

# *Multibranding Strategy*

## **The Case of Yum! Brands**

by CATHY A. ENZ

A case analysis examines the Yum! Brands strategy of cobranding. Yum! Brands may be the most aggressive of all restaurant franchisors in combining multiple concepts in one location. Intended to boost sales per unit, the cobranding strategy allows Yum! to locate restaurants in locations that might not support a single concept by increasing the traffic and sales at a particular location. So far, the chief downside of the strategy is potential complexity in operating differing brands in one restaurant. On balance, however, the strategy has allowed Yum! to expand its brands both in terms of number of restaurants and in terms of systemwide sales. Yum! is extending its cobranding experiment to combine its Pizza Hut concept with that of Pasta Bravo, a separate firm's casual pasta restaurant.

**Keywords:** Yum! Brands; quick-service restaurants; cobranding

**I**ntense competition, slow same-store sales, and a sluggish economy have plagued quick-service restaurant (QSR) chains for several years. By June 2003, same-store sales at McDonald's had fallen for each of the previous twelve months, with the first quarter of 2003 producing the first quarterly loss since McDonald's became a public company in 1965.<sup>1</sup> Based on fifteen years of market and demographic trends, McKinsey and Company projected that the QSR segment would grow revenues by just 1 percent per year over the next eight years, less than half the 2003 rate.<sup>2</sup> Aggressive efforts by the largest restaurant chains to retain their market shares led to excessive discounting. To regain profitability, those chains have moved away from price discounting and are instead seeking to improve revenues by scrutinizing potential site locations, upgrading menus and décor, investing in

training programs for crew members, and developing customer-loyalty marketing programs.<sup>3</sup>

The maturing of the fast-food industry has forced the key players to rethink their strategies and reinvent their operations. As I explain in this case study, Yum! Brands has taken the relatively unusual tack of combining diverse brands in a single restaurant. Other chains have taken such steps as management reorganization, new product development, aggressive marketing, and strategic redirection, all of which helped the industry leaders rebound in late 2003. In October 2003, McDonald's posted its strongest monthly U.S. sales gain in five years, with a 15 percent increase—only after an extensive global reorganization of senior management.<sup>4</sup> Wendy's International attributed customer response to the chain's new Homestyle Chicken Strips as one explanation for its reported same-store sales jump of 7.6 percent during the same period.<sup>5</sup>

In spite of recent sales turnarounds, some observers wonder whether fast food will continue to prosper given changing consumer tastes and recent obesity lawsuits.<sup>6</sup> Diageo PLC, an international brewing and spirits conglomerate, sold Burger King in fall 2002 for a comparatively low price of \$1.6 billion.<sup>7</sup> This brand is the second largest fast-food chain in the United States and has struggled in recent years. In that regard, an estimated 18 to 20 percent of Burger King franchisees were behind on royalty payments in 2003, although the chain was "encouraged" in 2003 by sales of its new low-fat chicken baguette line.<sup>8</sup> Nevertheless, one of Burger King's largest franchisees, AmeriKing, with 320 units, was in Chapter 11 bankruptcy in 2003 and intended to sell its entire portfolio of restaurants.<sup>9</sup>

Yum! Brands, the subject of this study, is the world's largest restaurant company,

with more than thirty thousand outlets in more than one hundred counties. Spun off many years ago from PepsiCo, the company franchises five brands with three top-ten chains that compete directly with other industry giants in several segments, including McDonald's Corporation, Burger King, Brinker International, CKE Restaurants, Wendy's International, Darden Restaurants, Allied Domecq Quick Service Restaurants, Outback Steakhouse, and AFC Enterprises. Together with Yum! Brands, these large companies account for \$107.5 billion in sales, or 24.4 percent of total restaurant industry sales.<sup>10</sup> Yum! Brands is betting on a multibranding strategy to enhance its future. The accompanying sidebar provides a more complete picture of Yum! Brands.

### Thinking outside the Bun

Multiple branding is a strategy in which a firm puts more than one of its brands into the same restaurant in hopes of raising sales and improving operating efficiency. Multibranding of this kind is not a new idea. Restaurant operators have used this approach—albeit with mixed results—for more than a decade. While the intent of this strategy is to raise menu variety and daypart sales, some operators have tried and abandoned the strategy, and others are not rushing to bundle their brands, except in special markets.<sup>11</sup> Nevertheless, cobranding has been embraced by Yum! Brands and is central to its long-term strategy. According to Aylwin Lewis, president and chief multibranding and operating officer, "Cobranding gives us a competitive advantage in the marketplace by allowing us to penetrate markets that are cost prohibitive or do not have the population density to support a single concept."<sup>12</sup> Many industry commentators believe that multibranding is likely to be a part of the future for all of the major play-

ers as they rethink their strategies. Sidney Feltenstein, chairman of the International Franchise Association, for example, has claimed that this strategy will be a major driver of growth in the QSR segment.<sup>13</sup>

Beginning in 1992 with its first multi-branded restaurant, YUM! Brands now operates more than twenty-two hundred multibranded units in the United States, accounting for almost 14 percent of profits. This *Fortune* 300 company is able to execute a multibranding strategy easily because it operates the following well-known brands: A&W All-American Food, Kentucky Fried Chicken (KFC), Long John Silver's, Pizza Hut, and Taco Bell. Overall system sales totaled \$24.2 billion in 2002, up from \$22.3 billion in 2001.<sup>14</sup> In contrast, the McDonald's strategy has heretofore been to develop its brands separately, although it could capitalize on cobranding in the future.

Higher unit volumes are at the heart of the corporate multibranding strategy. For years McDonald's has been the envy of the industry, with restaurants that enjoy twice the volume of the typical KFC or Taco Bell outlet. According to Dave Deno, chief financial officer at Yum!, "The biggest thing that multi-branding offers is the chance to leverage our existing assets that have lower volumes than, say, a McDonald's."<sup>15</sup> Early efforts at cobranding were combinations of KFC with Taco Bell and Taco Bell with Pizza Hut. The net result of these efforts was the addition of between \$100,000 and \$400,000 per unit in average sales. One franchisee, Larry Durrett, president of Southern Multifoods, which opened the first cobranded Taco Bell and Long John Silver's, explained why multibranding is such a powerful idea for him as a franchisee.

Multibranding has a dramatic impact on the customer. It's a barrier breaker for

families, meaning that sometimes kids like to eat different things than adults. If you've got an A&W-Long John Silver's, like we do in South Texas, you can see how it offers something for everyone. More globally, though, if you have a KFC-Taco Bell, you might get someone who wants a taco one day and who will come back the next day for chicken. When we add volume to these restaurants through multibranding, we add incremental profits that we could not have gotten any other way. For example, if you take a good restaurant—like a \$900,000 Taco Bell—and add a \$400,000 Long John Silver's, you have added incremental profits that would be impossible to get any other way.<sup>16</sup>

Soon the company began to try combinations of KFC and Taco Bell with Long John Silver's or with A&W. Before Yum! Brands acquired Yorkshire Global Restaurants, the two companies engaged in four years of partnering with multibranding. Testing the concept with eighty-three KFC-A&W units, six KFC-Long John Silver's operations, and three Taco Bell-Long John Silver's restaurants gave Yum! an opportunity to experiment with the concept. It was not until the concept had yielded positive results that Yum! Brands acquired Yorkshire Global. Yum! CEO David Novak plans to drive Yum!'s growth with multibranding, arguing, "Multi-branding is going to transform the industry. Consumers do want more choice."<sup>17</sup> Now with the addition of the two new brands (i.e., A&W and Long John Silver's), the company gained the advantage of attracting franchisees with even more brands under the same corporate entity.

While Yum! Brands is the most aggressive company to use this strategy, Allied Domecq PLC has combined its Baskin-Robbins, Dunkin' Donuts, and Togo's

Eateries into single locations to boost lunch business. Carl's Jr., a regional brand operated by CKE Restaurants, has cobranded with Santa Barbara Restaurant Group's Green Burrito chain to enhance its dinner business. (Both of the parent companies of these brands share the same chairman, William Foley.<sup>18</sup>) Other brands, smaller than those of Yum!, like Blimpie, Noble Roman's Pizza, Samarai Sam's, and Taco Time are beginning to experiment with multiple-concept sites.<sup>19</sup>

For McDonald's, "It is certainly a matter of when, not if," it experiments with multibranding, according to a spokesperson for the company back in 2001.<sup>20</sup> The time appears to be now, as McDonald's began in 2003 to experiment with new concepts in existing restaurants. Eleven units in Indiana have added a diner, and one unit in Nebraska has a three-in-one concept with a McDonald's traditional menu, an upscale sandwich shop, and a separate treats area with baked goods and desserts.<sup>21</sup>

The benefits of multibranding include increasing sales volumes and unit profitability. Yum! reports that each time it combines brands in a unit, sales have jumped 30 percent.<sup>22</sup> In addition, the daypart strategy seems to work for Yum! and for other QSR chains. For Allied Domecq, for instance, the addition of the Togo's chain allowed it to move beyond impulse snack or breakfast items into lunch and dinner periods. Moreover, by offering two or more brands restaurant companies can also enter into small trade areas that have expensive real estate. "Now we can go into trade areas that we couldn't go into with an individual brand," noted Chuck Rawley, Yum!'s chief development officer.<sup>23</sup> Sharing crew, storage, and production space permits a more efficient use of the asset.

The dramatic improvements in unit sales and the need to modernize and remodel outdated restaurants have motivated Yum! Brands to remodel much of its existing asset base. Unit design in the past had been decentralized to the brand level, but in 2002, it was centralized with the creation of a new corporate position, a senior vice president for concept design and multibranding.<sup>24</sup> Design is now connected to brand marketing and consumer preferences rather than being a development function.

Multibranding is not without challenges. Potential problems may include encroaching on existing units' sales, and the difficulties of operating substantially more complex store-level operations. While encroachment does not appear to be a serious issue, execution has been complicated. To handle the needed capability to operate complex cobranded restaurants, the company has developed simplified operating and training systems.<sup>25</sup>

The goals of multibranding, as stated by CEO David C. Novak, are to bring KFC and Taco Bell to distribution parity with Burger King, which has eight thousand units in the United States, and to have volumes of at least \$1.1 million per restaurant.<sup>26</sup> To that end, the company proposes to more than triple its cobranded units by 2007.<sup>27</sup> Exhibit 1 shows the number of multibranded restaurants by concept combination.

The latest experiments include the partnering of Pizza Hut with the fifteen-unit fast-casual Pasta Bravo chain.<sup>28</sup> Based in California, Pasta Bravo serves a variety of freshly prepared pasta dishes family style. A signature menu item is a \$12.95 bucket of spaghetti and meat sauce serving four to six people. The partnership is in the form of a licensing agreement, in which limited tests in primarily franchisee-operated

**Exhibit 1:**

## Number of Multibranded Units

<i>Units with a Cobrand</i>	<i>Worldwide</i>							
	<i>2001</i>	<i>2002</i>				<i>2003</i>		
	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>
Taco Bell	665	665	673	690	703	708	714	719
Pizza Hut	183	186	191	208	229	239	240	244
A&W	71	81	94	118	161	182	199	230
Taco Bell/Pizza Hut 3in1	45	48	49	50	51	50	51	52
Long John Silver's	5	6	7	7	12	16	19	35
Chock Full o' Nuts	3	2	—	—	—	—	—	—
WingWorks	1	1	13	16	24	24	26	26
Total	973	989	1,027	1,089	1,180	1,219	1,249	1,306
Taco Bell combinations								
with Pizza Hut	554	574	587	608	608	610	614	625
with Long John Silver's	2	3	3	5	7	21	21	26
with Backyard Burgers	—	—	1	2	3	3	8	8
with A&W	—	—	—	—	—	1	2	2
Total	556	577	591	615	618	635	645	661
Pizza Hut combinations								
with KFC	—	—	1	1	1	1	1	1
with Taco Bell	—	—	5	5	5	5	6	6
with Wing Works	—	—	—	—	1	3	3	3
with Pasta Bravo	—	—	—	—	1	1	3	3
with Wing Streets	—	—	—	—	—	—	2	29
with Backyard Burgers	—	—	—	2	2	2	2	—
Total	—	—	6	8	10	12	17	42
Long John Silver's combinations								
with A&W	—	—	133	149	167	171	174	196
Total	1,529	1,566	1,757	1,861	1,975	2,037	2,085	2,205

Source: Yum! Brands, Inc., "Investor Relations," [www.yum.com/investors/sss.htm](http://www.yum.com/investors/sss.htm) (accessed December 2, 2003).

dine-in units will determine whether this pairing is viable.

### Questions for the Future

Multibranding appears to be a promising strategy for the mature QSR industry.

Should Yum! Brands partner with or acquire another quick-service or fast-casual chain? What concepts make the most sense in light of changing consumer preferences? If multibranding proves to be a profitable strategy, should the company

## A Profile of Yum! Brands

The world's largest quick-service restaurant (QSR) franchisor, with global sales in excess of \$24 billion, Yum! Brands, Inc., operates five brands with 30,837 restaurants worldwide. Acquisition and renaming of the company occurred in 2002 when the company added the A&W Root Beer and Long John Silver brands from Yorkshire Global Restaurants and then changed its name from Tricon Global Restaurants to its current name. Seven years prior, the company was spun off from PepsiCo as an independent, publicly owned company, operating KFC, Pizza Hut, and Taco Bell.

The company's strategy is to engage in international expansion, accelerate multibranding of restaurants, and grow through the develop of a portfolio of category-leading brands. Solid cash generation through franchise fees, restaurant margins, and returns on invested capital are also elements of the corporate strategy. In spite of the soft economy in 2003, the company announced plans to grow earnings per share (EPS) at least 10 percent annually. Key to its profitability is new restaurant expansion, primarily by opening restaurants with company franchisees and joint-venture partners. In China, for example, the company has some 1,100 KFCs and 130 Pizza Huts in more than 240 cities. Mainland China accounted for more than one-third of the company's international business in 2003 and about 13 percent of its operating profits.—*C.A.E.*

### YUM! Brands Highlights

	Fourth Quarter 2003	Change Vs. Prior Year	Full Year 2003	Change vs. Prior Year
Restaurants	30,837	1%	30,837	1%
Same-store-sales growth	2%	NM	Even	NM
Revenues (in millions)	\$2,653	8%	\$8,380	8%
EPS prior to special items	\$0.65	16%	\$2.06	13%
Reported EPS	\$0.70	23%	\$2.02	7%

  

	Fourth Quarter			Full Year		
	2003	2002	Increase/ (Decrease)	2003	2002	Increase/ (Decrease)
International restaurants	2,171	11,538	+5%	2,171	11,538	+5%
U.S. restaurants	18,666	18,860	(1%)	18,666	18,860	(1%)
U.S. multibrand restaurants	2,148	1,817	18%	2,148	1,817	18%
U.S. same-store-sales growth	1%	1%	NM	Even	4%	NM

**Source:** YUM! Brands, Inc., "Investor Relations," <http://investors.yum.com/> (accessed September 28, 2004).

**Note:** NM = no movement; EPS = earnings per share.

consider a move to casual-dining concepts? What would be a good menu category to add to the current portfolio? "If you pair a hot emerging brand with a proven one in a real-estate context that already has strong drawing power, you can take advantage of complementary natures for frequency, reach, and freshness," suggested Sarah Palisi-Chapin, CEO of the restaurant research and development firm Enersyst.<sup>29</sup> While the fast-food industry struggles to reinvent itself and hold on to affluent, quality-driven baby boomers, new concepts may need to be developed for the emerging Generation X and Y palates. If so, how should Yum! Brands experiment with and expand its multiple branding?

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