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# **Cultural adaptation pattern analysis of McDonald's and KFC in the Chinese market**

*Authors:* Longyu ZHOU  
Qinjie ZHANG  
*Supervisor:* Cecilia PAHLBERG  
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## **Abstract**

KFC and McDonald's are two representatives of American fast food brands who are operating in China. Considering the cultural differences between American and Chinese culture, whether and how they adapt themselves to the Chinese culture caught the authors' attention. This thesis aimed to explore the cultural adaptation patterns of these two brands, and find out what factors contribute to a successful cultural adaptation model from customers' perspective.

In order to find the answer, the authors based this study on academic theories and studies together with objective information of KFC and McDonald's, and carried on a survey based on Chinese market. After combining empirical findings and analysis, two models were derived for KFC and McDonald's respectively. After the analysis, this thesis also discussed implication and limitation of the results, and suggestion for future study was presented.

**Keywords:** culture, cultural adaptation, fast food industry, 7Ps, Chinese market

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# 1. Introduction

## 1.1 Background

In this age of internationalization, people are able to share any kinds of food from different parts of the world, thanks to the global business of food and beverage companies. As the leading driver of global growth in consumer food service, the fast food industry is reaching new consumers continually through improved menus, dining experience upgrades and rapid worldwide expansion. As representatives of this industry and experienced multinationals, the American fast food restaurant groups of KFC (Kentucky Fried Chicken) and McDonald's are dominant fast food chains both in China and other parts of the world. However, despite the dominating position of McDonald's in the worldwide fast food industry, it encountered fierce competition from KFC in Chinese market and gradually losing market share: In 2010, KFC ranked the 1<sup>st</sup> biggest fast food chain in mainland China according to the number of market share, and its market size was more than twice the number of McDonald's, which was ranking as the 2<sup>nd</sup> chair (Euromonitor International, 2012). This happened on the stage of China, an ancient country with a long-established history and unique oriental culture. As one of the possible reasons for this difference between the performance of McDonald's and KFC, the degree and ways of their cultural adaptation to the Chinese market caught the authors' attention.

Generally speaking, cultural adaptation is the process of "adjusting the native ways of thinking and behaviors to be consistent with the local culture" (Kotler, 1982). To adapt to a different culture is to face a big challenge and to follow a new system of rules in the specific group, which requires an open mind (Waldron, 1994). So since McDonald's and KFC started their business in China, have they adapted themselves to Chinese culture to certain extent? What measures did they take and whether these measures achieved positive feedback from local customers? Trying to find the answers for these questions, the authors thought it could be very interesting and significant to analyze the two US-based companies' patterns of adaptation and how Chinese customers feel about their adaptation effort.

Nowadays, Mainland China has the largest population in the world and is well-known as a speedy developing country with numerous increasing GDP. In 2010, considering the total fast food consumption, China is ranked the second largest market in the world, right after the US market (Euromonitor International, 2012), which demonstrates a strong consuming power and profitability of this market. According to David Novak, Yum! Brands Inc.'s chairman and chief executive officer, "China has the best opportunity for restaurants in the 21st century." (Bian, 2009) Furthermore, it's a market of both great potential and unexplored opportunities: most multinationals in the market mainly focus on big cities in China, where their global brands attracted mid- and high-income consumers with an interest in western

lifestyles, leaving the small cities and rural area with insufficient exploration (Li, 2007). However, during recent years, growing competition in big cities results in a growing focus on small cities. Facing these challenges and opportunities, to what extent and how they should apply cultural adaptation to win the game in this market is a crucial question for all these multinationals. Thus, the authors hope that the result of this study can shed light on their Chinese adventure to some extent.

## 1.2 Research Purpose

This thesis is to explore the cross-cultural adaptation patterns of KFC and McDonald's in China, and find out how customers think about their adapting behaviors—what are the important adaptation factors in their daily operations that help contribute to a successful adaptation pattern.

## 1.3 Research Questions

What measures have KFC and McDonald's taken to adapt to Chinese culture? What are the similarities and dissimilarities in their cultural adaptation patterns? Within all these measures, which are the factors contributing most to a successful adaptation model that favored by the Chinese customers for KFC and McDonald's respectively?

## 1.4 Research Contents and Framework

In order to carry on the analysis, the authors first studied relative academic literatures and theories about adaptation/standardization, and further narrowed these theories to culture and cultural adaptation context (the cultural gap for these two companies to adapt is between the American and Chinese culture in this thesis). Since the 7Ps marketing variables had been employed to establish the questionnaire framework, related theories and studies are also presented in the literature review section. After this, secondary data was collected to study the performance of McDonald's and KFC in China, and several cases/examples regarding their cultural adaptation effort were introduced to help explore the adaptation patterns of these two brands. These two parts together constructed the basis of this study and prepared sufficient information for carrying on the authors' investigation. Furthermore, a questionnaire was used to find out what adaptation measure contributes in building the overall adaptation patterns favored by the customers respectively for KFC and McDonald's. Based on the results of the survey, the authors gave some advice for future multinationals who intend to run their business and adapt successfully in China.

## 2. Literature Review

### 2.1 Adaptation vs. Standardization

When an individual or a corporation first enters a new environment with diverse culture, it is generally accepted that the cross-cultural communication will create stress for them. Facing such pressure, some choose to remain their own characteristics (standardization), but others choose to be part of the new environment with their own features (adaptation). The question of whether to adapt or to standardize global markets has received great attention during the last four decades.

Already early in the late 1960s, R. Bartels (1968) claimed that for U.S. firms, “emphasis on the inherent similarities rather than differences will enable a better understanding of the nature of foreign marketing.” He developed a framework studying standardization concerning market characteristics, industry conditions, and legal restrictions. A major proponent of his on marketing standardization is Theodore Levitt. Levitt (1983) claimed in his article that “The world’s needs and desires have been irrevocably homogenized.” He and other proponents of standardization believe that due to “technological innovation, mass communication, and consumer mobility”, consumer needs around the globe are converging, allowing marketers to pursue uniform marketing approaches in global markets. Besides the homogenized customer needs, another reason for them to support standardization is the economies of scale and cost savings (Aaker et al. 1999, Buzzell 1968, de Chernatony et al. 1995, Kapferer 2005, Levitt 1983). Furthermore, global brands seem to have more bargaining power than local customers (de Chernatony et al. 1995). A worldwide-affecting brand equity also allows these brands to better conquer new markets (Douglas et al. 1987).

Many critics, however, have argued that standardization is not feasible or desirable due to differences in the legal, cultural, and climatic environments (Douglas and Wind, 1987; Hill and Still, 1984; Calantone et al, 2004). Even under wide-spread adoption of mass customization techniques, the issue of adaptation still should be taken into consideration (Calantone et al, 2004). Modification in features or products to satisfy local customer needs is sometimes a requirement for entering foreign markets (Hill and Still, 1984). A lot of scholars mentioned the importance of considering cultural factor (Hofstede 1988, Cleveland et al. 2007, Schuiling et al. 2004). Since consumers reinterpret the brand’s marketing actions according to their cultural backgrounds and lenses, brands’ proximity to local culture will allow them to build better relations with their consumers and to better respond to their needs (Schuiling et al. 2004). Cleveland and Laroche (2007) noted in their work that, “more than any other factors, culture is the prime determinant of consumers’ attitudes, behaviors and lifestyles, and therefore, the needs that consumers satisfy through the acquisition and use of goods and services”. Hofstede (1988) also claimed that, attitude such as “cultural

choices of their own country are necessarily superior to those of other countries” is “a luxury that the management of a multinational corporation can no longer afford.”

To some extent, this debate has been ineffectual since neither complete adaptation nor complete standardization is possible (Akaah, 1991; Buzzell, 1968; Douglas, 1987). Some scholars also claimed that the internationalization choice of a corporation should be regarded as a combination of these two options. “People around the world are subject to their original cultural programming and exposed, through the media, their travels and their consumption experiences to different cultures as well as to the global culture.” (Ghantous, 2008) For the customers, this is a course of interaction, which results in a culture that is neither quite global or homogeneous across countries, nor really a set of different local cultures, but a state of “fragmentation” (Firat, 1997) where different cultures coexist. Thus, international companies need to reach a balance to fulfill this new fragmented consumer culture (Ghantous, 2008).

## 2.2 Culture and Cultural Adaptation

In terms of the definition of culture, Hofstede (1984) used to define a very common but vague set of models: “Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values.” In the book of Culture and International Business (Becker, 2005), the author offered a simple but updated definition to make it easy to understand: “Culture is everything that people have, think, and do as members of their society”, which demonstrating that culture is made up of (1) material objects; (2) ideas, values, attitudes and beliefs; and (3) specified, or expected behavior. This definition proposed by Becker will be the basic guidance in this thesis.

When get down to a narrower concept of cultural adaptation in some specific market, it can be considered as a kind of behavioral adaptation of the current organization as a legal person. Many scholars have theorized and studied the notion of cross-cultural adaptation, which tends to move from one culture to another one, by learning the elements such as rules, norms, customs, and language of the new culture (Oberg 1960, Keefe and Padilla 1987, Kealey 1989). According to Ady (1995), “Cultural adaptation is the evolutionary process by which an individual modifies his personal habits and customs to fit into a particular culture. It can also refer to gradual changes within a culture or society that occur as people from different backgrounds participating in the culture and sharing their perspectives and practices.” More specifically, “Adaptive behavior includes the age-appropriate behaviors necessary for people to live independently and to function safely and appropriately in daily life expected of his age and social group”(Heward, 2005). To adapt to a different culture is to face a big challenge and to follow a new system of rules in a specific group, which requires an open mind (Waldron et al, 1994).



Generally speaking, cross-cultural adaptation is the process of “adjusting the native ways of thinking and behaviors to be consistent with the local culture” (Kotler, 1982).

Although these scholars mainly focused on the adaptation behaviors for an individual in a new and unfamiliar cultural environment but not a corporation in an unfamiliar marketing environment, their theories and works are still extremely valuable and important in guiding this investigation, and provide solid theoretical foundation and methods for the authors to carry on the analysis.

### 2.3 Culture in Marketing

According to Kotler et al. (1996), “Culture is the most basic cause of a person’s wants and behavior”. Herrmann and Heitmann (2006) also claimed that when planning marketing strategies cross borders, it is important for multinationals to consider cultural differences, for they result in different consumer responses. Kotler also explained in his book how culture influence consumer behavior through social, personal and psychological factors. In the meanwhile, the cultural, social and personal factors are all respectively influencing the consumer behavior in the market. By studying and understanding the consumer behaviors, companies will be able to reach their final decision of marketing mix. This model is presented as below:

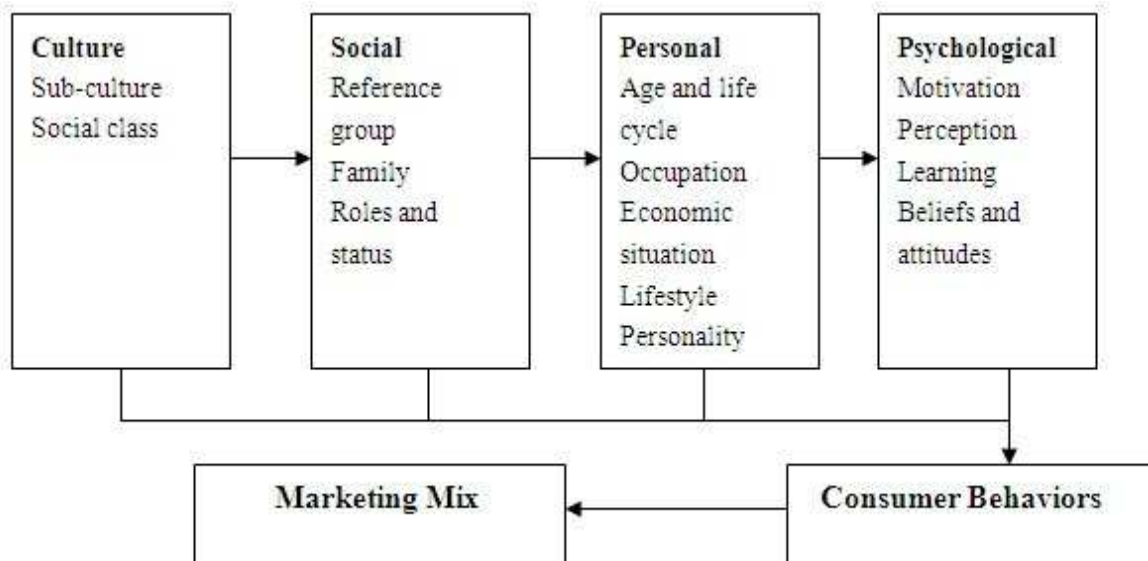


Fig. 2.1 How culture influence consumer behavior

(source: Kotler et al., 1996)

As components of the marketing mix, marketing decision variables are those variables under the company's control that can affect the level of demand for products. They are distinguished from environmental and competitive action variables that are not totally and directly under control (Kotler, 1992).

McCarthy (1975) proposed four marketing decision variables, which are: Price variables, Product variables, Promotion variables and Place variables:

Price: allowances and deals, distribution and retailer mark-ups, discount structure.

Product: quality, models and sizes, packaging, brands and service.

Promotion: advertising, sales promotion, personal selling and publicity.

Place: channels of distribution, outlet location, sales territories and the warehousing system.

However, this 4Ps mix has increasingly come under attack with the result that different marketing mixes have been put forward for different marketing contexts. Later in 1981, Booms and Bitner proposed the 7Ps mix. The 7Ps or Extended Marketing Mix of Booms and Bitner is a Marketing Strategy tool that expands the number of controllable variables from the four in the original Marketing mix model to seven. Compared with the new model, the traditional Marketing mix model is useful for tangible products. While the 7Ps model is more useful for services industries and could also be applied to the knowledge-intensive environment (Aaker, 2009).

Booms and Bitner expanded the marketing mix by adding the following 3 additional P's:

People: All people directly or indirectly involved in the consumption of a service are an important part of the extended marketing mix. Knowledge Workers, Employees, Management and other Consumers often add significant value to the total product or service offering.

Process: Procedure, mechanisms and flow of activities by which services are consumed (customer management processes) are an essential element of the marketing strategy.

Physical Evidence: The ability and environment in which the service is delivered, both tangible goods that help to communicate and perform the service and intangible experience of existing customers and the ability of the business to relay that customer satisfaction to potential customers (Booms and Bitner, 1981).

The complete concepts of 7Ps can be seen in the graph below:



Fig. 2.2 the 7Ps components of the marketing mix

(Source: Marketing Management P. Kotler, 2009 P. 17)

However, several criticisms are formulated against the Marketing Mix of the 4Ps or 7Ps, by arguing that their lack of strategic content made it unfitted as a planning instrument (Lambin, 2008); There are two main limitations of the Marketing Mix as management tool, common in all examined domains, namely the model's internal orientation and lack of personalization (Constantinides, 2006, Moller, 2006). There are also some scholars criticize that the marketing mix of 7Ps focuses more on the short term market transactions than an interactive process of relationship building (Gronroos, 1991 and 1994, Gummesson, 1994 and 1996). Facing these criticisms, the authors still chose the 7Ps marketing mix as the analytical basis for the study, first because the tool of marketing mix is widely accepted and used globally by scholars and companies to study markets and marketing strategies; Second, since this study is carried on within the realm of consumer food service, 7Ps can be more suitable than 4Ps for the additional 3 items (physical evidence, people and process) are still worth consideration for their importance and marketing impact in service industries (Buttle 1986; Brown et al. 1991). The 7Ps marketing mix, especially its components in figure 2.2, will be used as framework in the design of questionnaire scales, which will be further explained in detail in chapter 4.

## 2.4 Previous Studies

In 2007, Li Yan published a thesis about KFC and McDonald's internationalization strategy. In this thesis she presented several aspects concerning KFC and McDonald's operation model such as cost control, way

of franchising, adaptation strategy and localized HR policy, etc. She gathered abundant of secondary data describing these two companies' internationalization behaviors, and gave some advice for Chinese fast food companies to develop their own world-famous brands. In her thesis, cultural adaptation was mentioned as one of the strategies but not given much emphasis, and Li didn't provide much empirical evidence to demonstrate the significance of cultural adaptation. However, the abundant description of KFC and McDonald's cultural adaptation measures did contribute to this study by adding reliable materials.

As another piece of the previous relevant works, Yu and Zhang (2009) chose KFC and McDonald's as two samples to study the role of cultural differences in international marketing. In order to carry on the study, they interviewed several marketing managers of KFC and McDonald's to get information of their marketing strategies, after which they drew a conclusion that culture differences influenced the 4P marketing strategies in both the companies in different ways. Being different from their perspective from the companies' side, the authors of this thesis are willing to explore the differences of cultural adaptation measures through customers' eyes, and further study will be carried on to find out the most significantly adapted marketing factor(s) affecting customer choice. In addition, the analytical tool in this thesis is 7Ps rather than 4Ps, since the authors believe the 7Ps marketing mix for service industry may be more precise in this case.

## 2.5 Literature Review Conclusion

To sum up, in this section the theoretical foundations of the thesis are elaborated in terms of related items, theories and relationships among them. Firstly, the debate of "adaptation or standardization" is introduced, and significant arguments from both sides are compared, aiming to provide theoretical supports for the standardization/ adaptation choice of McDonald's and KFC. Secondly, the authors presented the different academic definitions of culture and cultural adaptation, which is fundamental to the subsequent investigation, narrowing down the discussion of "adaptation" strategy to "cultural adaptation". Furthermore, the connection between culture and marketing was explained, and the concept of marketing variables is introduced. While designing the questionnaire, the 7Ps marketing mix was applied as the scientific foundation and guidance, thus in the third part, the 7Ps mix theory is also briefly introduced as an explanation of rationale behind the questionnaire design.

### **3. Introduction of McDonald's and KFC**

#### **3.1 Brief Introduction of McDonald's and KFC in China**

In this section, a brief introduction of McDonald's and KFC was presented, together with the comparison of their size and market share development, for the sake of improving the understanding of background information and laying the foundation for the following discussion.

##### **3.1.1 The Fast Food Service Industry in Chinese Market**

In the Chinese market, the modern American fast food service was first introduced in 1987, thanks to the fast food chain of Kentucky Fried Chicken (KFC) opened its first restaurant in Beijing.

In the 1990s, the fast food industry grew rapidly with a 20% increase on revenue per year, and soon it became the main support of the food industry in Chinese market. From then on, the fast food service industry kept developing with a magnificent speed in the coming years. There were more than 800 groups serving fast food in the market 10 years later, with about 400,000 restaurants (Wen, 2007). Just after the first decade, the fast food service had shared 20% market revenue of the food service industry (Li, 2007).

##### **3.1.2 Kentucky Fried Chicken (KFC)**

Kentucky Fried Chicken (KFC) is the biggest fast food chain offering fried chicken products in the world (Deng, 2011). The mother company of KFC is YUM! Brands, Inc. It is the largest fast food chain in terms of system units—owning 38,000 restaurants around the world in more than 110 countries and regions (Yum! Brands website, 2012).

KFC first landed in Beijing, the ancient capital of China on November 12<sup>th</sup>, 1987, and Beijing KFC Co., Ltd. is the first Sino-foreign joint venture doing fast food business in China. From then on this fast food company started its rapid expansion in the country with the largest population on the earth. In their first 5-years (till 1992), they built up 11 restaurants. On June 25<sup>th</sup>, 1996, KFC opened its 100<sup>th</sup> Chinese restaurant in Beijing, and just on the first day of that month, their restaurant of People's Park in Shanghai had a daily turnover of 400,000 RMB which made the current restaurant a new record of highest turnover one-day in the single store among all KFC restaurants worldwide. Nowadays, KFC restaurants are serving almost 10 million consumers per day in China (KFC website, 2012).

While the group is getting more experienced on running their business in China, its team is also getting bigger and stronger. Its rapid development creates a huge amount of positions in China from the beginning of the entry. By the end of 2007, KFC has employed more than 160,000 people as its Chinese

staff, and it was announced that KFC would insist to employ local people with a rate of 100 percent (KFC website, 2012).

Meanwhile, as the pioneer and leader of this industry, KFC also affects the supply chain from the beginning of their business in Chinese market. In the past 24 years, KFC has purchased more than 700,000 tons of chicken in China, fully from the local suppliers. The group has its own global standard to train and evaluate their over 500 Chinese suppliers. These partnerships provide the restaurants with 90% of the rural material from chicken, salad to packages and fixed equipments (Bian, 2009).

### 3.1.3 McDonald's

McDonald's is a famous and successful fast food chain in the world which owns 33,510 fast food restaurants located in 119 different countries and regions at year-end 2011 (McDonald's Annual Report 2011). On October 8<sup>th</sup>, 1990, McDonald's began its adventure in China by opening its first restaurant in Shenzhen, Guangdong Province, which is a Special Economic Zone directly supported by Chinese government. Later in April, 1992, McDonald's opened its largest restaurant in the world at that time in Beijing.

The McDonald's restaurant chain is well known for its globally standardized products, service and operating policies. Respecting their strategy of standardizing worldwide, the company introduced their new branding activity "*I'm lovin it*" at the same time in all the business-covered countries and regions in September, 2003 (McDonald's website, 2012). It is the first time for the group to launch their branding promotion simultaneously on a global basis, with the same brand image and the same series of advertisements. In 2004, the group re-positioned its target consumer group from family with children into teenagers and young generation with not only a uniform quality standard, but also a standardized marketing strategy (Li, 2011).

### 3.1.4 Development of the two brands

Compared with its biggest competitor in the Chinese market Kentucky Fried Chicken (KFC), it seems that McDonald's is not as aggressive as KFC. A chart explaining the speed of the two groups' development in different period is as follows:

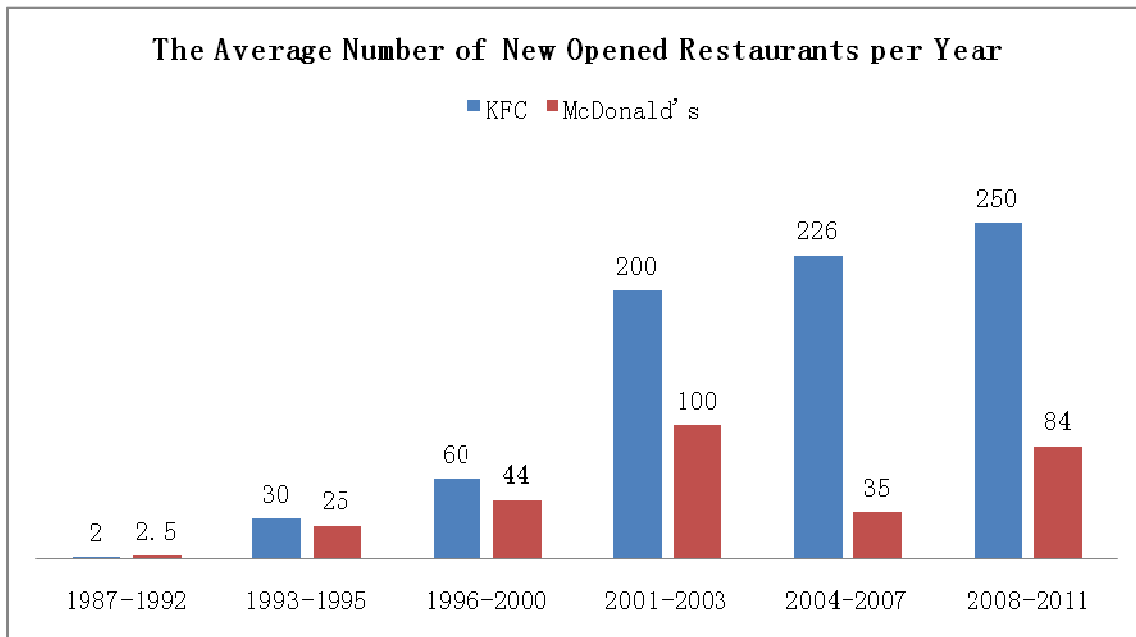


Fig. 3.1 The average number of newly opened restaurant units

(Numbers are from *KFC Website 2012* and *McDonald's Annual Reports 2011*).

As can be seen from the chart above, in the first 5 years of their entry, the restaurant opening rate of McDonald's was faster than KFC, even though they had already been late to get into the market. Just a few years later, KFC caught up with McDonald's by building more branches in China each year, and keeps the growing number in more than 2 decades by exploding the market and expanding to new area in China. On the other hand, McDonald's slowed down their expansion process in China in the year 2003 which seems to be a changing year for the group in many different aspects, such as corporation culture, the strategy and their business plan (McDonald's Annual Report 2003). After this year, they tried to speed-up their expanding in Chinese market again, but the current market has already been led by the competitor, KFC, at this moment (Li, 2007).

Because of the limited resource of secondary data, it is hard for the authors to summarize the groups' sales and revenues numbers as one of the indicators of company performance. For KFC, the reason is that there is no separated sales number disclosed for KFC after 2007 in YUM!. Inc 's annual reports, but only statistics for the whole company; For McDonald's, the reason is that the Chinese market is classified as a bigger business unit including all the emerging markets. Therefore, since it's necessary to compare the development and business results of the two groups in recent years, the authors chose market share as another indicator. A series of charts presenting the two brands' market share in fast food market can be seen as below, the two brands were compared in the world's, the US and Chinese markets.

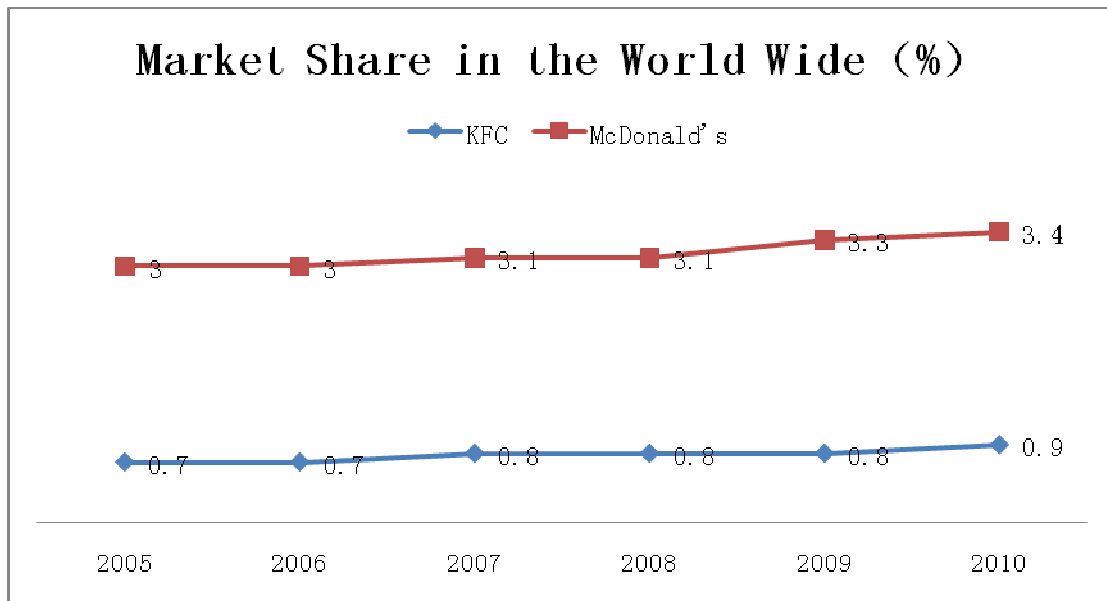


Fig. 3.2 KFC and McDonald's market share in the world fast food market

(Source: Euromonitor International, 2012)

Both keeping growing in the world's markets, McDonald's was developing relatively faster than KFC and its leading position also seems to be hard to shake by the other.

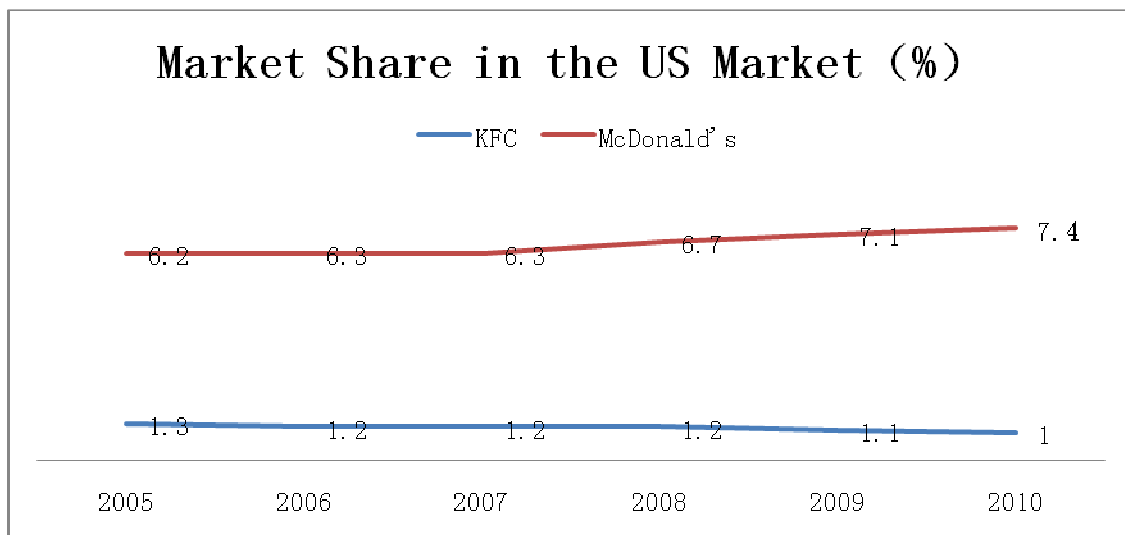


Fig. 3.3 KFC and McDonald's market share in the US fast food market

(Source: Euromonitor International, 2012)

In the US market, the difference between the two brands' market share growth became more obvious, while McDonald's played as a market leader and kept growing all the years, KFC was losing its US market as can be seen from the chart above.



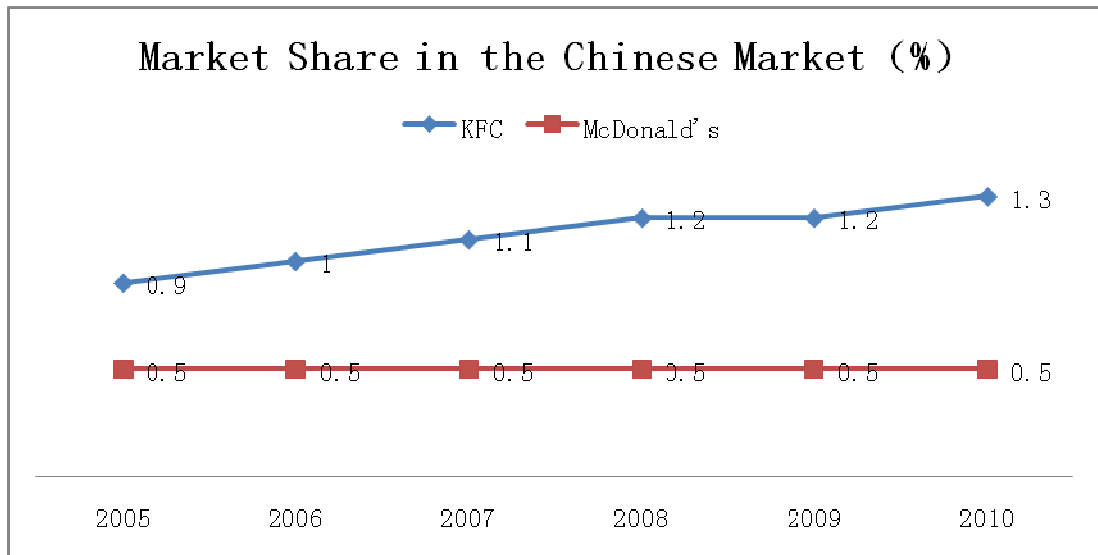


Fig. 3.4 KFC and McDonald's market share in the Chinese fast food market

(Source: Euromonitor International, 2012)

In the last chart, KFC outmatched McDonald's in the Chinese market with a doubled market share for all these years, and it still kept a growing trend, while the market stayed still for McDonald's in this period.

Hereby, what could be derived from the charts is that, from year 2005 to 2010, KFC was losing its position in their home market, but growing in the China. On the contrary, McDonald's was gaining both the US and the global market though their market share kept steady in China.

### 3.2 McDonald's and KFC's Cultural Adaptation Measures

In this section, for a better understanding of Chinese culture and adaptation, both KFC and McDonald's cultural adaptation approaches will be introduced by presenting some examples of their adaptation measures in Chinese market. The section consists of several parts which were designed based on Becker's definition of culture: "Culture is everything that people have, think, and do as members of their society" (Becker, 2005), considering 3 components of culture: (1) material objects; (2) ideas, values, attitudes and beliefs; and (3) specified, or expected behavior.

#### 3.2.1 Product Innovation to Cater to Chinese Taste

Both KFC and McDonald's offered some worldwide standardized main products on their menus. However, in terms of product innovation and uniqueness in Chinese market, they differ in several ways.

KFC has devoted itself to working on establishing a "Chinese" brand and adjust to Chinese life ever since

the middle of the 90s (KFC website, 2012). In order to guarantee the execution of this working guidance, in 2000, KFC invited 40 Chinese state-level nutritionists to establish “KFC-China healthy food advisory committee”, and held a convention annually till now. The aim of this committee is to support its product innovation and work hard to beat the idea that “fast food is all junk food.” In 2004, KFC initiated the product innovation and adaptation strategy in China. According to certain investigation, world widely speaking, the proportion of localized products accounts for 20% among its entire KFC product line. By contrast, on KFC’s menu for Greater China region nearly half of the products are specially designed with Chinese feature among over 50 new products at present (Bian, 2009). Some of these products are particularly popular for featuring the 8 schools of Chinese cuisine, for example: Egg & Vegetable Soup, Dragon Twister (Chicken roll of Old Beijing), and Grass Jelly Milk Tea, etc (KFC website, 2012). These products are improved by adding special seasonings or Chinese ingredients to cater to Chinese tastes. In the summer of 2004, KFC launched Wong Lo Kat herbal tea (the oldest brand of herbal tea in Guangdong) only in Guangdong province; this is the first completely localized product of KFC (Li, 2007). It is reported that KFC kept launching 20 new products each year, providing abundant choices for customers.

At the very beginning of entry, McDonald’s claimed that they would not change the menu in China, and always stick to their American style. “We’ll do what we are skilled at,” said Jeffrey Schwartz, CEO of McDonald’s China, “If people come for Chinese food, why will they still choose McDonald’s?” (Bian, 2009) However, facing the challenge from KFC, it’s no longer easy for McDonald’s to stay “outside”. From October, 20<sup>th</sup> 2004, fried egg and Chinese pancake appeared on the breakfast menu; In the winter of 2007, McDonald’s launched a new hot drink with honey and ginger, for it’s widely believed in China that ginger decoction can help keep coldness away. However, basically these changes are only for McDonald’s to survive rather than to improve. Most of its Chinese products are offered only for a limited period, but its key products are always hamburgers of all kinds (Li, 2007).

### 3.2.2 Targeting and Chinese Values

KFC targets on “all of the family members” ranging from kids to elders. It made efforts on building a dining environment of family-style in which customers can feel the warmth of home (KFC website, 2012). Elements such as the warmth of family reunion, “caring” among different generations, love and missing between wife and husband, can be found in its advertisements and indoor decorations. Together with its diversified menu and adapted tastes, these concepts made KFC popular within all generations. In addition, compared with McDonald’s, KFC’s commercials are mostly plain and conversational. Instead of using super stars and famous actors as McDonald’s did, KFC tends to introduce a storyline or some funny scene into the commercials, making it closer to normal life and easier to approach (Zhang et al. 2009). Furthermore, noticing the fact that Chinese local cartoon and Japanese Anime are popular within Chinese children, toys offered in KFC kid’s meal are mostly toys of popular Japanese cartoon characters such as

Astro Boys, Detective Conan, Doraemon, etc (KFC website, 2012).

Before 2003, McDonald's basically targeted on family with children; while after 2003, it aimed on youths from 4 to 30 years old. With its key word "young, fashionable and lively", McDonald's hopes to provide light and happy dining experience for young people (McDonald's annual report, 2003). Now most of its commercials and restaurant decoration are designed to attract young people from the psychological perspective with some of the main concepts like "sports" and "romance". It wishes to gain identification from this customer group and stimulate their consumption. For instance, McDonald's has chosen several sports superstars (i.e. Ming Yao) and pop music singers (i.e. Leehom Wang) as their spokesmen in China (McDonald's website, 2012); in some of the big cities, music played in the restaurants is mostly recent Chinese pop music with quick rhythm. Different from KFC, Most toys offered by McDonald's in kid's meal are mostly toys of American cartoon characters in movies such as Alvin and the chipmunks and Toy Story (Zhang et al. 2009), and not only children can find their gifts in McDonald's, adults can also find stuff of their interest: In the summer of 2011, McDonald hit the market with a new meal combo called "extra size and extra value menu", together with this menu, a set of "rainbow" cola cups of 6 colors was also introduced as free gift (you can gather only one cup each time), which set off a surge of collecting these cola cups in China—young people would like to possess the entire set of cups even they won't really use it, for they think the design of these cups is cool and fashionable (Hexun.com, 2011).

### 3.2.3 Chinese Eating Habit

For Chinese people, going to a restaurant is more than having dinner; they regard this as an occasion to communicate with each other, meet friends who haven't met for a while (this function of restaurant is like café in western society), even in fast food restaurants. According to some research, the first choice for Chinese people to meet friends is to go to a restaurant, much more than inviting them to their own house or go to a tea house or a bar (Chen, 2006). While for American, in most cases fast food restaurant is chosen for its quick food service and convenient access (Xu, 2005). In this sense, KFC and McDonald's are basically located beside main streets or highways in the US (Bian, 2009). However in China, they mostly built their restaurants in downtown area where population is condensed (KFC's website, 2012), and almost every restaurant is equipped with a children's playground with sliding board, for parents to better relax and stay longer in the restaurants.

From 2006, the concept of "drive-thru restaurants" has been brought to China. Both KFC and McDonald's began to plan their drive-thru business in China. The idea of drive-thru restaurants was first pioneered in the United States in the 1930s (Sickels, 2004). Orders are generally placed using a microphone and picked up in person at the window, and customers can remain in the parked car to eat.

Though working on the same business, the location chosen policies of KFC and McDonald's are different. On June 20th, 2006 McDonald's started partnership with Petro China and Sinopec, in order to take advantage of their gas station network to develop its drive-thru business, and most of this network is in the rural area (McDonald's website, 2012). The reason for this is that McDonald's regards drive-thru restaurants as a promising way of expansion, and they believe that "car life style" will be the future trend in China. In addition, rent is lower around gas stations in the rural area than downtown (Bian, 2009). On the contrast, KFC's idea of locating drive-thru restaurants is to find places with the most condensed population. On January 9th, 2007 KFC established tactical alliances with world-famous construction materials supermarket B&Q. Restaurants were set in B&Q's parking lots or stores (KFC website, 2012).

However, drive-thru restaurant is still a challenge for them. In America, which is known as "a nation on wheels", the proportion of food sold through drive-thru restaurants accounts for a large amount of the total restaurant consumption, take KFC as an example, this number is 65% in the US in 2010, while in Shanghai, this proportion is only 30% (Euromonitor International, 2012). "The lifestyle with automobiles has not really been accepted by the majority of China's domestic consumer." Said by Peter A. Bassi, Chairman of Yum! Brands (Bian, 2009). As we mentioned above, for Chinese people, dining is a combination of eating, chatting, relaxing and having fun. Chinese drivers might prefer to eat before driving, or sit in a restaurant and relax after a stressful trip.

#### 3.2.4 Chinese Custom

As representatives of American fast food chains, both KFC and McDonald's faced the conflict of cultural difference between US and China while entering into this market. Judging from their performance, they have studied and adapted to Chinese custom to different extent.

Spring festival is one of the most important festivals in China; it's the first day of Chinese New Year and also the beginning of spring. During the spring festival, both KFC and McDonald's will change the decoration in restaurants, Chinese elements such as "China red" and corresponding animal sign for the new year will be added to decorations, commercials, and product package; Colonel Sanders will change his outfit to traditional Chinese garments and music played in KFC restaurants will be changed into traditional songs with festive and merry feeling; McDonald's will decorate the restaurants with traditional Chinese paper-cutting works of flowers and animal signs. Not only during spring festivals, in Urumqi, capital of the Xinjiang autonomous region which is home to the Muslim Uyghur people, KFC will hold parties for the boys who have just undergone the religious ritual of circumcision (Bloomberg, 2011).

### 3.2.5 Language and Translation

Considering the language difference between two cultures, many international brands need to pay special attention on the translated versions of their brand and product names when expanding into another country, especially in China where people show more interest on names with propitious meaning, or with funny pronunciation that easy for them to remember (Li, 2007). For example, “Quanjudé (全聚德)”, the oldest brand selling Peking Duck in China, means “the place that people with virtues gather together”; “Yum! Brands, Inc.”, the mother company of KFC, its name was translated into “Baisheng (百胜)” in Chinese, which means “We’ll always win the victory”.

On the menu of KFC, some products’ names have been modified from their original ones in hometown. Take “Quanjiaotong (全家桶)” as an example, its counterpart in English is Big Bucket which includes several kinds of fried chicken products in one package. The literal meaning is “a bucket of food that can be shared for the entire family”. When it was translated into Chinese, it denotes a special meaning which Chinese culture emphasizes much—the importance of family reunion and share happiness together. For innovated product in Chinese market, KFC always give them a meaningful and beautiful name (Li, 2007), sometimes one can hardly get to know what products they are if only judge from their names (and Chinese like this kind of “superficial charm”). For example, “the 8 beauties juice (八娇果汁)” is juice with 8 fruits ingredients; “the 9 treasures juice (九珍果汁)” is juice with 9 fruits ingredients; “a room filled with gold and jade (金玉满堂)” is actually a box of fried corn and celery (KFC website, 2012).

Compared with KFC, McDonald’s have made their menu less appealing but easier to understand. For either old or new products, name of a product demonstrates the main ingredient and way of cooking. For example, some of the literal translations are “hamburger with pork and egg (猪肉蛋堡)”, “hamburger with spicy fried chicken (麦辣鸡腿堡)”, “pie with pineapple (凤梨派)”, etc (McDonald’s website, 2012). Compared to its menu, McDonald’s’ take-out order number drawn more attention when this service was first introduced. The number is 4008-517-517, and “517” has the same pronunciation as “I want to eat” in Chinese. While the number of KFC is 4008-823-823, basically no direct association can be drawn from it. The slogan of KFC has also been changed, while the slogan worldwide is “We do chicken right”, in China a different slogan “Life is so tasty with KFC”. McDonald’s remained its slogan “I’m lov’in it” while entering China, and kept the exact same Chinese translation.

To sum up, both McDonald’s and KFC have made some changes on their products and service considering Chinese taste, values, custom, dining habits and language, but on each aspect they’ve taken different measures and adapted to different extent.

## 4. Methodology

Based on the theoretical knowledge and background information presented above, the methodology of this study will be introduced in this chapter.

### 4.1 Methods and Instruments

In this thesis, both qualitative and quantitative methodologies are applied. Basically, qualitative data is collected to present the specific cross-cultural adaptation process initiated by KFC and McDonald's; quantitative data is mostly used for hypothesis testing and to add cogency to qualitative part.

Both primary and secondary data are used to support the study. In order to get secondary data, some business intelligence and market research tools are employed—research is carried out with the help of a variety of tools: searching engines such as Google, Baidu (one of the most popular Chinese searching engine), Social Network websites (Facebook, Twitter, blogs and forums), EBSCO Business Source Premier, and Domain Tracking Engines. The searching key words are standardization, adaptation, culture, intercultural/cross-cultural adaptation, fast food chain, internationalization, global market and marketing mix. Relative information is gathered from both documents such as business reports, official press releases, news and academic articles, and Internet (i.e. the official websites of KFC and McDonald's). The authors tried to find as diverse sources as possible. At the same time, the priority is always reliability and consistency of data. Since both of the authors are native Chinese speakers, it is possible to access the material written in Mandarin, browse Chinese websites, and collect primary data in Mandarin. For some sources written in Chinese originally, the authors have tried to find the corresponding English version, however there are still some Chinese reference remains in reference list which may cause inconveniency for non-Chinese readers.

Primary data was collected through the authors' own observation and the methodology of survey. The idea for this is to collect the data otherwise not available via secondary sources. Moreover, a questionnaire was designed in Mandarin for a better understanding for the Chinese respondents, and also translated into English (attached as an appendix of this thesis) for all the readers. The mode of the questionnaire is to collect data of customers' perception and preference/opinions as well as background information. The main purpose of using this questionnaire is to answer the question "what are the factors contributing to a successful adaptation model that favored by the customers for KFC and McDonald's respectively?"

### 4.2 Operationalization

The questionnaire is made up of two parts: The first part consists of 11 questions. First, background information such as age, gender, cost on food per month (RMB), education level and the residence city (Question 1-5). Considering these 5 items help to understand the distribution of sample, since the authors

believed that the questionnaire should be well covering all groups of respondents within different factors. There are several special thoughts that need to mention:

1. While designing the question for age, multiple-choice was used rather than a fill-in-the-blank question, for the concern that Chinese people, especially females, may feel embarrassing to give the exact number of their age. The categorization of age was adopted from relevant study by Xu (2010) and Song (2009).
2. “Cost on food per month” is considered as an important variable for it’s more closely related to food consumption than “income level” and “cost of living”. Though “income level” is adopted by many researchers when studying consuming behaviors (Lu, 2007; Yang, 2008), it was discarded in the questionnaire for the concern that a big consumer group of fast food in China is students under 20 (Du, 2009), and the majority of this consumer group have no income, so analyzing with the variable of “income level” may bias the final result. “Cost of living” was also discarded for the reason that the definition and contents of “cost of living per month” differs from one to another, which makes it difficult to compare this variable on an even stage. The way of categorization of “cost on food per month” was adopted from relative studies regarding the consumption of fast food in China (Xu, 2010; Song, 2009; Zhao, 2011).
3. Education level was categorized by the highest degree that one obtained (Zhao 2011; Lu, 2007), but not sum of years that one spent in school. The reason is that the authors would like to figure out the knowledge structure of respondents. Knowledge gained through formal education may not be constantly accumulated by years, but will be sure to be enriched by accomplishing another education stage.
4. City of residence is the city where a person live for more than one year regulated by Chinese Civil Law. The level of a city’s development affects not only the consumers’ choices but also the customers’ knowledge of a brand (Williams, 1997). Since the mainland China is a huge region geographically, the authors are willing to have the questionnaire covering as wide as possible to have a clearer understanding about the whole Chinese market. However, the wide coverage might result in cultural differences within one country, for China is a country with large population and varies of ethnic groups, but thanks to the standardized education, administration, media and public environment around the whole nation for more than 6 decades, the general Chinese culture discussed in this thesis and people’s opinions toward a foreign culture may be similar (Wang, 2005).

After personal information, question 6 asked if the respondents have their own dining experience in both of the restaurants, if the answer is no, then the survey would end. The reason for this is that the experience in the physical restaurants is important for the respondents to answer the rest of questions objectively about their perceptions, not only just imagine it through the advertising and public communications. As a conservational approach, customers who only have dining experience in one of the two brands are also taken out of consideration, for they may not provide a fair comparison of these two brands, which may

undermine the final result of analysis.

Question 7 was about customers' preference between KFC and McDonald's. Respondents were asked to give an answer of where they stand between these two restaurants. In this question, "1" stands for "I'll absolutely go to McDonald's" and "7" for KFC, "4" goes to "no preference". The reason for using a "1-7" scale rather than "3-0-3" or "-3-0-3" is to be in accordance with following questions (which are using 7-point Likert-type scale) so respondents don't need to adjust from one scale type to another, also for simplifying the calculation of data.

Question 8 &10 asked about the impression on the two fast food chains' overall cultural adapting strategies in the Chinese market. Through these two questions, the authors would like to get information about the general perception from Chinese customers about the two group's adaptation in Chinese market. After combining this with items of details, analysis will be taken to figure out factors composing the overall adaptation pattern.

Question 9 &11 are about respondents' opinion on price. From the consumer's perspective, price is what been given up or sacrificed to obtain a product (Zeithaml, 1998). As part of 7Ps, Price variable can be hardly related to cultural issues unlike the other 5 variables, especially for an international service company. Furthermore, during the pre-test interviews, many interviewees gave feedback that it's hard for them to establish association between Price and Culture, so they can hardly assess their perception towards cultural adaptation regarding the price factor. Thus such questions regarding price is avoided in the scales in question 12&13 in case of inaccuracy and misunderstanding, but considering that Price is a key factor influencing customer choice, and that it may affect the result of the survey as well as the conclusion of the study. So it seems to be necessary for the study to test whether price diversified customer choices between these two brands during their decision making process.

The second part (question 12&13) is about the respondents' perception of KFC and McDonald's cross-cultural adaptation effort, and the respondents were asked to evaluate their perception on a 7-point Likert-type scale across 14 items—these items were basically designed according to the marketing theory of 7Ps for service industry. The 7-point Likert-type scale was chosen for it may better differentiate the result and add to the accuracy. Since the Price factor was already considered in question 9 and 11, only 6Ps were presented in the tables.

In order to guarantee the quality and feasibility, the questionnaire was designed by the authors with the help of their classmates and teachers. It was pre-tested among 12 people who have consumed in both KFC and McDonald's in China, and follow-up face-to-face or telephone interviews were taken. The idea of the pre-test was to make sure that the questions and wording of the questionnaire are understandable and making sense to the respondents. Before the group pre-test, the authors had formulated some rough questions and items about cultural issues according to the figure from Kotler's book and also considering the secondary data collected. During the interviews, each item and question on the questionnaire draft was discussed and all the interviewees provided some constructive and inspiring suggestions. After the



pre-test, the draft questionnaire was improved by the authors with information gathered during the interviews: several items were replaced and finally there were 14 items remained in the scales; the wording was modified; some brief explanations and examples of the questions were also added in brackets following each question in a way that the interviewees will better understand and accept.

In the figure of Kotler's 7Ps model (fig. 2.2), there are 10 factors in the product section, 5 in price, 6 in promotion, 6 in place, 4 in people, 4 in process, and 7 in physical evidence. The authors managed to find out the items related to culture in order to fit each factor in the 7 sections in the beginning. After the pre-test interview, the 14 items left to form the final scale are:

#### Item 1 regarding Place

*Store Location*, corresponds to *Coverage and Location*

In the components figure, coverage and location is thought related to culture because the authors find that the selection of restaurant locations is different in countries with diversified cultures. For example, as already been discussed in chapter 3, in the US which is known as a "nation on wheels", fast food chains are usually located by the sides of highways (Xu, 2005; Bian, 2009), while in China fast food restaurants are mostly located in downtown area within walking distance (Yang, 2009).

#### Item 2-5 regarding Product

*Chinese translation of Products*, corresponds to *Brand name / Name*

*Product Design*, corresponds to *Product Variety and Design*

*Meal Portfolio Design*, corresponds to *Design*

*Package and the Size of Products*, corresponds to *Packaging*

In product section, "Chinese translation of Products" is designed to understand if the company is communicating effectively in Chinese language. "Product design" is about the specified menu which is trying to target the current market. "Meal Portfolio Design" is for understanding the market reflection on the way a meal package or combo is composed. "Package and the Size of Products" is used to see if the packaging and the size of the food and beverage is satisfying the Chinese consumers.

#### Item 6-9 regarding Promotion

*Coupon and other discount*, corresponds to *Direct Marketing and Sales Force*

*Advertising channel*, corresponds to *Advertising and Public relations*

*Slogan*, corresponds to *Public relations*

*Contents of advertisement*, corresponds to *Advertising and Public relations*

It is seen that there are many marketing activities included in the section of promotion, and most of them should be specified in current market as if in a service industry. In this situation, promotion is made one of the heaviest parts in the scale, covering the advertisement, the discount and other meanings of public communication which are possibly related to the specific culture.

### Item 10 & 11 regarding People

*Daily Service of Employees*, corresponds to *Staff*

*PR Management of Crisis*, corresponds to *Participants and Consumers to consumers*

As seen in the figure, the section of people is talking about not only the staff, but also all the participants involved in public relations, such as media and customers themselves. So here the authors are willing to study the cultural issues related to internal operation management as well as the market reflection of the companies' crisis management. For example, in 2005, the colorant of Sudan Red was found cancerogenic, but KFC China used it as food additives and violated the food safety regulation at that time (Chinatoday, 2005), so the question was whether Chinese customer recognized and understands their reaction on this issue.

### Item 12 & 13 regarding Physical evidence

*Store Decoration*, corresponds to *Service environment, Smell and Touch*

*Play Area for Children*, corresponds to *Touch*

Physical evidence is related to all the physical experience while consuming. In this section the authors tested the items regarding to in-store experience, in order to understand if the dining environment is following the Chinese culture in the current market.

### Item 14 regarding Process

*Online Ordering and Delivery*, corresponds to *Online service provision*

The service process is hard to define, or tell the difference from the other sections, but according to Kotler's model and the services these companies offering, the online service is classified into this section, and the authors wish to study if it is a key factor related to market reflection.

Possible limitation of the questionnaire design may first lies in the selection of marketing factors. These 14 items were chosen based on the authors' own perspectives and discussion while pre-test, so certain factors might be neglected. In addition, for the purpose of maintaining brevity, the wording of this questionnaire may not include all the supporting information for the respondents to understand the question and react accordingly.

## 4.3 Data Collection

The questionnaire will first be designed on Diaochapai.com, an online survey system that open to all Internet users, for it is guaranteed that one IP address can only answer once for a questionnaire on this online system. Then the link of the questionnaire will be posted on the discussion board of TianYa Forum (The most famous, active and extensively covering forum in mainland China, according to the total number of users registered, Sina.com 2012), for the sake of getting the widest coverage of respondents and collecting as much feedbacks as possible. In this study, online survey is regarded as an effective and feasible way to collect samples. By the end of 2011, the Internet penetration rate in China has reached

40%, but for population from 10 to 30 years old, this rate was over 80%, which is well corresponded to the consumer group of KFC and McDonald's (CNNIC, 2011). In addition, considering the limited time and budget, it is more practical for the authors to get access to people with different backgrounds and within different geographical areas through a public Internet forum. Admittedly, this approach is not of no drawbacks, for the online survey delimited respondents to population who can use computers or Internet and are able to get access to this forum, which will possibly make the survey failed to cover all the population.

#### 4.4 Choice of Statistical Tests

After gathering data from questionnaires collected, further analysis was carried on with the instruments of Excel and SPSS:

1. The distribution and personal information was analyzed by Excel.
2. Data regarding the general preference and overall pattern of cultural adaptation were studied with the help of the descriptive method of SPSS.
3. In order to rule out the influence of Price, Paired-sample t-test was called to compare whether the price perceived by customer differed for KFC and McDonald's.
4. The authors also explored the correlation between the extent of cultural adaptation perceived in details and the overall adaptation pattern through multiple linear regression analysis, in order to find the most significant marketing factor(s) contribute to the entire model for the two brands respectively.

## 5. Result

After more than two weeks' (April 12th-27th) data collecting process, the authors have got 169 responded questionnaires in Chinese version through the online survey website Diaochapai.com. Among these 169 questionnaires, 153 of them were considered as valid data. There are two criteria of judging the validity of questionnaires: one is that all the questioned should be completed (1 questionnaire was excluded for this), the other is that the answer for question 6 (If the respondents have experience in both KFC and McDonald's restaurants) should be "a", and there are 15 questionnaires filtered out because of this reason. Thus during the following analysis 153 valid answers will be used in the analysis.

### 5.1 Subject Characteristics

#### **Gender**

In the 153 answers, there are 81 finished by female and 72 by male, which makes an almost equal percentage of the respondents' genders.

#### **Age**

Within the data collected, there are more young respondents within the age range between 20-30, which is 71.9% of the total respondents, while the responded questionnaires are still covering all of the age ranges, with 5 data below 20 years old (3.3 %); 12 for 30-40 (7.8 %); 16 for 40-50 (10.5%); 10 for 51 year old and above (6.5 %). Though the distribution of age seems not so balanced, the authors still regard it as valid data, since the young generation covers the target consumer group of both KFC and McDonald's.

#### **Cost on Food per Month**

In terms of the monthly cost on food, most of the respondents spend 501-1500 yuan (RMB) which covers more than half (60.8 %) of the collected questionnaires. 20.3% respondents spend less than 500 yuan (RMB) each month for food, while 15.0% spend 1501-3000 yuan (RMB) monthly on dining. Only 6 (3.9 %) respondents, spends more than 3000 yuan (RMB) on food and beverage per month among the collected data.

#### **Education Level**

About the collected data of education level, it is found that almost all the respondents have got the higher level education. There are only 3 data for junior high school and below, and 5 for high school. Then there are 52.1% respondents graduated from college, 42.6% are master or even doctoral gradulators.

### Geographical Coverage

For city of residence, the data collected is from almost all over the mainland China, the coverage reached from the very northern province Heilongjiang to the most southern province Hainan, every coastal provinces and municipalities on the East side of China. Some of the respondents are from the western part of China such as Xinjiang and Gansu (10.5%).

The complete description of subject characteristics can be found in Appendix 3, excluding city of residence, for at present there’s no official classification of geographical district in China.

### 5.2 General Preference

In order to find out the general customer preference between KFC and McDonald’s, we analyzed the data of question 7 using frequency analysis of SPSS, and the result was presented as below:

N	Valid	153
	Missing	0
Mean		3.81
Median		4.00

Table 5-1 Mean and median for general preference

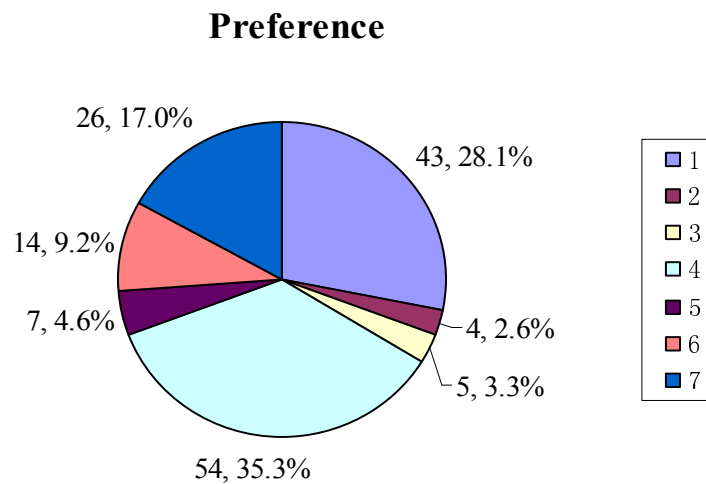


Figure 5.1 Preference

Given the assumption that 1 stands for McDonald’s, 7 stands for KFC and 4 stands for “no preference”, 34% respondents prefer McDonald’s with different tendency, and 38.8% respondents chose KFC, with 35.3% respondents being neutral. The mean for preference is 3.81, which means that the overall sample group tend to choose McDonald’s, but this tendency is not quite obvious.

### 5.3 Overall Perception on Adaptation

In question 8 & 10, respondents were asked to perceive how they feel like the overall cultural adaptation pattern of McDonald's and KFC, and give a score for this degree from 1 to 7. The description of this result can be seen as follows:

		KFC	McDonald's
N	Valid	153	153
	Missing	0	0
Mean		5.20	4.63
Median		6.00	5.00

Table 5-2 Mean and median for overall adaptation

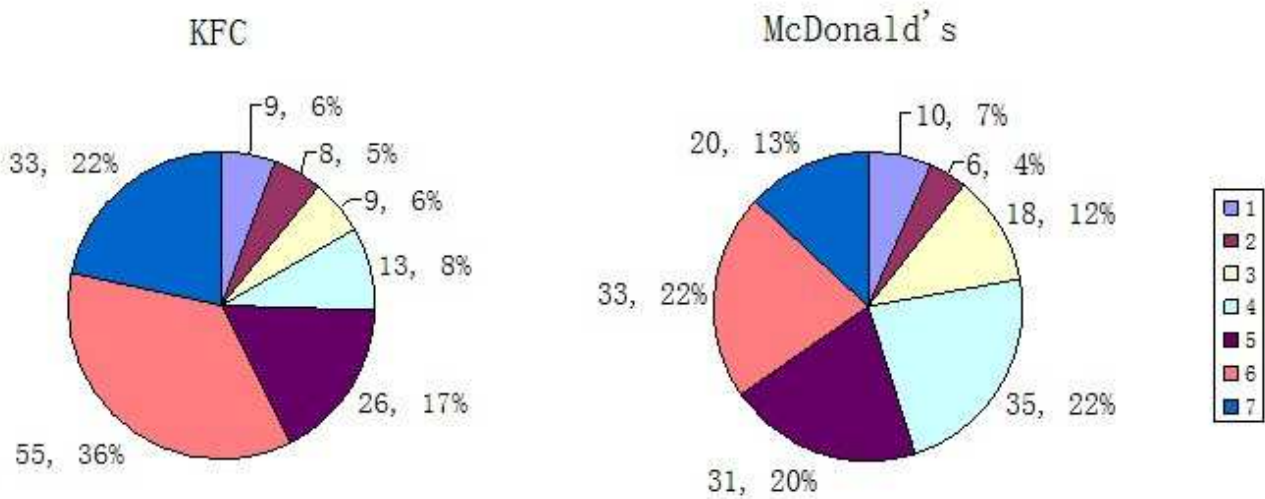


Figure 5.2 Customer perceptions on overall adaptation

The respondents were asked to rank their perception from the lowest level (1) to the highest (7). Comparing the statistics of KFC and McDonald's, we can get a conclusion that on average, the respondents like the adaptation pattern of KFC a little more than McDonald's, for KFC got a higher mean of 5.20. Within 153 respondents, 74.5% of them gave a score more than 4 for KFC, and for McDonald's this number is 54.9%, which may demonstrate that KFC's efforts on cultural adaptation is appreciated by more Chinese consumers than McDonald's. Although in discussion mentioned above, the overall sample group tend to prefer McDonald's in general, they show more interest in the cultural adaptation pattern of KFC.

### 5.4 Customer Perception on Price

Since price is an important factor affecting customer preference, question 9&11 were asked about

customer's perception on price of both the companies, then paired samples T-test was employed to analyze the result. The Paired Samples T-test compares the means of two variables. It computes the difference between the two variables for each case, and tests to see if the average difference is significantly different (Pallant, 2005). By using paired samples t-test, the authors would like to figure out whether respondents perceived significant difference between the price level of KFC and McDonald's.

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PK	4.02	153	1.869	.151
	PM	4.12	153	1.881	.152

Table 5-3 Paired Samples Statistics

		Paired Differences					t	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Pair 1	PK - PM	-.10	1.341	.108	-.31	.12	-.904	.367

Table 5-4 Paired Samples Test

As can be seen in table 5-4, the number of significance is 0.367, which is far more than the confidence rate of 0.05. The result above indicated that no significant difference was found between the perceived price level of KFC and McDonald's. Means for both this two brands passed 4, which means that respondents think price for both KFC and McDonald's is reasonable and acceptable, and the performance cost ratio is almost the same for both of them.

### 5.5 Correlation between the 14 Items and Overall Adaptation

In question 12&13, respondents were asked to perceive the degree of cultural adaptation according to 14 aspects for both McDonald's and KFC. Together with question 8&10, the information gathered will help to figure out which aspect(s) contributes significantly to the overall adaptation of McDonald's and KFC respectively. Linear multiple regression method was applied in this process. The general purpose of multiple regression (the term was first used by Pearson, 1908) is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable (Pallant, 2005). In this case, the dependent variable is "the overall perception of adaptation" (question 8&10), and

independent variables are the 14 items in scale (question 12&13). In order to minimize the multicollinearity effect within regression, stepwise method was chosen. “Stepwise regression includes regression models in which the choice of predictive variables is carried out by an automatic procedure” (Hocking, 1976). At each stage in the process, after a new variable is added, a test is made to check if some variables can be deleted without appreciably increasing the residual sum of squares (RSS). The procedure terminates when the measure is (locally) maximized, or when the available improvement falls below some critical value (Pallant, 2005). In this study, the criteria for this method: probability of F to enter:  $F \leq 0.10$ , probability of F to remove:  $F \geq 0.11$ . In order to include as many variables as possible into the model, the 0.10 confidence rate was considered while judging significance. The derived regression models can be seen as below:

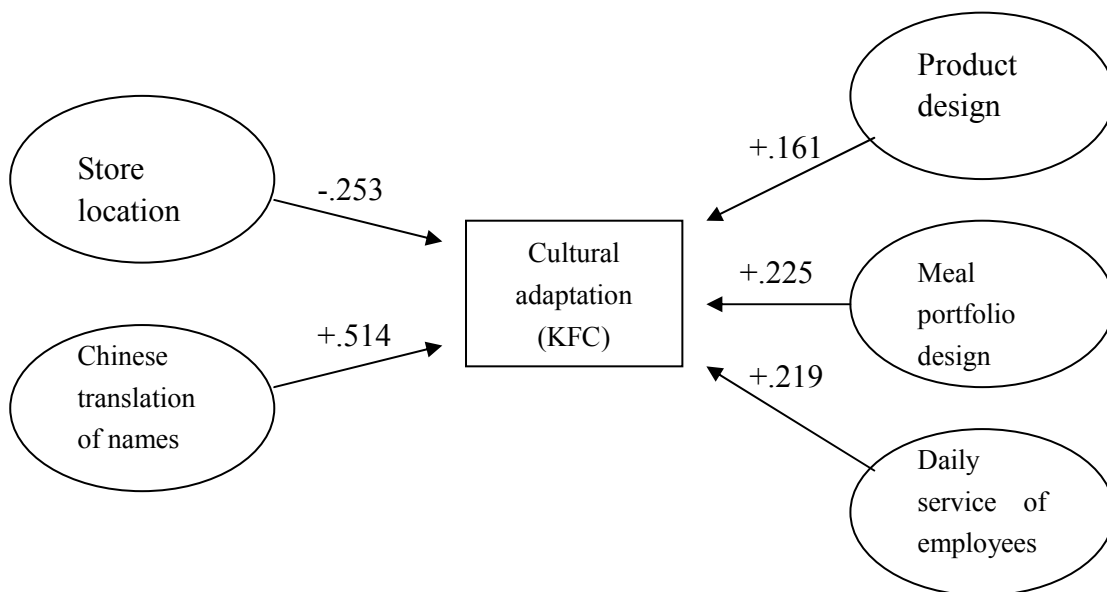


Figure 5.3 Regression model for KFC

After applying stepwise regression analysis, certain generalizations can be derived from the result: under the 0.10 confidence rate, 5 variables are found significant in the model (as presented in figure 5.2), within which one variable corresponds to place, another one corresponds to people, and the other 3 corresponds to product. Among these 5 items, 4 of them showed positive correlation to the overall cultural adaptation. From the highest coefficient to the lowest, they are “Chinese translation of products’ names”, “Meal portfolio design”, “Daily service of employees” and “product design”; The higher degree of adaptation customers perceive about these 4 aspects, the more they identify with the overall cultural adaptation pattern. On the contrary, “Store location” was found negatively correlated to adaptation, which implies that the way KFC adapted in store location didn’t success to please its customers. People see this adaptation as problematic from an adaptation perspective.



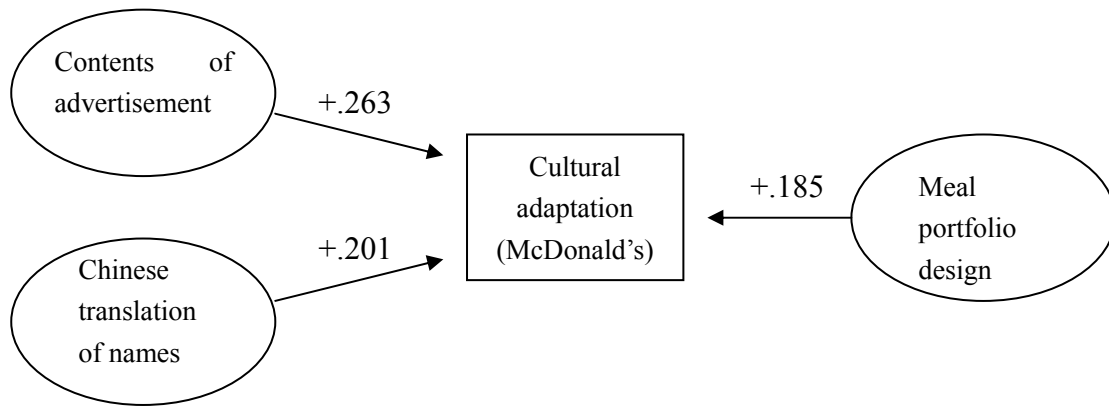


Figure 5.4 Regression model for McDonald's

In the model for McDonald's, 3 variables out of 14 were found significant under the 0.10 confidence rate. From the highest contribution to the lowest, they are "Contents of advertisement", "Chinese translation of names" and "Meal portfolio design". All of them are positively correlated to cultural adaptation, which means that when customers perceived a higher degree of adaptation in these 3 aspects, they will show more satisfaction to the overall pattern. Different from KFC, customers visiting McDonald's pay more attention on its advertising than location or service.

## 5.6 Summary of Results

To summarize the results presented above, the respondents of the questionnaire managed to cover all of the classifications of control variables, though for some items the data distribution is not balanced, the authors still regard it as valid data considering the target consumer group of KFC and McDonald's. The survey has also got an extensive coverage geographically. Although the mean for overall preference seems to tend to McDonald's, there are more respondents chose KFC with different tendencies, and the overall adaptation of KFC won more affection from customers in general. Having ruled out the influence of price, two models were derived from multiple regression analysis for KFC and McDonald's respectively: the components contributing to KFC's adaptation pattern are "Chinese translation of products' names", "Meal portfolio design", "Daily service of employees", "product design" and "store location"; and the variables contributing to McDonald's model are "Contents of advertisement", "Chinese translation of names" and "Meal portfolio design".

## 6. Analysis of Results

As can be seen in figure 5.2 and 5.3, 2 variables appeared in both of the 2 regression models with positive correlations which are “Chinese translation of product name” and “meal portfolio design”. Both of these 2 variables correlate to the product factor in a marketing mix, and the possible reason for this is that Chinese customers regard product-related cultural adaptation as a significant aspect within all the adaptation concerns, and it can be an important consideration for foreign companies operating in China. Within both the models, the coefficient of “Chinese translation” is higher than the one of “meal portfolio design”, which indicates that the former variable is of bigger flexibility, and contributes more to the overall adaptation model. Further investment or improvement on this may get more positive feedback than the later one.

In terms of the regression model of KFC, another variable regarding product, Product design, is also positively correlated to the perception of adaptation. As mentioned in chapters above, KFC has made tons of effort in product innovation to cater to Chinese taste, and luckily this effort was recognized and appreciated by Chinese customers since they’ve given positive perception on this item. The other positive-correlated variable for KFC was “Daily service of employees”. Although the contribution of this variable is not as much as the other 3 variables that contributed positively to the overall adaptation pattern, there is significant correlation verified between “daily service” and customers’ favorable adaptation. What need to be paid special attention is that “store location” is negatively correlated to the overall adaptation pattern of KFC, which indicating that the adaptation effort regarding place factor made by KFC was not appreciated by Chinese customers for they perceive these adaptation measures as problematic from the overall adaptation pattern: the farther KFC goes along its present way of adaptation on store location, the farther it’s away from a successful adaptation pattern.

For McDonald’s, besides the two variables sharing with KFC, “Contents of advertisement” is the third variable in the regression model, and it’s also the variable contributing most to the overall pattern among the three. Since changing the target customer group to relatively young people in 2004, McDonald’s has taken measures to adapt itself to the value favored by this target group (Zhang, T et al. 2009). Using pop singers and famous sports stars, McDonald’s commercials aim to target the taste and mentality of Chinese young people, and this approach seems to have achieved identification successfully judging from the analysis above.

## 7. Conclusion

After the analysis of the result from the questionnaire, this chapter mainly focuses on the conclusion of the entire thesis as well as the suggestions and implication of this study, and finally the limitation of the result.

### 7.1 Summary

The purpose of this thesis is to explore the cross-cultural adaptation pattern of KFC and McDonald's in China, and find out how customers think about their adaptation behaviors—what are the important adaptation factors in their business activities that help contribute to a successful adaptation pattern. In order to find the answer, the authors based this study on academic theories and studies together with objective information of KFC and McDonald's, and carried on a survey based on Chinese market.

After presenting and comparing the cultural adaptation measures of KFC and McDonald's, a conclusion can be drawn that both of them have reached a balance between standardization and adaptation since they started their adventure in China. Keeping some of their American style, they also realized that they have to make certain changes to adapt themselves to Chinese culture at the same time if they would like to survive and achieve prosperity in this emerging market. There are some similarities shared by KFC and McDonald's in their cross-cultural adaptation process, and there are also some unique features possessed by these two companies as well. This was verified by both secondary data and the authors' primary study: both of KFC and McDonald's showed respect to different aspects of Chinese culture, and made some changes on their products and service considering Chinese taste, values, custom, dining habits and language, but they've taken different measures to some extent.

After combining empirical findings and other analysis together, two models were derived for KFC and McDonald's respectively: the components contributing to KFC's adaptation pattern are "Chinese translation of products' names", "Meal portfolio design", "Daily service of employees", "product design" and "store location"; and the variables contributing to McDonald's model are "Contents of advertisement", "Chinese translation of names" and "Meal portfolio design".

### 7.2 Suggestion and Implications

China is an ancient country with a long-established history. Although after the reform and opening-up policy, many aspects of Chinese culture are subject to changes and exotica is penetrating into people's

daily life, Chinese cultural value systems have so deeply rooted in people's minds that it can be difficult to make any major or massive changes in a short term. For example, some values such as taste of food or contents of meals are deeply embedded in culture, and they can be a typical embodiment of a specific culture. Therefore, no matter how intensive the external force is, it will still keep its traditions to some extent. These profound values and traditions will put all the foreign companies that hope to expand in Chinese market under pressure and force them to consider cross-cultural adaptation process, if they want to success in this market in the long run.

On the other hand, with the advances in science and technology, "culture as well as society, which are more likely subject to fluctuations, seldom remain constant" (Samovar, 2000). The younger generation do not merely copy the culture accumulated by their ancestors, instead, they will add something new to the long time developed material and spiritual embodiment of a certain culture. Facing the trend of globalization, Chinese people nowadays are being "westernized" gradually by studying and accepting the new culture. In addition, education such as English teaching plays a profound role in initiating changes of culture by influencing people's thinking patterns and preferences. The western culture, especially American culture which is recognized to be influential all over the world, is playing a profound role in the evolution of global culture.

Facing the wrestling of both sides, KFC and McDonald's both carry out their own cultural adaptation projects and take full advantage of the influence of globalization and localization at the same time. The intercultural transformations supported by menu, food names, advertising and etc that have been mentioned above, have drawn Chinese customers' attention and identification to different extent, which to a large scale help Chinese customers cross the traditional boundaries both in conceptions and in reality.

To sum up, what is suggested by this study is that, if a foreign fast food brand would like to enter the Chinese market and keep prosperity, cultural adaptation is an important issue that one needs to pay highly attention on. If taking the case of KFC and McDonald's as reference, some of the consideration could be: 1) the language adaptation which includes the name of brand and products in order to keep a good communication and understanding between the company and the consumers; 2) good design of the product portfolio which matches the Chinese eating habits; 3) advertising and public communication should be designed to attract the attention of target market in order to meet the consumers' interest; 4) improve daily service offered by well-trained local employees, as well as 5) innovation of the product design which meeting the current market's taste.

### 7.3 Limitation and Suggestion for Further Study

The first limitation lies in the fact that there are numerous causes for the different performance of KFC and McDonald's in Chinese market such as prices and cost reduction, but in this thesis only the cultural related factors are discussed and tested. The authors examined the significance of different marketing factors only according to their degree of cultural adaptation, so it's not a complete study of all the crucial success factors for these two companies.

Secondly, in the study, two American brands were chosen as representatives of foreign fast food companies running business in China for their leading positions and popularity in this market. The authors tried to present the difference between their cultural adaptation patterns, and to connect these patterns to their popularity. Limitation may occur when applying the result drawn from this study to other companies and markets, for the study is based on the Chinese market—a market with special cultural and historical characteristics. Besides, due to the specialty of fast food industry and especially American fast food business, further investigation may be required when applying the conclusion in other internationalization cases.

Thirdly, the study was carried on from the market and customer perspective, most information of the adaptation process was gathered from secondary data such as business articles, media reports or company websites. Some information regarding business strategies would have been more comprehensive and precise if the authors can get access to the senior executives of these two companies. However, because of the limited ability of the authors, such support is not available. Considering the two models derived in the analysis, only significant variables were included to compose the models under the stepwise method. This doesn't mean that other variables in the scale are of no research value, further studies can be made to further dig into these factors.

Last but not least, the ideas and argumentation in the thesis are far from perfect and mature. The results and discussions of the investigation may not be conclusive and complete due to the authors' limited scope of knowledge. Further study may consider more ways of analyzing such as face-to-face interviews, if it is possible, to get a better understanding of customer perception. Besides, other instruments could be employed to enhance the reliability of the collected data.

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## Appendix 1. questionnaire (English version)

Dear respondents, we are master students in Uppsala University, Sweden. At present we are carrying on a study about “Cultural Adaptation of Kentucky Fried Chicken (KFC) & McDonald’s in Chinese Market”. We will follow the principles of anonymous and confidential strictly, and ensure that all the relevant personal privacy involved in the study will not be published or leaked.

Thank you for your cooperation and support!

1. Your Gender:

- A. Male                      B. Female

2. Your Age:

- A. Below 20 year-old  
B. 20-29 year-old  
C. 30-39 year-old  
D. 40-49 year-old  
E. Above 50 year-old

3. Cost spent on food per month (in RMB):

- A. less than 500  
B. 500-1500  
C. 1500-3000  
D. more than 3000

4. Your Education level: \_\_\_\_\_

5. Your City of residence: \_\_\_\_\_

6. Have you ever been consuming in both KFC and McDonald’s restaurants?

- a. Both.      b. Neither or only one of them. (the questionnaire ends here, thank you for your attention)

7. If you are looking for a fast food restaurant to eat, which one will you choose to have meal, KFC or McDonald’s? Please cross the degree of which you would choose from level 1-7, “mostly go to McDonald’s” is 1, “no preference” is 4, and “mostly go to KFC” is 7.

	1	2	3	4	5	6	7
McDonald's							KFC

8. How do you like the overall adaptation progress taken by KFC? Please choose the degree from 1 to 7. (1 for "I don't like it at all", 7 for "I like it very much")

	1	2	3	4	5	6	7
KFC							

9. Do you agree with this statement: "The prices of KFC products are reasonable and acceptable." Please choose from level 1-7. (Strongly disagree=1, being neutral=4, strongly agree=7)

	Strongly disagree		neutral			strongly agree	
	1	2	3	4	5	6	7
KFC							

10. How do you like the overall adaptation progress taken by KFC? Please choose the degree from 1 to 7. (1 for "I don't like it at all", 7 for "I like it very much")

	1	2	3	4	5	6	7
McDonald's							

11. Do you agree with this statement: "The prices of McDonald's products are reasonable and acceptable." Please choose from level 1-7. (Strongly disagree=1, being neutral=4, strongly agree=7)

	Strongly disagree		neutral			strongly agree	
	1	2	3	4	5	6	7
McDonald's							

12. How much do you think KFC is adapting itself to cater to Chinese people's taste and match the Chinese tradition according to different aspects as shown below? (Brief explanation and examples are shown inside the brackets) lowest adaptation degree is 1 and highest level is 7.

	1	2	3	4	5	6	7
1) Store Location (i.e. located in shopping areas in China, near highway in US)							
2) Chinese translation of Products' name (Chinese way of translation, i.e. "Chicken Bucket (US)" VS. "Bucket for the whole Family (CN)")							

3) Product design							
4) Meal Portfolio Design							
5) Package and the Size of Products (compared with the American Standard i.e.US drink size is bigger than Chinese one)							
6) Coupon and other discount (distribution and the content of the coupon, i.e. student coupon)							
7) Advertising channel (TV commercial, Posters, well-known Chinese social media such as SINA, Weibo, Wechat, Microblog)							
8) Slogan (Life is more colorful with KFC)							
9) Contents of Advertisement (presentation of Chinese element/value)							
10) Daily Service of Employees (more waiters in one restaurant than US)							
11) PR Management of Crisis (i.e. Sudan Red in sauce, how to comfort customers)							
12) Store Decoration (in-store environment, background music, i.e. festival decoration)							
13) Play Area for Children							
14) Online Ordering and Delivery							

13. How much do you think McDonald's is adapting itself to cater to Chinese people's taste and match the Chinese tradition according to different aspects as shown below? lowest adaptation degree is 1 and highest level is 7.

	1	2	3	4	5	6	7
15) Store Location							

(i.e. located in shopping areas in China, near highway in US)							
16) Chinese translation of Products' name (Chinese way of translation, i.e. "chicken Bucket (US)"VS. "Bucket for the whole Family (CN)")							
17) China special dishes							
18) Meal Portfolio Design							
19) Package and the Size of Products (different with the American Standard, i.e. US drink size is bigger than Chinese one)							
20) Coupon and other discount (distribution and the content of the coupon, i.e. student coupon)							
21) Advertising channels (TV commercial, Posters, well-known Chinese social media such as SINA Microblog)							
22) Slogan (I'm lovin' it)							
23) Contents of Advertisement (presentation of Chinese element/value)							
24) Daily Service of Employees (more waiters in one restaurants than US)							
25) PR Management of Crisis (3.15 consumer protection event 2012, the expired food was put forward on CCTV )							
26) Store Decoration (in-store environment, background music i.e. festival decoration)							
27) Play Area for Children							
28) Online Ordering and Delivery							

END

THANKS A LOT FOR YOUR PATIENT!!!

## Appendix 2. questionnaire (Chinese version)

尊敬的受访者，您好。我们是瑞典乌普萨拉大学 Uppsala University, Sweden 国际商务专业的硕士学生。由于研究需要，现正在进行关于**肯德基与麦当劳中国市场差异化的文化因素分析**。我们将遵循不记名及保密原则，保证研究中所涉及的所有相关个人隐私不会被公开发表或是泄露。非常感谢您对我们研究的支持与配合!!

### 基本资料

1. 性别:

A 男 B 女

2. 年龄:

A. 20 周岁及以下

B. 21-30 周岁

C. 31-40 周岁

D. 41-50 周岁

E. 50 周岁以上

3. 每月食品开销: (人民币)

A. < 500

B. 500-1500

C. 1500-3000

D. >3000

4. 学历:

5. 常住城市:

6. 您是否曾经在肯德基以及麦当劳餐厅消费?

a. 两家都有过消费

b. 没有, 或者只有一家 (问卷内容到此为止, 感谢您的配合)

7. 如果您在外出至某个同时有肯德基和麦当劳餐厅的商圈时, 您更倾向于在哪个餐厅就餐? 请在 1-7 中勾选不同程度的倾向:一定会选择 KFC 肯德基的请勾选 7, 一定会选择 McDonald's 麦当劳的请勾选 1, 不确定请勾选 4

	1	2	3	4	5	6	7	
McDonald's								KFC





6) 优惠券（内容，分发方式，及学生卡）							
7) 广告宣传（宣传方式：网络，微博，电视，广 牌）							
8) 标语提示（im lovin'it）							
9) 品牌代言（著名演员代言）							
10) 员工的日常服务（中国餐厅服务员较多）							
11) 处理突发危机的公关方式（3.15 产品过期问题）							
12) 店铺装饰（店内环境，中国特色背景音乐）							
13) 儿童游乐区							
14) 网上订餐及外送服务（4008-517-517）							

13. 您认为以下各项中肯德基 KFC的商业行为是否具有中国特色，更符合您的口味，请在 1-7 中勾选不同的符合程度:最符合请勾选 7，最不符合请勾选 1，不确定请勾选 4

1      2      3      4      5      6      7

15) 店铺选址 （中国在市中心，美国在高速公路设点）							
16) 产品中文名称（符合中国特色的名称）							
17) 创新产品（米饭，中式产品）							
18) 套餐组合							
19) 包装及大小尺寸 （美国套餐的薯条及可乐尺寸与中国不同）							
20) 优惠券（内容，分发方式，及学生卡）							
21) 广告宣传（宣传方式：网络，微博，电视，广 牌）							
22) 标语提示（有了肯德基，生活好滋味）							
23) 品牌代言（群众演员代言）							
24) 员工的日常服务（中国餐厅服务员较多）							
25) 处理突发危机的公关方式（苏丹红事件）							
26) 店铺装饰（店内环境，中国特色背景音乐）							
27) 儿童游乐区							
28) 网上订餐及外送服务（4008-823-823）							

问卷完

感谢您的合作与支持!!

### Appendix 3. Subject Characteristics

#### Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	72	47.1	47.1	47.1
	female	81	52.9	52.9	100.0
	Total	153	100.0	100.0	

#### Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	under 20	5	3.3	3.3	3.3
	21-30	110	71.9	71.9	75.2
	31-40	12	7.8	7.8	83.0
	41-50	16	10.5	10.5	93.5
	no less than 51	10	6.5	6.5	100.0
	Total	153	100.0	100.0	

#### cost on food

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	under 500	31	20.3	20.3	20.3
	501-1500	93	60.8	60.8	81.0
	1501-3000	23	15.0	15.0	96.1
	more than 3000	6	3.9	3.9	100.0
	Total	153	100.0	100.0	

#### Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	lower than high school	2	1.3	1.3	1.3
	secondary school	6	3.9	3.9	5.2
	university and junior college	76	49.7	49.7	54.9
	Master, doctor and above	69	45.1	45.1	100.0
	Total	153	100.0	100.0	