When they have just a little time left to eat, the fast food becomes their first choice to save time. People hold a hamburger and a cup of coffee on the hand rushing to the company, which is the circumstance of most of the employee. Fast food become an enormous market. So, McDonald's and KFC are gradually become famous. More and more people go to McDonald's and KFC.

2. The History and Introduction of McDonald's

McDonald's fast food restaurants are well-known all over the world. Its founders are the McDonald's brothers-Dick McDonald's and Mike McDonald's. The brothers established the first McDonald's fast food restaurant in San Bernatino, California, with Hamburger as the main food. Now, McDonald's has opened 10,700 restaurants in more than 50 countries around the world.There is a big M sign with a yellow arch in front of each restaurant, which is called the Golden Arch. In addition, there is an idol with a big red nose and a red striped shirt and overalls at the door [2]. There is a brand story about McDonald's. Dick and Mac McDonald's decided to prompt the operation model of McDonald's restaurants, newly launched iconic fast service, system, and15-cent signature premium burger. The innovative restaurant business model allowed the two brothers to reap. After success, they began to sell the franchise. Ray Kroc, a Milkshake mixer operator, meets this two brothers and soon becomes the intermediary agent of their restaurant. He sets up his first McDonald's restaurant in US. In 1961, Ray buys out the right of management of McDonald's. At first, the purpose of Ray is to build 1000 local restaurants, but he changes his idea at 1976, establishing many fast food places in the world. There is a "trestle" management idea. Suppliers, employees, and the licensee need to communicate through advantages, close collaboration to establish a strong cooperation and partnership foundation. The McDonald's system is based on trust and common value. Therefore, it has the competitive advantage of being able to obtain high-quality products at a better price. The business pattern of McDonald's can be divided in two parts: direct sale and franchise. Direct sale is that McDonald's operates its own restaurants, and all the profit belong to McDonald's. Franchise is alliance business operating the fast food place, and McDonald's earns the franchise fee (4%-5% of the restaurant profit) and rent (9%-11% of the restaurant profit). As shown in table 1, the rate of franchised outlet is 13.4%. And the system sales of franchised outlet is even more than the system sales of direct sales. So, the franchise is also a big part of the profit.

Table 1: Financial report (in million USD).

	Direct sales	Franchised outlet	Total
System sales	15,295	67,707	85,002
Income	15,295	9,327	24,622
Take rate	100.0%	13.4%	

Franchise is a special feature of McDonald's. Since the 1980s, franchise companies have expanded rapidly in our country with their advantages of low cost and small risk, and have reached a certain scale [3]. This feature helps McDonald's a lot. As shown in table 2, the earned profit is just a little part of the total income. They are nearly half apart.

Table 2: Financial report.

	2022.12.31	2022.9.30	2022.6.30	2022.3.31
Total income	5926.5	5872.1	5718.4	5665.6
Gross margin	3408.9	3446.1	3302.1	3050.1
Earned profit	2597.2	2776.4	2597.9	2373.1
Net profit	1903.4	1981.6	1188	1104.4

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Thus, McDonald's not just depends on the profit of the restaurants. And the rental income and franchise fee income have made up 13.3% of the total profit, the results as shown in table 3.

Table 3: Rate analyze.

Rental income	6,108
Take rate	8.8%
Franchise fee income	3,130
Take rate	4.5%
Other revenue	89
Take rate	0.1%

Another way for McDonald's to earn money is lower the cost. McDonald's earns its money through its supply chain. McDonald's does centralized procurement, using all the beef and noodles used in tens of thousands of stores around the world so that its profits will come out at once. Actually, McDonald's also helps the framers to plant some vegetables, for example potato. McDonald's has a unpaid potato planting improvement technology. After the farm takes improvement, the output will dramatically increase. The increase of the output makes the unit price decreases. So, McDonald's supply chain acquisition is not simply centralized procurement, but actively and deeply participates in the transformation of the supply chain. Through the transformation of the supply, the response chain has greatly increased the overall income of the entire value chain. Above is the main profit source of McDonald's.

3. The History and Introduction Of KFC

Owning more than 15,000 KFC restaurants in 105 countries and regions in the world, KFC is the world's most popular fried chicken restaurant chain. In 1952, the first KFC has been built and soon become popular quickly all over the world. Its popularity has hit new heights, with an average of two new restaurants opening every day. Not only built in some developed countries, but also many developing countries such as India Brazil, and KFC provide them a big fast food market. Some main markets also emerge in China, the United Kingdom, Australia, South Korea, Mexico, France, Germany, and the Netherlands. The opening of each new restaurant not only provides more employment opportunities, but also infuses economic vitality into the communities in which it is located [4]. KFC has created an original franchise model. The headquarters first opened the restaurant of KFC. It runs the restaurant with the location, decoration, equipment, store operation and staff recruitment. A series of preliminary work, he finishes his work, then the store is opened. After it has already started to make a profit, he will sell the store to these franchisees. At the same time, KFC will also use its very mature systematic management model, marketing, as well as the capabilities behind the operation of talent and logistics to enable franchisees to ensure that all links can be standardized, and his guarantee of success is greatly improved. KFC also has many advantages in terms of suppliers. KFC has thousands of suppliers, but if you want to become a KFC supplier, you need to buy KFC-designated raw materials, such as chicken seedlings, feed, etc. If you don't do this, you can't become a KFC supplier. Because KFC will think your product is not covered. Although most suppliers will buy expensive ones, they will still buy them according to KFC's requirements. Supplier profits can account for 20% of KFC's total revenue. Below is the financial of KFC, which shows that not all the revenue is come from the profit in restaurants (in Table 4).

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Table 4: Financial report.

Abort	2022.3.31	2021.3.31	2020.3.31	2019.3.31
Total income	25957	27798.44	28459.17	24674.01
Revenue	25956	27798.44	28459.17	24674.01
The total cost of revenue	18481	19664.56	20446.58	17567.84
Gross margin	7476	8133.89	8012.59	7106.16

Another earning money method for KFC is about real estate. KFC made profits by cultivating business circles. KFC will first find a deserted place to start training, and after KFC settles in, large brands will also settle in one after another. In this way, the original cold dish will turn into a booming dish. Then KFC will set up a real estate fund and lease or buy it in the surrounding area for a long time. After a period of operation, the price will slowly rise. When the surrounding business circle matures, KFC will rent it to the franchisee at a high price to earn the price difference.

4. Compare of McDonald’s and KFC

There is no doubt that McDonald’s, which has more than 30,000 stores, and KFC, which has opened more than 11,000 stores, rank first and second in the fast food industry. They provide competing products and services, and their operation and management methods seem to be opposite, but they have all achieved great success [5]. As the world's top outstanding fast food companies and chain management system, McDonald’s has a longer operating background, stronger corporate strength, and stronger brand assets. Compared with KFC, the competition and strategies of the two are different [6]. With China's accession to WTO, the degree of opening up to the outside world has become higher and higher, and a large number of foreign multinational companies have entered the Chinese market. As the world's largest developing country and the largest developed country, China and the United States are increasingly closely linked. Among the many American multinational companies investing in China, the success of their fast food industry in China is obvious. Among the many fast food brands, McDonald’s and KFC are undoubtedly the two most successful giants in China. And this success is undoubtedly closely related to the global regionalization strategy they have implemented [7]. As shown in table 5, in the United States, McDonald’s earns more than KFC, but KFC has more sales than McDonald’s in China.

Table 5: Financial report.

	US market		
Project		McDonald	KFC
Operating receipt	2003	221$	49.36$
	2002	203.057$	48.6$
Number of restaurants	2003	13609	5524
	2002	13,491	5,472

The sale in China of KFC and McDonald’s are shown in Figure 1. The figure 1 shows that from 2010 to 2015 the sale of KFC in China is much more than the sale of McDonald’s.

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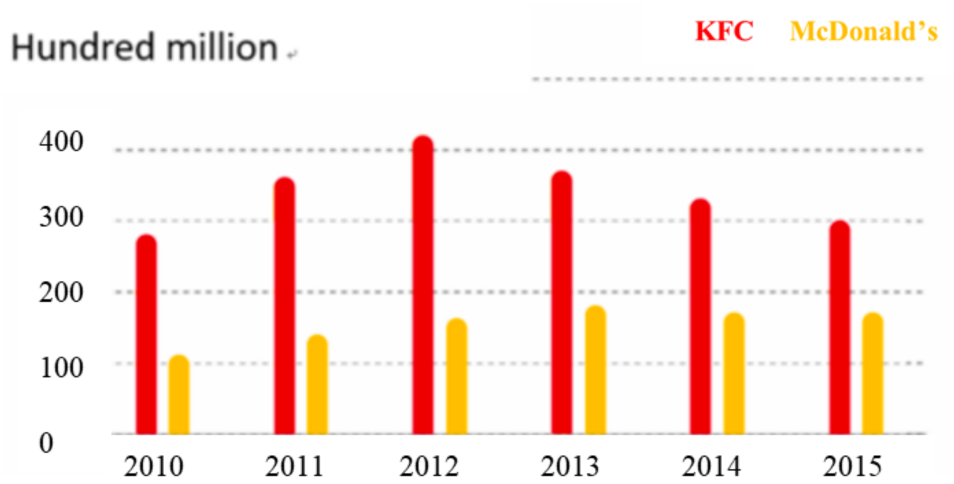

Figure 1: KFC and McDonald's sale in China.

These are enough to show that the two companies are comparable and can develop well in their respective markets. When two manufacturers of similar products compete, they often follow the maximization of product differences to highlight their uniqueness. The geographical locations of peer stores are far apart, and they try to expand the difference from competitors as much as possible to pursue high profits [8].

Michael Porter's principle of competitive advantage believes that there are two basic sources of competitive advantage for enterprises: cost leadership and standard differentiation [9]. It maintains that all competition is reflected in five competitive forces, namely the invasion of new competitors, the threat of substitutes, the bargaining power of customers, the bargaining power of suppliers, and the competition between existing competitors. These five types of competition are boiled down together. In the final analysis, to obtain a competitive advantage, an enterprise must create value that exceeds the cost for its customers, and have the ability to continuously maintain a competitive advantage [10]. There are actually some differences in the way the two similar companies operate. For example, in terms of real estate, KFC chooses to rent to franchisees after operating profits, and McDonald's chooses to rent stores and use rents to make profits. In terms of supply chains, KFC chose to allow suppliers to buy raw materials in designated places, while McDonald's chose to directly help suppliers grow technology to lower cost prices.

5. Conclusion

There will always be some differences between the two similar enterprises in order to maintain this competitive relationship all the time. Just like KFC and McDonald's, although they sell similar products, the brand's profitability is different, so both enterprises can survive forever. When the fast food industry prevailed, KFC and McDonald's could go hand in hand, which showed that they had their own strengths. This article compares the profits of the two companies in various aspects to find that the operation of the two companies is different. It was found that although the two companies operate roughly the same, such as controlling the price of raw materials, real estate, etc., the specific operations of the two companies are still slightly different in various aspects. That's why McDonald's and KFC have always been far ahead in the fast food industry. This research has given people who want to know more about the fast food industry and McDonald's and KFC. This research may enlighten entrepreneurs: how to compete with similar companies? In the future, the fast food industry may still be a necessity for people, but people may have more choices, which requires more companies to compete and propose different methods from other companies. More similar companies

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will have their own characteristics, and diversification will be the future development direction of the fast food industry.

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