

Could India Be Yum! Brands' New Key To International Growth?

Contributed by Euromonitor International
 Wednesday, 14 December 2011
 Last Updated Wednesday, 14 December 2011

On the back of incredible success in China, Yum! Brands is now looking to India to be its next major growth engine.

Though currently a very small market for Yum! Brands in revenue terms, the company has recognised that India offers enormous future opportunities in fast food.

Like China, India has a large population dominated by young people, a growing middle class and an emerging economy, making it a prime target for multinational fast food operators.

To maximise these opportunities, Yum! Brands recently increased their focus on India, creating a stand-alone corporate reporting unit for the market. The company has also stated it hopes to make India a major growth driver for Yum! Brands, and with current conditions in the growing market, the goal just may be within reach.

Dominance in China

Yum! Brands' success in China has been rapid and decisive. While other multinationals have struggled to gain significant traction in the market in recent years, Yum! Brands has built its share to 5.2% in fast food, more than double that of chief competitor McDonald's, and an incredible 48% in pizza consumer foodservice. Yum! Brands now has over 4,000 outlets in China, representing more than 10% of the company's total outlets system-wide.

The company has been very successful in tailoring their US brands to fit Chinese palates, relying more heavily on full-service formats with high-end positioning for Pizza Hut restaurants, a response to a local preference for a social dining experience, and tailoring menus across all brands to coincide with local preferences.

Now Yum! Brands hopes to apply similar strategies in India, converting what's currently a minor revenue contributor into a major future growth driver. In a recent statement announcing the decision to separate Yum! Brands India as its own reporting unit, the company stated it is currently at a similar stage of development in India as it was in China during a similar stage in the market's life cycle. In other words, the company believes India is experiencing similar conditions as those that allowed them to be so successful in the market, and it believes it can parlay them into similar growth.

A look at some of Euromonitor International's data shows this may be the case. China's incredible foodservice growth over 2005-2010 (an increase of US\$149 billion in just five years) has been aided by a very large population, a growing middle class with rapidly increasing disposable income, and the spread of awareness regarding Western lifestyles, especially among young people.

While the immediate similarities with India are obvious—the two countries boast the largest populations in the world—a closer look shows they go far beyond scale alone.

At 1.2 billion, India's population is second only to that of China (1.3 billion), and both outnumber that of the next closest country by a factor of three. India's population is also very young, with a median age of just 25, and 31% of the population aged below 14 years. While China's population's median age in 2010 was 39, it was 25 in 1990, just three years after Yum! Brands first entered the market. India is also seeing rapid growth in its middle class, a condition that is also true, and has been for many years, in China.

But beyond these similarities, the most important factor that unites these two countries is rapid expansion in disposable incomes. Annual disposable income in India has increased at a compound annual growth rate (CAGR) of 16% since 2005, despite the effects of the worldwide recession. Similarly, China's figure has increased by a CAGR of 15% over the same period.

The two countries also share similar disposable income distribution patterns, which differ substantially from those in most other markets, both mature and developing. As can be observed in the graph below, in 2010 the bulk of Chinese and Indian households were both clustered around an annual disposable income range of US\$2,501-US\$5,000, with a large percentage falling within a relatively small range of incomes.

In comparison, many other markets show households distributed more evenly among the disposable income spectrum. As a result, India and China both offer incredible opportunities to operators who can appeal to that incredibly large potential consumer base, through the right price point and branding that appeals to upwardly mobile consumers, many of whom are gaining access to foodservice meals for the first time.

Also important to note is the fact that this core of potential consumers is shifting quickly along the disposable income spectrum. A look at the same graph of Chinese and Indian households in 2000 shows how quickly disposable incomes are increasing, evidence of the future opportunities to be had in these markets in the form of total consumer spending on foodservice.

A new market brings new challenges

This focus on growth in India couldn't come at a better time for Yum! Brands, as the company's financial health has become increasingly dependent on revenues from China in recent years. In 2010, Yum! Brands reported almost 40% of the company's revenues came from its China Division, which has been consistently taking share from the company's domestic segment and Yum! Restaurants International, which includes all other international markets.

Furthermore, company officials have stated that China Division revenues will reach 50% of total revenues by 2015, evidence of the company's mounting need for diversification.

India may be just the answer Yum! Brands is looking for, especially as the company's primary international concepts are well suited for Indian palates. As in China, chicken is a much more popular protein than beef (though in India it is due specifically to widespread religious beliefs), which is one of the reasons KFC has already had so much success in the market. Similarly, Pizza Hut menus have been easily adapted to include local ingredients and flavours, and include lots of vegetarian items, pizzas topped with paneer, and a few chicken- and pork-based dishes.

KFC in India also launched a new Streetwise menu of low-priced meals (priced between Rs25 and Rs100, or about US\$0.55 to US\$2.20) earlier this year, designed to better appeal to the mass of lower-income consumers highlighted in the disposable income distribution chart above. The menu also allows the brand to compete more successfully with current market leader McDonald's, which launched a similar "Happy Price" menu in 2004. Yum! Brands also recently opened its first Taco Bell restaurant in India, citing a belief that Mexican-style food is perfect for Indian tastes, with its reliance on spicy, bold flavours and vegetarian options.

It's also important to note, however, that despite Yum! Brands rapid growth so far in India, the company is still facing stiff competition from other multinationals. McDonald's still outranks Yum! Brands in overall value terms, and in pizza consumer foodservice, Pizza Hut actually lost 3 percentage points of share to Domino's Pizza from 2009-2010. Similarly, Pizza Hut's success in China has been mostly due to a savvy high-end positioning that appeals to higher-income Chinese consumers who value a premium dining experience.

With India's large population of young people and generally weaker dining-out culture, a similar positioning may not net such favourable results. Even in chicken fast food, where KFC leads its competitors with a 75% share, the brand has failed to gain share since 2009, despite second-place competitor Republic of Chicken doubling its share from 6% to 12%. As a result, while it's clear the opportunities are present in India, there's no guarantee Yum! Brands will actually be able to reap the benefits.

Either way, with 279 outlets in India in 2010, and a 0.2% share of consumer foodservice, Yum! Brands has a long way to go before conquering the market. The company has reported it expects to reach 1,000 outlets across its three brands by 2015, which it hopes to parlay into US\$1 billion in annual revenue. Yum! Brands' China success is admirable, but it was also aided by many factors that aren't necessarily in play in India, the most notable of which being Yum! Brands' significant first-mover advantage in the former.

With a successful application of the strategies that helped Yum! Brands win over China's fast food customers, it's entirely possible they may be able to achieve significant growth; however, with mounting competition from other multinationals, many of whom are also recognizing the country's promising economic conditions and strategising accordingly, any growth they achieve won't come without a fight.

FastfoodAnalyst Insight by Elizabeth Friend

Republished with permission from Euromonitor Market Research Blog, originally posted on 12 December 2011