

The Colonel's great success in the land of the Emperor!

One of the success stories in the Chinese fast food business is Yum Inc who run KFC and Pizza Hut as well as the Chinese take away chain known as East Dawning. The first outlets were opened in 1987 and last year the company opened up 509 new restaurants which equates to something like one every 16 hours or so throughout the year!

Most of these were KFC restaurants in mainland China. This resulted in a corporate profit in 2009 of some US\$600 million.

What has this success been based on?

Firstly, there are Yum's four key strategies:

- Build leading brands across China in every significant category.
- Drive aggressive expansion and build the brands internationally.
- Dramatically improve the positioning of their USA brands in the Chinese market.
- Be the industry leader and improve long term franchisee and shareholder returns.

They feel this is easily achievable because of the fast growth in Chinese GDP/personal

Yum Inc's Shanghai headquarters (not all floors!).



A KFC restaurant in Shanghai.

income growth and some 18 million extra people are turning to an urban lifestyle every year. Currently in China restaurant chain market share is low and there is a high desire to buy western brands – what a great market to be in!

KFC is the leading quick service restaurant brand in China by a wide margin. It is in over 650 cities and is unmatched in reach and frequency but, even so, there is still much room for growth.

So, in an operation of this magnitude robust quality assurance and supplier management are crucial and International Meat Topics recently went to Yum Inc's head office in Shanghai to find out how this is achieved.

This office has some 33 food safety experts, all of whom are university graduates, who oversee the activities of a force of some 150 QA field staff. These field QA staff are divided into northern and southern teams and are based in the major cities.

The number of staff in any one city is proportional to the number of outlets operating in that city.

The overall strategy is focused on several

product related groups such as poultry (poultry meat, eggs and seafood), sauces and spices, dairy and dairy products, buns, agricultural products (rice, wheat and flour) and vegetables.

Central control

There is a head office team that oversees policies, processes and procedures and ensures that everything is correctly documented, tracked and up to date.

Generally speaking, anyone employed in the QA side of the company's activities is a graduate in food science or engineering with at least five years of practical, hands on management experience of food production in the field. This is because Yum feel very strongly that anyone in the QA team needs to have a good working knowledge of suppliers and costings so that they can effectively interact with them.

The company has some 500 types of supply and some 250 suppliers. The QA team focuses on new product issues (many of

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Young Chinese queuing for KFC meals.

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 which are for short run promotions), support contingency, which is essentially bringing new suppliers on stream so the company has the resource to service their ongoing expansion of some 500 or so outlets per year, and for maintaining competitiveness between suppliers. Suppliers have to bid for their contracts.

STAR audits

They are also looking with suppliers at cost savings, such as reformulations and the training and education of their staff. Their STAR auditing of suppliers (Supplying, Trading, Appraisal and Recognition) is a key tool for managing and motivating suppliers. Under this scheme those that perform well get more business, while those that perform unsatisfactorily can lose business from Yum Inc.

Without going into all the details, the STAR audits provide a score and over recent years these scores, when analysed, have shown a steady improvement. This is all the more impressive when you put this against the rapid rate of growth in the company and the number of new suppliers coming on board. However, the standards

Various KFC products that are on offer in the Chinese marketplace.



expected of a new supplier in 2010 are significantly higher than those expected of new suppliers just a few years ago!

The STAR audits provide a KPI (Key Performance Indicator) for suppliers. Another KPI is PQNCs (Product Quality Non-Conformances) which are much broader than customer complaints and include failure of quality checks at any one of Yum's outlets and, as well as true product issues, include things such as dirty containers and damaged packaging.

Central analysis of PQNCs

These PQNCs are analysed centrally and over recent years have shown a good reduction, although this has levelled off somewhat in recent years as the benefits of the total QA system have been realised.

In fact the last PQNCs were in 2008 and related to a low number of detections of melamine in dairy products that were bought in, such as ice cream and liquid milk.

This was at the time of major melamine associated problems in the Chinese dairy sector.

To ensure like is being compared with like over time, the PQNCs are related back to a fixed amount of product, for example,

PQNCs per million bread buns, per 10 tonnes of sauces/seasoning or per 100 tonnes of poultry meat.

Field QA Programme

QA does not stop with the suppliers. Each and all of Yum Inc's own outlets are subjected to the company's Field QA Programme.

This involves the checking of incoming ingredients (which is, in effect, part of the supplier auditing system) and ensuring any that are substandard are not used. It also involves the checking of the quality of the products produced and served in the outlets, hygiene and food safety.

This encompasses the likes of technical audits, metal detection, fryer temperature audits, GMP compliance, pest control and adherence to government and corporate requirements.

These can be at retail outlet level or at commissioning centres that, for example, produce all the soups for use in the outlets in a city.

Each outlet is audited at least twice a year and those that do not meet the company's strict standards are audited more frequently until they satisfy the auditors.

At these audits key items including nine pieces of chicken, chicken wings, lettuce, buns and soups are collected for laboratory testing such as microbiological examinations and screening for pesticide residues.

In addition, finished products are assessed for quality of presentation and sensory attributes such as juiciness and flavour.

When it comes to new product development, of which there are about 120 per year, QA is to the fore from the outset.

This helps with regard to the checking of ingredients and additives, the auditing of new suppliers, the establishment of QAPs (Quality Assurance programmes) and KPIs, training in new techniques, labelling and





Yum Inc's auditors at work behind the scenes.



packaging issues, as well as in trial production runs and the early production runs.

Recent changes in China have included new food safety legislation and the need to licence food outlets. Here again QA plays a leading and key role.

Food Safety Officer

In 2007 Yum Inc separated QA and R&D roles within the company and at about this time they had an interesting development with the appointment of a Food Safety Officer. They also produced their own white paper on food safety so that throughout the company everyone would know the company's position regarding food safety and they have been an important contributor to the Chinese government's evolving food safety policy.

The Food Safety Officer is not really associated with day to day production and QA issues, his job has a broader brief and is basically to identify potential future threats and the initiation of early responses and preventive actions should the threat look likely to materialise.

Part of this predictive role uses the results from the company-wide QA monitoring and testing schemes, but it also involves the screening of global databases and keeping in touch with developments from leading areas of food production, such as the USA, Japan and the EU.

Annual reviews

Each year the company reviews its risk assessment of its operations and, where appropriate, updates its QA and sampling programmes. This exercise also double checks that there is 100% compliance with the regulations.

In addition, the Food Safety Officer watches developments in Chinese strategies and legislation and in this context works closely with the authorities and industry

associations such as the China Cuisine Association.

In reality, wherever Yum goes on food quality, QA and safety issues the other major industry players quickly follow.

An interesting and integral part of all of this is the Yum Food Safety Advisory Board of 10 external experts, all of whom are Chinese academics, researchers and regulators as well as experts on testing strategies and methods.

This Board meets regularly and advises the company in terms of future policy. Each Board meeting focuses on a theme, for example poultry meat, and draws in additional experts on farming methods or antibiotic resistance to bring in up to date advice on specific and/or topical issues relating to that sector. So, Yum Inc and its Food Safety Officer have a broad network that they can tap into.

As an example, they recently used this system to update their thinking and position on hormones in meat production.

Interestingly, and most strikingly, Yum Inc do not focus too strongly or solely on accreditation or certificates of compliance. Yes, these have a role to play, but Yum Inc sees them as the first step – they then put real effort into ensuring the effectiveness of their QA systems leaves nothing to chance.

Higher than accreditation

Yum want to bring improvement, and therefore value, to their products that is over and above that which most accreditation schemes look for.

They are looking for real effects and real benefits and not just to be collectors of certificates!

At the end of the day Yum were probably in the right place at the right time but their drive and dynamism coupled to a rapidly growing, more affluent urban Chinese population has certainly been an oriental recipe for business success! ■

From the archives – one of KFC's early restaurants in the 1990s.

