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KFC Savors Potential in Africa

Yum Brands Unit Plans to Double Number of Outlets on Continent, Where Middle Class Is Growing

By JULIE JARGON

After spending two decades introducing fried chicken and pizza to Chinese consumers, Yum Brands Inc. now sees Africa as its next international jewel.

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Bloomberg News

Yum envisions 1,200 KFC restaurants in Africa by 2014, twice its current number. Above, a KFC in Egypt.

By 2014, the Louisville, Ky., restaurant-holding company expects to double its number of KFC outlets in Africa to 1,200. In the next four years, it aims to more than double its revenue on the continent to $2 billion.

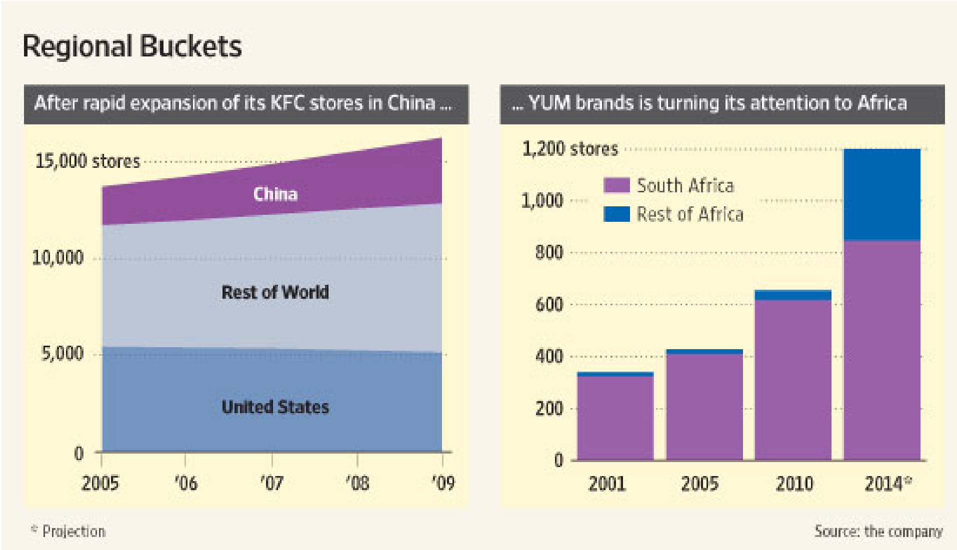
"Africa wasn't even on our radar screen 10 years ago, but now we see it exploding with opportunity," says David Novak, Yum's chairman and chief executive officer.

The improved political stability of various African governments, the region's vast population and a growing middle class in Africa—where chicken is a dietary staple—led Yum to set its sights on the continent.

The first KFC in South Africa opened in 1971 and Yum, whose brands also include Pizza Hut, Taco Bell and Long John Silver's, is now branching out into Nigeria, Namibia, Mozambique, Ghana, Zambia and other African countries.

American restaurant companies and retailers have been moving into emerging markets as growth in the U.S. and other developed countries has slowed, and Africa is increasingly being added to the list. Wal-Mart Stores Inc. recently offered to buy 51% of South African retail giant Massmart Holdings Ltd.

Africa is attractive for Western brands because its resource-rich countries are adding infrastructure while increasingly urbanized areas



are creating opportunities for retail development.

Approximately 40% of Africans live in urban areas now and the number of households with discretionary income is projected to increase by 50% to 128 million over the next decade, according to a recent study by the McKinsey Global Institute.

"People are now focusing on the emerging world, with a bit of a gold rush going on," says Graham Allan, CEO Yum Restaurants International.

"A lot of companies, especially Chinese ones, have invested in Africa," Mr. Allan adds. "We share the general view that Africa over the next 10 to 20 years will have massive potential."

Of the roughly one billion people in Africa, KFC estimates it currently reaches 180 million.

When McDonald's Corp. arrived in South Africa in the mid-1990s, KFC worried about the impact the burger giant would have on its business. So KFC began opening new restaurants and remodeling existing ones to make them more modern. By the early 2000s, KFC had about 300 restaurants in South Africa.

KFC quickly outpaced McDonald's, which has fewer than 200 restaurants in Africa. With more than 600 KFCs in South Africa now, the chicken chain has a 44% share of that country's $1.8 billion fast-food market, followed by South African chain Nando's, with 6%, and McDonald's and the local Chicken Licken, each with a 5% share.

A McDonald's spokeswoman declined to comment on the company's expansion plans in Africa.

The menus at African KFCs are similar to those in more developed markets, albeit with more chicken drumsticks and wings, and fewer boneless items such as sandwiches and nuggets.

"Africans are wary of processed food," says Keith Warren, general manager of Yum's Africa business. "They want chicken on the bone."

The chain seeks to appeal to wealthier Africans as well as to people living at an income level just above that of subsistence farming. Meals consisting of a chicken sandwich, fries and a drink can cost as much as the equivalent of $7, while two pieces of fried chicken and fries cost $3.

The company also sells chicken sandwiches for $1 and four chicken wings for $1.20.

"The KFC brand is highly aspirational in Africa. People will save up to buy the $3 meal, even if only once every three months," Mr. Warren says.

KFC sells chicken more cheaply in South Africa than most parts of the world because local labor costs are lower and chicken suppliers don't charge as much, partly because South Africa is a major producer of corn to feed the birds.

Although Africa is rebounding from the recent economic and food crises, it's a slow march. The continent's gross domestic product is projected to grow 4.6% next year, below the average growth rate of 6.1% in 2007, according to the World Bank. When Africa's GDP growth slowed to 1.7% in 2009, seven million to 10 million Africans fell into poverty.

Still, the low cost of doing business in Africa, coupled with a growing population, is expected to yield high returns for Yum. The company, along with franchisees, plan to invest about $500 million in the expansion and the company expects to more than double its operating profit in Africa to $120 million by 2014. Yum, in total, posted $10.8 billion in sales in 2009 and almost $1.6 billion in operating profit.

The expansion will present plenty of challenges. In some countries, KFC imports its chicken from South Africa and Brazil. But there is still "a lot of protectionism in Africa," Mr. Warren says. "In Nigeria and East Africa, imports of chicken are banned," he adds.

In those places, KFC has been working with local suppliers to ensure the quality and safety of their chicken meets the company's specifications.

Sometimes the company finds itself hamstrung by bureaucracy. "At my store in Angola, we were ready to start construction six months ago, but an official had a piece of paper he was tardy in handing over. We just started construction three weeks ago," Mr. Warren says.