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East Eats West

One U.S. Chain's Unlikely Goal: Pitching Chinese Food in China

**Yum Brands, Owner of KFC,
Pegs Hopes on Efficiency;
No Room for Dumplings**

Melding Eight Types of Cuisine

By **JANET ADAMY**

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SHANGHAI -- Looking for a quick lunch, Zheng Li stopped in at East Dawning, a bright, clean fast-food restaurant in this bustling city. Scanning the menu board, she saw crispy pig ears, marinated egg with seaweed and shaved ice topped with corn, peanuts and red beans. The 26-year-old hotel receptionist chose spicy chicken and carried it to a table on a paper-lined tray. "The taste is so Chinese," she said.

But the company that created it is so American. **Yum Brands Inc.**, which owns KFC and Pizza Hut, developed East Dawning from scratch two years ago. Just as with its other restaurants, Yum is betting that the efficiency and atmosphere of American-style chain restaurants will appeal to Chinese diners. Only this time, the Louisville, Ky., company wants to apply its formula to Chinese food. In China.

East Dawning operates just like a KFC except its menu and decor are Chinese. Its four restaurants -- all in Shanghai -- offer standardized versions of noodles, rice, soy milk and other favorites, including fried dough and plum juice. Yum wants East Dawning to be the biggest Chinese fast-food restaurant chain in China. If the concept works, Yum may also start a chain in India serving Indian food.


SEE A PHOTO SLIDESHOW 



Janet Adamy

A Shanghai East Dawning restaurant is clean and brightly lit, with wooden tabletops and traditional Chinese touches in the décor.

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Big multinational companies have tried treating China as a single, homogenous market before and many have failed. Beer maker Interbrew, now part of InBev SA, stumbled when it pushed into China in the 1990s, outmaneuvered by local brewers with a keener knowledge of their markets. Already, Yum has scrapped one version of East Dawning and is opening new branches at a slow rate.

Most companies have avoided tackling anything as complex as native cooking. Chinese tastes vary widely between regions; the country's cuisine doesn't have an easily preparable national staple, such as a hamburger. A handful of rival Chinese fast-food chains have attracted overseas funding and some say the American company is underestimating the

complexity of Chinese food.

"KFC and McDonald's are so simple. You can hire high-school students to make the fried chicken and the hamburger," says Dennis Cheung, director of new projects and information technology for New Asia Snack, which runs a local chain called New Asia Dabao. "Chinese food is so complicated. It's very difficult to standardize because everything's controlled by the chef."

Yum says its advantage comes from how it runs restaurants, including providing fast, friendly service and keeping the bathrooms clean. Executives also note they're relying on a team that consists mostly of Chinese natives to develop East Dawning, not management in Louisville.

"I think we are as close as can be at being local," says Sam Su, president of Yum China, digging into a tray of rice on a recent lunch at a downtown East Dawning. Behind him, customers lined up to order while workers scurried behind a row of cash registers to assemble the meals.

Mr. Su is also aware of the magnitude of his challenge. "There are some very significant barriers," he says. "No one has done what we are doing."

Based largely on the growth of KFC, which first opened here in 1987, Yum has become one of the most successful American companies in China. About 16% of Yum's profit came from China last year. Those earnings have helped buoy the company's share price amid uneven results at U.S. restaurants. Yum operates almost 2,000 KFC and Pizza Hut restaurants in nearly 400 Chinese cities, almost three times as many as archrival **McDonald's** Corp. KFC is the largest chain in China.

Chinese take great pride in their cuisine, and social occasions often revolve around big meals at crowded, multistory restaurants, where guests share bowls of spicy beef, fried tofu and mushroom soup. Streets in Chinese cities are lined with vendors who fry dough and grill meat for breakfast and lunch.

Yum sees its opportunity in the rapid growth in China's economy and work force. A new generation of two-income families has less time for cooking and relies more on eating out. China has about four million restaurants, or about seven times as many as the U.S., and their sales are expected to grow at a double-digit rate through at least the end of the decade, according to Technomic Inc., a Chicago consulting firm. In this market, eating at KFC and East Dawning is considered a relative luxury.

Weaving itself into the Chinese culture while offering a standard American experience is an important part of Yum's success with its other brands. Most quick-service restaurants here have dated interiors, poor lighting and mediocre service. Chinese KFCs, by contrast, are brightly lit, with spotless booths and play areas for children. Last year, KFC hosted more than one million children's birthday parties in China and its hostesses visit schools to give manners classes.

Mr. Su, 54, a native of Taiwan, worked for Procter & Gamble Co. in Germany before joining KFC in 1989. He helped open one of Shanghai's first KFCs. It was a humbling experience. Mr. Su remembers the location threw away more chicken than it sold and eventually folded. A newspaper headline trumpeted KFC's failure in Shanghai with "a celebration piece," he says. "Like we Chinese had defeated the foreigner." At the time, KFC was owned by **PepsiCo** Inc.

During the following decade, KFC kept opening restaurants, tweaking flavors to appeal to local tastes. It helped that chicken already was popular in China. KFC added spicier chicken dishes and traditional items such as a soupy rice called congee. Store managers made sure workers served orders quickly and trained employees to clean toilets. KFC created its own distribution unit to secure a supply of everything from

buns to uniforms.

In 1997, PepsiCo spun off KFC, Pizza Hut and Taco Bell into a company that eventually became Yum. A few years later, the company's CEO, David Novak, asked Mr. Su whether Yum could start a Chinese chain. McDonald's founder "Ray Kroc had a lot of success launching the hamburger in the United States," Mr. Novak recalls saying. "Why don't we do the same thing with Chinese?"

According to surveys commissioned by the company, locals disliked the atmosphere at existing Chinese fast-food places, recalls Benjamin Koo, a Yum executive who helped Mr. Su create East Dawning. Customers said workers frowned at them. The restaurants were cramped, dirty and hot: "I work out a sweat eating in those places," Mr. Koo recalls one customer saying. Respondents also thought the food was inconsistent.

Offering a better environment was easy for Yum, which had already done that with KFC. Picking a menu with nationwide appeal that was also simple to prepare would be more difficult.

Chinese consumers demand more variety on restaurant menus than Americans. Dishes rely heavily on vegetables and noodles that quickly become soggy or soft. China's eight main regional styles of cuisine vary widely. Sichuan food, for instance, is spicy. In Southern China, people like longer rice while Northerners prefer a rounder variety.

Yum wanted a single national menu to avoid creating a new one for every region, which would complicate its plan to run a streamlined operation. Mr. Su says the chain may make some modifications for local tastes when it expands. Marketers picked seasoned ground pork from Taiwan and Cantonese chicken with black mushrooms. Both had broad appeal and were relatively simple to prepare.

In 2004, Yum opened a test restaurant in a quiet location outside Shanghai's center. Mr. Su decided to emulate Hong Kong fast-food outlets, which use a cafeteria-style format. Workers wearing shirts with Chinese collars spooned rice and meat onto large plates. The menu included soda.

The restaurant flopped. The rice cooled too much as workers dished it up. Workers couldn't cook the dumplings fast enough. Yum closed the location after less than a year.

Mr. Su concluded that customers wanted a speedy restaurant like KFC, with better Chinese food. He and his team designed a new East Dawning where the goal was to serve the food in 90 seconds, just like KFC. Yum scrapped dumplings because they took at least two minutes to prepare. Mr. Su knew some customers would be disappointed. Dumplings are a staple at other Chinese fast-food restaurants that put a smaller premium on speed.

The new format played up the restaurant's Chinese elements. Instead of soda, it offered traditional Chinese drinks including soy milk, tea and smoky-tasting plum juice.

Mr. Su and his team reopened East Dawning last year. At a two-story location in a Shanghai retail district, customers place orders with polo-shirt-clad workers at a long counter, just like a U.S. fast-food chain. Diners sit on chairs or benches below large pictures of rice bowls and sizzling meat dishes. Sesame balls that smell like donuts get folded into paper envelopes that look like french-fry sleeves.

East Dawning's menu has about 50 items covering breakfast, lunch, dinner and snacks. Dishes include coconut-curry beef rice, hot-and-sour soup, cabbage with pork and noodles, and sweet purple rice.

The restaurants have integrated into their decor traditional Chinese design touches, such as those used in coins. Designers placed a long table in the middle of the restaurant to recall a spot in Chinese homes where families leave offerings for ancestors.

On a recent afternoon, Zheng Li Mei stopped at KFC to buy her 3-year-old son a children's meal before heading to a Shanghai East Dawning. The 33-year-old former teacher picked at a shaved-ice dessert. She said she prefers other Chinese chains because the dishes at East Dawning taste too similar to one another. "It's authentic but it's not that good," she said.

Other customers say East Dawning's atmosphere is enough to keep them coming back. "We like Chinese food but we don't see many restaurants like this," said Ying Jin, a 24-year-old who brought her boyfriend to East Dawning so they could sit by a window overlooking a shopping area.

Her boyfriend, Zhon Tong Chao, said they've eaten there so often he's tired of the food. On their visit, the 28-year-old accountant bought pork and dumplings at an outside vendor, which he ate while Ms. Ying dined on the chain's sweet-and-sour pork ribs.

Some Shanghai residents say they're not willing to pay East Dawning's prices. A typical meal, which includes an entree, soup and a vegetable, costs about \$2.30, the same as a comparable meal at KFC. Similar meals at local chains can be less expensive by a third.

Mr. Su says average sales per store are lower than at KFC, but he won't give sales numbers or say how quickly Yum plans to open additional locations. A Yum official told the Shanghai Daily last year that the company planned to open nearly 10 East Dawning locations in Shanghai by the end of 2005; it currently has only four. Yum executives say they're not adding new locations slower than planned, but concede they've had a hard time finding sites.

"I think it's going to take us quite a few years to build this brand," Mr. Su says.

Yum faces competition from China's improving quick-service chains. Yonghe King, which opened in China in 1995, adorns many restaurants with a picture of a Chinese man resembling KFC's Colonel Sanders. At new locations, Yonghe King is displaying instead an image of a steaming bowl of food. Waley Lu, a company executive, says the chain wants to appear more contemporary.

In 2004, Yonghe King signed a deal with Jollibee Foods Corp., a Philippine fast-food company, which plans to invest up to \$22.5 million over a three-year period. Yonghe King wants to have about 500 locations in China within the next six years, up from about 115 today.

The behind-the-scenes operations at Yonghe King are still a long way from those at East Dawning. Before Yonghe King launched a beef and vegetable dish in August, experts sampled at least 50 types of rice to determine which tasted best. But the beef dish takes about four minutes to produce, compared with about 90 seconds at East Dawning. Yonghe King also offers dumplings, despite the long preparation time.

Mr. Su says he isn't deterred by local competition. Yum hopes to run its first TV ads for East Dawning as soon as next year. Executives say they may expand East Dawning to other parts of Asia. They say it's too soon to tell, however, whether they will bring the restaurant to the U.S.

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