MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

SIMON KUZNETZ KHARKIV NATIONAL UNIVERSITY OF ECONOMICS

Management and business department

1. **REPORT**

ON PREDIPLOMA INTERNSHIP

specialty 073 "Management"

Business Administration specialization

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Total mark \_\_\_\_\_\_\_\_ Date «\_\_\_\_» \_\_\_\_\_\_\_\_ 20\_\_\_\_\_ year.

Kharkiv, 2020**Assessment of the results of the student's internship**

|  |  |  |
| --- | --- | --- |
| **Component of assessment** | **Score** | **Max. Scores** |
| Assessment from head of practice from the enterprise |  | 35 |
| Assessment from head of practice from the department |  | 25 |
| Presentation |  | 20 |
| Answers to the questions |  | 20 |
| **Total scores** |  | **100** |
| Members of the Commission:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Full name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Full name |

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# Introduction

From the end of the Industrial age to the advent of information age, rapid changes have occurred and in most situation the lifestyles of customers change constantly. For businesses, it is of huge importance that an evolution towards the customer trends takes place. As economies develop, competitions arise and businesses succumb to both internal and external threats and opportunities. In such conditions, businesses require continuous planning in order to develop a clear roadmaps leading to achieving business goals.

The purpose of this report is to make Comprehensive Analysis of Kentucky Fried Chicken Company Activity. To ascertain this purpose, the following task are considered:

* to make general overview of the enterprise (KFC);
* to perform technical, economical, and financial analysis of KFC;
* to analyse current activity of KFC;

The base for internship was Private enterprise "Scientific and Consulting Center of Management Technologies".

# General Characteristics of the Enterprise, Analysis of Management System and Key Indicators of Enterprise’s Activity

The base for internship was Private enterprise "Scientific and Consulting Center of Management Technologies". PE "Scientific and Consulting Center of Management Technologies" is a consulting company, which perform its activity according to NACE code “70.22. Consultancy on business and management issues”.

The enterprise is situated in Kharkiv, Bavarska street, 17, apartments 14.

Founder and director of the Private enterprise "Scientific and Consulting Center of Management Technologies" is Shpilevskii V. V.

Scientific and consulting activity of an enterprise cover numerous directions, including consulting on opening new restaurants in Ukraine and abroad. One of the problem, which is currently under the consideration, is opening a new fast-food restaurant in Africa. So this diploma thesis is devoted to developing a business plan of opening a new KFC restaurant in Nigeria.

Kentucky Fried Chicken (KFC) is one of the largest fast food Franchise concepts of today; KFC is a global chicken restaurant brand with a rich, decades-long history of success and innovation. It all started with one cook, Colonel Harland Sanders, who created a finger lickin’ good recipe more than 75 years ago—a list of 11 secret herbs and spices scratched out on the back of his kitchen door. The constituents of the recipe represent a notable trade secret.

Starting in the United States in 1939, it is present in various countries around the world including Ukraine, it has been able to establish a renowned international reputation in multiple continents and has grown to become a true multi-domestic company. The company still adopts his formula for success, with real cooks breading and freshly preparing chicken by hand in more than 23,000 restaurants in over 135 countries and territories around the world.

Although Sanders died in 1980, he remains an important part of the company’s branding and advertisements, and “Colonel Sanders” or “The Colonel” is a metonym for the company itself. The company adopted KFC, an abbreviated form of its name, in 1991. Starting in April 2007, the company began using its original name, Kentucky Fried Chicken, for its signage, packaging and advertisements in the U.S. as part of a new corporate re-branding program; newer and remodelled restaurants will have the new logo and name while older stores will continue to use the 1980s signage.

Today, more than a billion of the Colonel’s “finger lickin’ good” chicken dinners are served annually. And not just in North America. The Colonel’s cooking is available in more than 80 countries and territories around the world. KFC is just one brand owned by Yum! Brands, Inc. Yum! Brands also owns A&W All-American Food Restaurants, Long John Silvers, Pizza Hut and Taco Bell restaurants, and is the world’s largest restaurant company in terms of system units with nearly 32,500 in more than 100 countries and territories.

A list of Some of KFC’s Unique Products are listed in tab. 1.1.

**Table 1.1**

**List of KFC’s Unique Products**

|  |  |
| --- | --- |
| **Products** | **Types** |
| Chicken-Based Products | Chicken Littles, , Chicken & Waffles Sandwich, Pot Pie, Bucket Chicken Series, Chicken Sandwich Smokey Mountain BBQ Chicken, Kentucky Grilled Chicken, Chicken Pop Corn |
| Rolls | Double Down Dog (Philippines), Zinger Double Down King (South Korea),  |
| Burgers | Shrimp Burger (China), Cheese-Topped Burger,  |
| Other Pastries | Shrimp Doughnut (Thailand), Egg Tart / Chizza / Okonomiyaki Chicken (Asia), Tiramisu And Sweet Pie (France), The Parmy (Australia), Yakiniku Bento (Indonesia) |
| Fries | Potato Crisper (India), Nacho Box (Australia), Dipping Fries, Deep-Fried Corn Soup (Japan) |
| Other Products | Porridge (Asia), Vegetable Strips (India), Scoff-Ee Cup (UK), Coleslaw, Whipped or Mashed Potatoes |

The Management System Standards of an organization helps improve their performance by specifying repeatable steps that organizations consciously implement to achieve their goals and objectives, and to create an organizational culture that actively engages in a continuous cycle of self-evaluation, correction and improvement of operations and processes through heightened employee awareness and management leadership and commitment. The management system of KFC is illustrated in fig. 1.1.

**Management System of KFC**

Supply-Distribution Chain Management

Storage and Inventory Management

Human Resources Management

Quality Management

Operation Management

**Fig. 1.1. Management System of KFC**

In Operation Management, KFC uses various tools and techniques to determine the best selection of its location, such as factor rating method, cost-profit-volume analysis, and transportation and simulation models. It considers lot of factors in designing their facility. They ensure their proximity to the consumers, so that they can be easily approached. This is why they have opened so many locations in each city. They understand it is important to remind the consumers about their presence. They always select a favourable location for its outlets, which will lead to increased sales. They make sure that all the outlets are located on the main road, so that footfall rises.

Since they are operating in a saturated and a highly competitive market, they need to keep the prices low. For this, they choose locations that are available at low costs. All these decisions will help them to keep the price of their product low. They locate their outlets where proper infrastructure is available and where there is abundance of skilled labour. This can reduce labour cost as they are easily available and easy access to stores for consumers is possible.

Most of the stores of KFC are franchised, which reduces their maintenance efforts. They simply conduct regular quality checks to ensure that all the required standards are met. Their facility layout decisions are influence by the volume of production, fragility of the product, nature of the service to be provided and the costs required to build the operations area. Their outlets are brightly lit, with attractive colour schemes and comfortable seating arrangement and a warm and welcoming staff. Their suitable and quick cooking process, superior service makes it desirable among consumers. This effective layout helps them in easy supervision, smooth coordination which leads to high flexibility and efficiency. This also reduces bottlenecks and reduces materials handling costs.

In Supply-Distribution Chain Management, KFC its franchisees are substantial purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products, paper and packaging materials. Prices paid for these supplies fluctuate. When prices increase, the franchisee may attempt to pass on such increases to their customers, although there is no assurance that this can be done practically.

KFC does not typically experience significant continuous shortages of supplies, and alternative sources for most of these products are generally available. In the U.S., KFC and its franchisee groups, are members of Restaurant Supply Chain Solutions, LLC (“RSCS"), which is responsible for purchasing certain restaurant products and equipment. The core mission of RSCS is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the KFC-owned and franchisee’ restaurants, which the Company believes leverages the system’s scale to drive cost savings and effectiveness in the purchasing function. The Company also believes that RSCS fosters closer alignment of interests and a stronger relationship with its franchisee community.

Most food products, paper and packaging supplies, and equipment used in restaurant operations are distributed to individual restaurant units by third-party distribution companies. In the U.S., McLane Foodservice, Inc. is the exclusive distributor for the majority of items used in KFC-owned restaurants and for a substantial number of franchisee stores. Outside the U.S., KFC and its franchisees primarily use decentralized sourcing and distribution systems involving many different global, regional and local suppliers and distributors.

In Storage and Inventory management the various activities related to holding materials for production, counting process and moving of materials to warehouse for preservation; are all separated into four (4) types based on the materials involved. These Processes are briefly explained in the tab. 1.2.

**Table 1.2**

**Processes in Inventory Management and Storage of KFC**

|  |  |
| --- | --- |
| **Processes** | **Brief Explanation** |
| Inventory of Chicken | Occurs in 15 days, Chicken is kept in a separate cold storage area built beside main warehouse. Here marinating is done and storage is in six cold storage rooms (around 45 - 50 Sq. Ft. and 7 feet high). Marinating includes washing and mixing with herbs and spices in a machine called "Tumbler" before chicken is labelled for storage. |
| Inventory of Sauces | Sauces are stored for 25 to 30 days based in the expiry date and forecasted sales |
| Inventory of Herbs & Spices | Herbs and Spices are stored based on forecasted sales and the lead time given by the procurement department which is three months |
| Inventory of Bread & Buns | Is repeated in a cycle of 4 days. The Bread and Buns are supplied directly to the various branches from the manufacturing factory. |

Every single inventory item at the warehouse is audited on weekly basis to match it with the numbers in the system, this helps to ensure that all process function properly and discrepancies are checked.

In Quality Management, KFC always ensures that products are well above the minimum temperature recommended by the World Health Organization (WHO). Regular submissions of quality reports are mentioned to ensure suppliers performance. The main characteristics of KFC is excellence which is coined into an acronym CHAMPS (Cleanliness, Hospitability, Accuracy, Maintenance, Product quality and Speed of service).

In Human Resources Management, it aims achieving at optimizing employees’ potentialities allowing KFC to capitalize on new opportunities. These are done by implementing of development strategies focusing on effective management and building of customer relations as well as providing quality products and maintaining cleanliness of the workplace. A brief illustration of the functions of Human Resource Management is in tab. 1.3.

**Table 1.3**

**Functions of Human Resource Management at KFC**

|  |  |
| --- | --- |
| **Functions** | **Brief explanation** |
| Administrative Function | Responsible for Policy making, Recruitment, IR, Performance Evaluation, Compensation and Benefit, and Other General Admin Matters |
| Ethics and Discipline | Carry-out procedures and steps in dealing with workplace conflicts and Ethical Behaviours required of employees |
| Competency Based Training | KFC is committed to making sure employees grow to their highest potential. It engages staff in skill development and enhancement training. |

All the various processes in the management system work collectively and separately toward achieving the goals and objective of KFC. Each segment is key as they actively affect the performance of the other.

The Organizational structure of an organization determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization. KFC adopts a more centralized organizational structure.

The company has evolved through several organisational structures as a result of change of ownership the years. KFC is part of a divisional structure, one in which departments are grouped together according to the outputs of the organization and each separate division is responsible for producing one single item or product.

Kentucky Fried Chicken is part of the divisional structure of Yum! Brands, Inc., their parent corporation. The organizational structure of KFC is illustrated in the fig. 1.2.

C.E.O

HOD

S-D Chain (Communicates)

Manager S-D Chain (ordering, forecasting, planning)

HOD

Marketing

Manager

Marketing

HOD

Human

Resource

HR

Manager

HOD

Finance

Finance

Manager

Marketing

Executives

Human

Resource

Executives

Finance

Executives

S-D Chain Executives (requirements monthly & weekly basis)

**Fig. 1.2. Organizational Structure of KFC company**

The Organization structure of KFC focuses on the attention of their managers and employees on the outcome and results for the customer or the location, this is because the environment can have a great deal to do with a restaurant, they are willing and responsive to change, are quite flexible within the organization. KFC's structure within the individual companies is both mechanistic and organic. They have a team environment where everyone works together and decides how to solve a problem or work something out.

The Organizational Structure of KFC includes the fact that there is hierarchical corporate structure that is followed. In the basic level, the employees include the service providers and the customer service workers. The upper level includes the unit manager, the assistant unit manager and the shift manger. They are the employees who mostly take care of the stores and the employees of the outlets. Above the category of these managers, there is assistant general manager and finally the general manager.

This structure is best for the surveillance of the company and for looking after the expectations of the customers. The different levels of the employees of the organization ensure the fact that the company covers the expectations of the customers effectively [5].

# 2. Technical, Economic and Financial Analysis of the KFC Activities

In Analysing technical and economic analysis of KFC, Yum! Brands financial statements will be employed as KFC is a subsidiary of Yum! Brands and most data available by company is consolidated. The financial statements to be analysed are the Balance Sheet and Income Statement for the years of 2017 to 2018.

According to J. Weygandt, P. Kimmel, and D. Kieso [8], Horizontal analysis also called trend analysis, is a technique for evaluating a series of financial statement data over a period of time. Its purpose is to determine the increase or decrease that has taken place. This change may be expressed as either an amount or a percentage. Vertical analysis, also called common-size analysis, is a technique that expresses each financial statement item as a percentage of a base amount. The Horizontal analysis for Yum! Brands Asset item 2018 is illustrated in tab. 2.1.

**Table 2.1**

**Horizontal Analysis for Yum! Brands 2018 Asset Items**

|  |  |  |
| --- | --- | --- |
| **Asset Item** | **Value (in Millions)** | **Dynamics** |
| **2017** | **2018** | **Increase** | **Rate, %** |
| Total Non-Current Assets | 2,804 | 2,923 | 119 | 4.2 |
| Property, plant and equipment, net | 1,594 | 1,237 | -357 | -22.4 |
| Goodwill | 512 | 525 | 13 | 2.5 |
| Intangible assets, net | 214 | 242 | 28 | 13.1 |
| Other assets | 345 | 724 | 379 | 109.9 |
| Deferred income taxes | 139 | 195 | 56 | 40.3 |
| Total Current Assets | 2507 | 1207 | -1,300 | -51.9 |
| Cash and cash equivalents | 1,522 | 292 | -1,230 | -80.8 |
| Accounts and notes receivable, net | 400 | 561 | 161 | 40.3 |
| Prepaid expenses and other current assets | 384 | 354 | -30 | -7.8 |
| Advertising cooperative assets, restricted | 201 | 0 | -201 | -100.0 |
| Total | 5311 | 4130 | -1,181 | -22.2 |

The total non-current asset increased at a rate of 4.2% with initial value of $2,804 million in 2017 to $2,923 million in 2018 which could be as a result of the company acquiring other asset items. The most significant item in the non-current assets was the Property, plant and Equipment. Its values dropped by 22.4% from $1,594 million to $1,237 million as other assets increase over 100% from $345 million to $724 million showing a positive growth in the future.

The current asset dropped by 51.9 percent from a value of $2,507 million in 2017 to $1,207 million in 2018 this is related to the fall in value of cash and cash equivalent by 80.8% in 2018 at $292 million compared to 2017 of $1,522 million, this change is attributable to the notable invested carried out in the year making liquidity of the company very low.

These indicates that though the company is successfully reducing it company owned restaurant it is yet to balance out the difference by increasing revenue from other forms of asset. This could affect the shareholder equity if this situation does not improve. The Vertical analysis for Yum! Brands Asset item 2018 is illustrated in tab. 2.2.

**Table 2.2**

**Vertical Analysis for Yum! Brands 2018 Asset Items**

|  |  |  |
| --- | --- | --- |
| **Asset Item** | **Value (in Millions)** | **Specific Weight, %** |
| **2017** | **2018** | **2017** | **2018** | **Diffe-rences** |
| **1** | **2** | **3** | **4** | **5** | **6** |
| Total Non-Current Assets | 2,804 | 2,923 | 52.80 | 70.77 | 17.98 |
| Property, plant and equipment, net | 1,594 | 1,237 | 30.01 | 29.95 | -0.06 |
| Goodwill | 512 | 525 | 9.64 | 12.71 | 3.07 |
| Intangible assets, net | 214 | 242 | 4.03 | 5.86 | 1.83 |
| Other assets | 345 | 724 | 6.50 | 17.53 | 11.03 |
| Deferred income taxes | 139 | 195 | 2.62 | 4.72 | 2.10 |
| Total Current Assets | 2507 | 1207 | 47.20 | 29.23 | -17.98 |
| Cash and cash equivalents | 1,522 | 292 | 28.66 | 7.07 | -21.59 |
| Accounts and notes receivable, net | 400 | 561 | 7.53 | 13.58 | 6.05 |

**Continuation of Table 2.2**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** | **6** |
| Prepaid expenses and other current assets | 384 | 354 | 7.23 | 8.57 | 1.34 |
| Advertising cooperative assets, restricted | 201 | 0 | 3.78 | 0.00 | -3.78 |
| Total | 5311 | 4130 | 100.00 | 100.00 | 0.00 |

Cash and cash equivalents which was a major contributor to total assets at 28.66% dropped drastically as contributor to 7.07% which means the company had a relatively low liquid level as investments took most of the cash. A significant increase in contribution to total asset is the other asset value it increased from 6.50% of total assets at a value of $345 million in 2017 to 17.53% of total asset at a value of $724 million in 2018.

The Horizontal analysis for Yum! Brands Equity & Liability item 2018 is illustrated in tab. 2.6. The significant item in the table is the shareholder’s value as it is in deficit, it increased by 25.1% from a values of $6,334 million in 2017 to a value of $7,926 million in 2018 which is very bad signal to prospective investors as it should an inability to pay shareholders although it is attributed to accrued debts with increasing interest rates.

The Horizontal Analysis for Yum! Brands Equity and Liability Items 2018 is illustrated in tab. 2.3.

**Table 2.3**

**Horizontal Analysis for Yum! Brands 2018 Equity & Liabilities Items**

|  |  |  |
| --- | --- | --- |
| **Equity & Liabilities Items** | **Value (in Millions)** | **Dynamics** |
| **2017** | **2018** | **Increase** | **Rate, %** |
| **1** | **2** | **3** | **4** | **5** |
| Total Shareholders’ Deficit | -6,334 | -7,926 | -1,592 | 25.1 |
| Non-current liabilities | 10133 | 10755 | 622 | 6.1 |
| Long-term debt | 9,429 | 9,751 | 322 | 3.4 |
| Other liabilities and deferred credits | 704 | 1,004 | 300 | 42.6 |

**Continuation of Table 2.3**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Current liabilities | 1512 | 1301 | -211 | -14.0 |
| Accounts payable and other current liabilities | 813 | 911 | 98 | 12.1 |
| Income taxes payable | 123 | 69 | -54 | -43.9 |
| Short-term borrowings | 375 | 321 | -54 | -14.4 |
| Advertising cooperative liabilities | 201 | 0 | -201 | -100.0 |
| Total | 5311 | 4130 | -1,181 | -22.2 |

Another significant increase is the value of other liabilities and deferred credits it increased by 42.6% by a difference of $300 million in 2018. It is a long term liability which will mature later but might have high impact on the total outcome of finances if measures to reduce this Owings are not considered.

The Vertical analysis for Yum! Brands Equity & Liability item 2018 is illustrated in tab. 2.4.

**Table 2.4**

**Vertical Analysis for Yum! Brands 2018 Equity & Liabilities Items**

|  |  |  |
| --- | --- | --- |
| **Equity & Liabilities Items** | **Value (in Millions)** | **Specific Weight, %** |
| **2017** | **2018** | **2017** | **2018** | **Diffe-rence** |
| Total Shareholders’ Deficit | -6,334 | -7,926 | -119.26 | -191.91 | -72.65 |
| Non-current liabilities | 10133 | 10755 | 190.79 | 260.41 | 69.62 |
| Long-term debt | 9,429 | 9,751 | 177.54 | 236.10 | 58.56 |
| Other liabilities and deferred credits | 704 | 1,004 | 13.26 | 24.31 | 11.05 |
| Current liabilities | 1512 | 1301 | 28.47 | 31.50 | 3.03 |
| Accounts payable and other current liabilities | 813 | 911 | 15.31 | 22.06 | 6.75 |
| Income taxes payable | 123 | 69 | 2.32 | 1.67 | -0.65 |
| Short-term borrowings | 375 | 321 | 7.06 | 7.77 | 0.71 |
| Advertising cooperative liabilities | 201 | 0 | 3.78 | 0.00 | -3.78 |
| Total | 5311 | 4130 | 100.00 | 100.00 | 0.00 |

The Shareholders deficit increases as the company is having difficulties paying shareholders while focusing on generating profit through more franchising over company-owned restaurants. Long-term Debts have the highest impact on the total liabilities as it increased from 177.54% with a value of $10,133 million in 2017 to 236.10% with a value of $10,755 million in 2018, though it is used to carry out more investments with a longer maturity period.

In analysing the dynamics of economic indicators of Yum! Financial activities, profitability ratios are used. According to Corporate Finance Institute [6], Profitability ratios are financial metrics used by analysts and investors to measure and evaluate the ability of a company to generate income relative to revenue, balance sheet assets, operating costs, and shareholders’ equity during a specific period of time.

Common profitability ratios used in analysing a company's performance include gross profit margin (GPM), Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), Operating Margin (OM), Net Profit Margin (NPM), Return on Investment (ROI), Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS). The Dynamics of Basic Technical and Economic Indicators for Yum! Brands 2017 – 2018 is illustrated in tab. 2.5.

The Operating Margin measures how much profit a company makes on a dollar of sales, after paying for variable costs of production, such as wages and raw materials, but before paying interest or tax [6]. The difference between them is that Gross Profit Margin only features in the direct costs involved in production, while operating profit margin includes operating expenses like overhead cost.

**Table 2.5**

**Dynamics of Basic Technical-and-Economic Indicators for Yum! Brands 2017 – 2018**

|  |  |  |
| --- | --- | --- |
| **Indicator** | **Indicator Values** | **Dynamics** |
| **2017** | **2018** | **Increase** | **Growth rate, %** |
| **1** | **2** | **3** | **4** | **5** |
| Sales/Revenue (Millions) | 5,878 | 5,688 | -190 | -3.23 |
| Gross Profit Income (Millions) | 2,690 | 2,660 | -30 | -1.13 |

**Continuation of Table 2.5**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** |
| EBITDA (Millions) | 1,962 | 1,948 | -14 | -0.71 |
| Operating Profit (Millions) | 2,761 | 2,296 | -465 | -16.84 |
| Net Profit (Millions) | 1,340 | 1,542 | 202 | +15.07 |
| Return on Asset, % | 25.23 | 37.34 | 12.11 | +48 |
| Return on Equity, % | -21.16 | -19.45 | -1.71 | +8.08 |
| Gross Profit Margin, % | 45.74 | 46.73 | 0.99 | +2.16 |
| EBITDA Margin, % | 33.33 | 29.09 | -4.24 | -12.72 |
| Operating Profit Margin, % | 46.94 | 40.42 | -6.52 | -13.89 |
| Net Profit Margin, % | 19.76 | 27.11 | 7.35 | +37.20 |

Net Profit Margin is used to calculate the percentage of profit a company produces from its total revenue. It measures the amount of net profit a company obtains per Dollar of revenue gained. The net profit margin is equal to net profit divided by total revenue, expressed as a percentage.

Earnings Before Interest, Taxes, Depreciation, and Amortization. It represents the profitability of a company before taking into account non-operating items like interest and taxes, as well as non-cash items like depreciation and amortization. The benefit of analysing a company’s EBITDA margin is that it is easy to compare it to other companies since it excludes expenses that may be volatile or somewhat discretionary. The downside of EBTIDA margin is that it can be very different from net profit and actual cash flow generation, which are better indicators of company performance.

A high Gross Profit margin ratio reflects a higher efficiency of core operations. Investors tend to pay more for a company with higher Gross Profit. On the other hand, a low profit margin indicates a high cost of goods sold, which can be attributed to adverse purchasing policies, low selling prices, low sales, stiff market competition, or wrong sales promotion policies. A good margin [7] will vary considerably by industry, but as a general rule of thumb, a 10% net profit margin is considered average, a 20% margin is considered high (or “good”), and a 5% margin is low. These guidelines vary widely by industry and company size, and can be impacted by a variety of other factors.

A comparative analysis of GPM on year on year basis from 2017 to 2018 indicate an increased cost of operation which could be attributed to their adverse franchising policies and stiff market competitions in new entrant markets as growth rate for 2018 fell by 1.13%.

Operating profit margin is frequently used to assess the strength of a company’s management since good management can substantially improve the profitability of a company over and above its operating costs. Companies with high operating profit margins are generally more well-equipped to pay for fixed costs and interest on obligations, have better chances to survive an economic slowdown, and are more capable of offering lower prices than their competitors that have a lower profit margin. For Yum! the Operating Profit dropped to 40.42% in 2018 with a negative growth rate of -16.84% this could be attributed to new marketing campaigns and capital investments in newly acquired franchises.

Return on assets indicates the amount of money earned per dollar of assets. Therefore, a higher return on assets value indicates that a business is more profitable and efficient. As a general rule, a return on assets under 5% is considered an asset-intensive business while a return on assets above 20% is considered an asset-light business. ROA increased to 37.34% in 2018 which indicates that Yum! Brands is an asset-light business as its new initiatives towards franchising system has led the company to reduce most of its fixed asset base.

Return on Equity (ROE) tells investors how much in profit a company makes for every dollar it has in stockholder equity on its balance sheet. In some cases, the amount of stockholder equity that a company has is actually negative, for instance if the company has had a history of losing money and has incurred debt in order to finance continuing business operations, then liabilities will often exceed assets, resulting in negative stockholder equity, having positive profits and negative stockholder equity is more indicative of a potential future rebound than having negative profits and positive stockholder equity.

An extremely high negative number can be the best indicator of success; A low negative number shows that the profits are small compared to the negative stockholder equity balance. ROE dropped to -19.45% in 2018 this is attributed to the low profit earned in the year as compared to the previous year.

Liquidity ratios [2] are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Common liquidity ratios include the quick ratio, current ratio, and days sales outstanding. Liquidity ratios determine a company's ability to cover short-term obligations and cash flows, while solvency ratios are concerned with a longer-term ability to pay ongoing debts. A higher liquidity ratio shows a company is more liquid and has better coverage of outstanding debts. The Liquidity and Leverage ratio for Yum! Brands from 2017 to 2018 is represented in tab. 2.6.

**Table 2.6**

**Liquidity and Leverage Ratios for Yum! Brands 2017 – 2018**

|  |  |  |
| --- | --- | --- |
| **Ratio** | **Indicator Values (pts)** | **Dynamics** |
| **2018** | **2017** | **Increase** | **Growth Rate, %**  |
| Current ratio | 0.93 | 1.66 | -0.73 | -43.98 |
| Quick ratio | 0.66 | 1.40 | -0.74 | -52.86 |
| Debt to Equity | -1.27 | -1.55 | 0.28 | 18.06 |

The current ratio is one of the liquidity ratios. It measures a company’s ability to pay its short-term obligations. The current ratio looks at current assets (those that can be converted to cash in less than a year) and current liabilities (those that will have to be paid off in less than a year). This ratio can be both too low and too high. The quick ratio, also known as the acid-test ratio, is a liquidity ratio that further refines the current ratio by measuring the level of the most liquid current assets available to cover current liabilities.

A higher quick /current ratio of 2.0 and above is considered good ratio in most industries means a more liquid current position. While the value of acceptable current ratios varies from industry, a good ratio would often be between 1.5 and 2.0. The Current Ratio of 2018 for Yum! Brands fell by 43.98% which is very low at 0.93 as compared to 2017 that had a better value of 1.66. The Quick Ratio for 2018 fell by 52.86% which is also very low at 0.66 as compared to a much better value of 1.40 in 2017.

Though the liquidity ratios are low it is not entirely confident to determine if the company will face a liquidity crisis; to be certain solvency ratio must be measured. Leverage ratios measures the company's ability to meet its total financial obligations. It relates to a company's overall ability to pay debt obligations and continue business operations, while liquidity focuses more on current financial accounts.

A negative leverage ratio is one of many factors which can lead analysts to be concerned about the financial health of a company. Analysts use the leverage ratio as a measure of the effectiveness of debt-versus-equity investing decisions. These ratios help illustrate debt's impact on the balance sheet, and can act as a good indicator for investors as to whether or not their equity in a company is on track to deliver their anticipated return. Negative leverage results from a negative stockholders' equity or net worth.

This is when a company has had problems raising money to cover historical net losses. Yum! Brands is revamping its financial profile, improving the efficiency of its organization and cost structure globally, it has set the following goals for 2019:

1. Reduce annual capital expenditures to approximately $100 million in 2019.
2. Lower General and administrative expenses ("G&A") to 1.7% of system sales in 2019.
3. Maintain an optimized capital structure of ~5.0x Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) leverage.

Further review of some of the consolidated cash flow [9] of Yum! Brands reveal the reasons for its current financial standing. Net cash provided by operating activities from continuing operations was 1,176 million in 2018 compared to 1,030 million in 2017. The increase was primarily driven by lower retirement and deferred compensation pay-outs to retirees and a decrease in income tax payments. Net cash provided by investing activities from continuing operations was $313 million in 2018 compared to $1,472 million in 2017. The decrease was primarily driven by lower refranchising proceeds and our $200 million investment in Grub hub common stock in 2018. Net cash used in financing activities from continuing operations was $2,620 million in 2018 compared to $1,795 million in 2017. The increase was primarily driven by lower net borrowings and higher share repurchases.

Yum! Brands intends to return an additional $6.5 - $7.0 billion to shareholders through share repurchases and cash dividends. It intends to fund these shareholder’s returns through a combination of refranchising proceeds, free cash flow generation and maintenance of our five times EBITDA leverage. It generated pre-tax proceeds of $2.8 billion through its refranchising initiatives to achieve targeted franchise ownership of 98%, which were completed in December 2018.

The analysis of Yum! brands and its subsidiary (KFC) shows the current economic conditions highlighting issues and challenges faced by the enterprise which though is improving is happening at a slow rate. Why maintaining its initial business plan adopted in 2016 it is striving toward improving its conditions by promoting a more franchised based business. In other for the company’s goal and objectives to be accomplished a new approach is required.

# 3. Analysis of Current Activities of KFC

In analysis the progress of a company’s business plan a variety of methods are available. Every company in a business has certain frameworks to follow in order to understand the target market. Constantly checking the nerve of the market to determine where focus of products is required. Most companies carry out field works. Some of the methods for analysis are PESTEL analysis, Porter’s Five Force Model, etc. for the purpose of KFC we will adopt the Porter’s Five Force Model in analyzing the Effect of KFC’s current business plan.

According to Oxford College of Marketing [1], PESTEL is an acronym for Political, Economic, Social, Technological, Environmental and Legal. PESTEL analysis is a tool used to identify macro (external) factors facing an organization. In some organizations it can be reduced to PEST. The PESTEL analysis for KFC is elaborated in tab. 3.1.

**Table 3.1**

**PESTEL Analysis for KFC**

|  |  |
| --- | --- |
| **Factors** | **Situations** |
| **1** | **2** |
| Political | KFC had its initial full name dropped to adopt the abbreviation to eliminate the negative publicity of being unhealthy food laden with high-calorie diet. KFC is constantly under fire by nutritionists and campaigners as it capitalizes on the psychological vulnerability of people by changing its name.In May 2019, a bucket of KFC was also used by Tennessee Democrat Rep. Steve Cohen to mock Attorney General William Barr during a Court Hearing. This move could have unintended negative effect on KFC Reputation. |
| Environmental | A complicated history with KFC’s paper supplier has affected the personal opinion of the brand. The paper company is linked to deforestation, which negatively impacts the health of the planet. It also contributes to the endangerment of wildlife and similar species who are already on the brink of extinction. |

**Continuation of Table 3.1**

|  |  |
| --- | --- |
| **1** | **2** |
| Economic | Fast-food restaurants chains are failing to generate sustainable profits and KFC being under Yum! Brand contributes more to the overall profit but the other struggling brands affect general outcomeKFC has created Vegan items to look more health conscious. This has help to improve sales in the company.Steadily declining customer base is a major economic factor that plagues KFC’s growth. |
| Social | Paying employees minimum wage without any benefits is one of the top issues that associate a negative connotation to the brand.Fast Food has been associated with animal cruelty with accusations of using growth hormones on product and farms are accused of allegedly placing animals in unhygienic environments |
| Technical | KFC has adopted many new technologies and changes to keep up with changing trends and preferences of customers. Most outlets today have a click and carry option where you can order your food before even reaching the outlet.Additionally, self-order kiosks, voice automated machines, and online platforms are some of the changes they have adopted to increase profits and sales. KFC has also increased its digital presence through better social media management and promotions. |
| Environmental | A complicated history with KFC’s paper supplier has affected the personal opinion of the brand. The paper company is linked to deforestation, which negatively impacts the health of the planet. It also contributes to the endangerment of wildlife and similar species who are already on the brink of extinction. |
| Legal | Complying with the local laws and regulations is one of the key factors in continuous success and operation. They have to adhere to the food and health quality guidelines and laws in order to avoid lawsuits and penalties.There are many law suits against the company by complaining customers of being served low-quality or rotting foods, some even have strong evidence. |

Though these factors constantly change along with current trends, they each play a crucial role in the development and growth of KFC. Despite the latest political stunts and debacles, the company is focusing on adopting new menu items and technology to improve customer satisfaction. And it’s working; profits in set locations are already on the rise. If the company can step away from questionable corporate relationships and adhere to laws and regulations, it’ll likely continue to flourish in the fast-food industry.

Porter's Five Forces Model is a strategic management tool that helps determine the competitive landscape of an industry. Each of the five forces mentioned in the model and their strengths help strategic planners understand the inherent profit potential within an industry. The strengths of these forces vary across the industry to industry, which means that every industry is different regarding the profitability and attractiveness. The structure of an industry, even though it is stable, can change over time. These Porter’s five forces are as follows:

1. Threat of New Entrants.
2. Bargaining Power of Suppliers.
3. Bargaining Power of Buyers.
4. Threat of Substitute Products or Services.
5. Rivalry Among Existing Firms.

By using the information in KFC five forces analysis, strategic planners will be able to understand how different factors under each of the five forces affect the profitability of the industry. A stronger force means lower profitability, and a weaker force means greater profitability.

Based on this a judgement of the industry's profitability can be made and used in strategic planning. Let's consider the analysis of the Porter's Five Force Model on KFC in tab. 3.2.

In dealing with the Threat of New Entrant, KFC can take advantage of the economies of scale it has within the industry, fighting off new entrants through its cost advantage. It can focus on innovation to differentiate its products from that of new entrants and spend on marketing to build strong brand identification. This will help it retain its customers rather than losing them to new entrants.

**Table 3.2**

**Analysis of Porter’s Five Force Model on KFC**

|  |  |
| --- | --- |
| **Forces** | **Effect within the Industry** |
| **1** | **2** |
| Threat of New Entrant | * the Economies of Scale is difficult to Achieve for new entrant;
* the product differentiation is strong making its customers unique;
* the capital requirement is high;
* the access of distribution Network is easy for new entrant due to few retail outlets;
* the government policies within industry require strict licensing and legal requirement to start selling.
 |
| Bargaining Power of Suppliers | * due to too many suppliers existing they have less control over prices;
* suppliers products are fairly standardized making it easy to switch suppliers;
* there are no substitutes to supplier’s products;
* the suppliers are not a credible threat for forward integration into the industry;
* the industry's profit is closely tied to that of the suppliers, suppliers are compelled to be reasonable in pricing.
 |
| Bargaining Power of Buyers | * buyers have a few options to choose from whereas have less control over prices;
* product differentiation is high making buyers without alternative to particular products;
* low income of buyers makes them price sensitive;
* quality of products can compel buyers to make frequent purchase;
* there is no significant threat to the buyers to integrate backwards.
 |
| Threat of Substitute Product or Services | * there are very few substitutes available for the products;
* the few substitutes available are of high quality and more expensive.
 |

**Continuation of table 3.2**

|  |  |
| --- | --- |
| **1** | **2** |
| Rivalry Among Existing Firms | * few but big existing competitors make it easier to monitor;
* large market share of few competitors makes market highly competitive;
* positive industry growth means competitors are less likely to engage in competitive actions;
* fixed costs are high and competitors reduce prices temporarily to correct falling Demand;
* level of product differentiation (Uniqueness) make competition from firms very low;
* possible disruption in demand-supply balance as production requires increase in capacity by large increment;
* high investment required in capital and asset as regulated by government makes exit barriers very high;
* availability of Numerous Unique strategies creates a high competitive space for competitors.
 |

The Bargaining Power of Suppliers can be of an advantage to KFC, if they use the advantage of switching suppliers to get low cost or quality products. It can have multiple suppliers within the supply chain for different geographical locations to ensure efficiency within the supply chain.

In tackling the Bargaining Power of Buyers, KFC can focus on innovation and differentiation to attract more buyers. It needs to build a large customer base, which can be done through marketing strategies aimed at building brand loyal. It should develop a cost advantage and sell at low prices to the low-income earners

The Threat of Substitute Product or Services is a major issue most corporation battle with in every day operation. KFC can tackle this issue by focusing on providing greater quality in its products to sway buyers’ choice of quality over quantity. It should focus on highly differentiating its products to give buyers a better perception of its product uniqueness over substitutes, this can be achieved through market research and providing what the customer wants.

SWOT is an acronym that simply means Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. It is grouped in two; strengths and weaknesses as internal factors and Opportunities and threats as external factors. The SWOT analysis for KFC is illustrated in tab. 3.3.

**Table 3.3**

**SWOT Analysis of Kentucky Fried Chicken (KFC)**

|  |  |
| --- | --- |
| **Strengths** | **Weaknesses** |
| 1. Good Taste
 | 1. High Price
 |
| 1. Brand Equity
 | 1. Image of “Fried”
 |
| 1. Global Experience
 | 1. Supply Chain and Distribution Issues
 |
| 1. Operations
 | 1. Most of the Products have Close Substitute in Market
 |
| 1. Trade Mark Recipes
 | 1. Inconsistent Quality of Service in Many Outlets
 |
| 1. Strong Customer Focus
 | 1. Lack of Control in Joint Venture Arrangements
 |
| **Opportunities** | **Threats** |
| 1. Increase Outlets
 | 1. New Entrants / Better Quality Brands
 |
| 1. Undeveloped Market Abroad
 | 1. Health Conscious Eating Habits
 |
| 1. Increase Trends to Take Meal Out of Home
 | 1. Animal Care Activists
 |
| 1. Earn Big Profits as the Population Grows
 | 1. Economic Recession (Currency Fluctuations)
 |
| 1. Availability to Increase the Number to Franchise to Other Countries
 | 1. Intensive Competition
 |
| 1. Experimentation with food products to meet changing customer food demands
 | 1. Heavy Investments on Promotion affecting Market Share
 |

A major strength of KFC is it trade mark recipe originally from Colonel Sanders and the vagaries of products that uniquely differentiate it from other products. It is the world's second largest restaurant chain with a very recognised logo. The company has a very wide market reach an a very strong presence in the populous country in the world (China).

When observing some of the company's weaknesses the first thing is the unhealthy view the company's product has due to the name "fried" on its company name. This made the company change from its original full name (Kentucky fried chicken) to an abbreviation (KFC). It has a lot of substitutes of its products by various small and local restaurants which is a major issue as most of its outlets suffer with inconsistencies in the quality of services. There is also a lack of proper control over franchises operations in many countries.

KFC (UK Branch) in 2018 experienced a major setback that affected production for many days, this even led to an outrage by its customers. The setback was as a result of changing its main distributor to DHL without a proper contingency plan leading to a lack of raw products for supply chains to function. This is of great concern as it affects a lots of the outlets.

A great opportunity lies in expansion of the company as they are yet to cover most of Africa. Africa is an untapped market, mostly West Africa which is the success story behind brand like MTN, Multi-Choice TV, Black Berry and even the trending Apple Products. It could try venturing in to home deliveries of product to ease the stress of customers queuing to get products. It can increase research in other to develop more food products that relate to the different cultures in which it operates.

The protest [4] against the opening of KFC at the Trade Unions House on Nov. 21, 2018 resulted in Kyiv police detaining six far-right activists and assaulting with pepper spray, Masi Nayyem, who served as a lawyer to one of the protesters. This is a threat to the image of the company and in most cases its human right activist or animal care activists that feel KFC's existence will harm the environment. Massive advertisement campaigns in most cases ends up affecting market share as it doesn’t march with returns.

The current economic recession in the world has affected currency exchange rate which makes accounting and measuring profit some more sophisticated and complicated. The presence of another giant competitor McDonald increases the level of competition as in most cases their restaurants are open in close proximity creating a customer tussle. In most popular regions of the KFC brand the high rate of obesity and diabetes has created a self-conscious mind in the populace to seek out healthier and safe foods and the KFC brand is often branded as unsafe along with fastest food business existing.

The Quantitative Assessment of KFC’s Strength and Weaknesses is illustrated in tab. 3.4

**Table 3.4**

**Quantitative Assessment of Strength and Weaknesses**

|  |  |  |  |
| --- | --- | --- | --- |
| **Factors** | **Importance** | **Rating** | **Score** |
| **Strengths** |
| 1. Good Taste
 | 0.12 | 4 | 0.48 |
| 1. Brand Equity
 | 0.08 |  4 | 0.32 |
| 1. Global Experience
 | 0.08 | 3 | 0.24 |
| 1. Operations
 | 0.07 | 3 | 0.21 |
| 1. Trade Mark Recipes
 | 0.08 | 3 | 0.24 |
| 1. Strong Customer Focus
 |  0.12 |  2 | 0.24 |
| Total | - | - | 1.73 |
| **Weaknesses** |
| 1. High Price
 | 0.08 | 2 | 0.16 |
| 1. Image of “Fried”
 | 0.07 | 3 | 0.21 |
| 1. Supply Chain and Distribution Issues
 | 0.09 | 2 | 0.18 |
| 1. Most of the Products have Close Substitute in Market
 | 0.07 | 2 | 0.14 |
| 1. Inconsistent Quality of Service in Many Outlets
 | 0.08 | 3 | 0.24 |
| 1. Lack of Control in Joint Venture Arrangements
 | 0.06 | 2 | 0.12 |
| Total | 1 |  - | 1.05 |

From the assessment in tab. 3.4 for internal environment we observe that the total score for Strengths (1.73) is higher that than the Weaknesses which means the company can capitalize on their strength to increase their presence and value in the market. The Opportunities (2.31) scored higher than the Threats of the company which means there are investments options and business decisions that can be made to improve the current position of the company.

The Quantitative Assessment of KFC’s Opportunities and Threats is illustrated in tab. 3.5

**Table 3.5**

**Quantitative Assessment of Opportunities and Threats**

|  |  |  |  |
| --- | --- | --- | --- |
| **Factors** | **Importance** | **Rating** | **Score** |
| **Opportunities** |
| 1. Increase Outlets
 | 0.15 | 3 | 0.45 |
| 1. Undeveloped Market Abroad
 | 0.12 | 2 | 0.24 |
| 1. Increase Trends to Take Meal Out of Home
 | 0.13 | 4 | 0.52 |
| 1. Earn Big Profits as the Population Grows
 | 0.10 | 3 | 0.30 |
| 1. Availability to Increase the Number to Franchise to Other Countries
 | 0.12 | 2 | 0.24 |
| 1. Experimentation with food products to meet changing customer food demands
 |  0.14 |  4 | 0.56 |
| Total | - | - | 2.31 |
| **Threats** |
| 1. New Entrants / Better Quality Brands
 | 0.07 | 3 | 0.21 |
| 1. Health Conscious Eating Habits
 | 0.07 | 4 | 0.28 |
| 1. Animal Care Activists
 | 0.08 | 3 | 0.24 |
| 1. Economic Recession (Currency Fluctuations)
 | 0.08 | 2 | 0.16 |
| 1. Intensive Competition
 | 0.06 | 4 | 0.24 |
| 1. Heavy Investments on Promotion affecting Market Share
 | 0.06 | 2 | 0.12 |
| Total | 1 |  - | 1.25 |

From the SWOT analysis and Quantitative Assessment, certain approach could be advised for the company;

1. Company should introduce new healthier recipes and increase outlets.
2. Increase Market presence in Africa.
3. Work on the Image of a healthy fast food chain through advertising.
4. Develop a strong culture of service (Improved CSR Activities).
5. Create a backup plan for supply chain and distribution to prevent issues.
6. Localized purchase of most of the raw materials for production.

Though Yum! Brands has two other subsidiaries under it, the improvement of one could offset the current dilemma the company is faced with. A problem map shows the various problems the company is faced with, causes of the problem and consequences as well as the solutions to resolve them. The problem map for KFC is illustrated in fig. 3.1

High Shareholders Deficit

Insufficient Product Range

Accumulated Interest on Loans

Low Profit Realized

Accrued Debt

High Investment

Reduced Company Sales

Insufficient Franchise Sales & Contribution

Better Advertising

More Franchising

Low Market Coverage

Increase Franchise Coverage

Increase Profit Level

Develop Business Plan

Raw Material

Mostly Imported

Localize

Production

Purchase Raw Material

Locally

**Fig. 3.1. Problem Map of KFC**

The major issue with the company is fluctuations in revenue generated which is due to the current sway from be a company-owned restaurant to a franchise based business. Other issues linger such as the impending shareholder’s deficit which is as a result of accrued debts in previous years. The debts are also caused by accumulated interest on loans and is determined by the unfavorable dollar exchange rate which determines the value of returns or revenue from international countries.

As an international company it needs to create new product range as regards the preference and culture being different in each region and the current health consciousness of the world. Economic conditions in most countries force the population to purchase based on affordability, the cost of current products is high due to importation of most materials involved in the production process. Debts are only issues if they cannot be covered or paid back. In other to pay back loans more profitable investments should be made but the investments by KFC currently are long term investments which will take time to mature.

The rapid drop is company sales is supposed to be covered or replaced by franchise sales and contribution which is barely sufficient due to certain factors such as low market coverage and low advertising strategies. To cover for this deficiency an increase in the number of franchise in-line with the company’s goals is required. The higher the franchise coverage, the more the shareholder’s deficits are paid which will lead to profit levels increased. The best option is the adaptation of a refined or new business plan to establish this market strategy which will involve exploration of areas with high market tendencies and potentiality of being customers of the company.

# Conclusion

In this Report, the general characteristics of KFC, Financial, Economic, Technical Activities as well as Analysis of the current Business Plan of KFC were done. KFC is the second largest Franchised food company in the World with markets all over the United States, Europe, Asia and Africa. Based on Annual Reports by YUM! Brand of which KFC is a subsidiary the financial information of the company was collected and the various activities under the current business plan were analysed.

KFC has currently increase its determination to becoming a solely franchise company by reducing company owned restaurant and selling franchise rights. It was identified that this decision is taking a slow growth based on the current limitation on market size.

Further analysis of the company’s activity was carried out using the following tools; Porter's Five force, SWOT and PESTEL analysis. A problem map was used to illustrate the company’s situation and possible actions to improve it. The analysis of this tools revealed the crucial need to revamp the current business plan. It is important to note that the factors identified and solutions offered be taken into considerations to ensure the effective and efficient operation of the company.

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**APPENDICES**

**Appendix A**

**Consolidated Financial Report of Yum! Brands**

**Table A.1**

**Consolidated Balance Sheet (As at 31 December 2018)**

|  |  |  |
| --- | --- | --- |
|  **(in millions)** | **2018** | **2017** |
| Assets |   |   |
| Property, plant and equipment, net | 1,237 | 1,594 |
| Goodwill | 525 | 512 |
| Intangible assets, net | 242 | 214 |
| Other assets | 724 | 345 |
| Deferred income taxes | 195 | 139 |
| Non-current assets | 2,923 | 2,804 |
| Cash and cash equivalents | 292 | 1,522 |
| Accounts and notes receivable, net | 561 | 400 |
| Prepaid expenses and other current assets | 354 | 384 |
| Advertising cooperative assets, restricted | 0 | 201 |
| Current assets | 1,207 | 2,507 |
| Assets | 4,130 | 5,311 |
|  |   |   |
| LIABILITIES AND SHAREHOLDERS’ DEFICIT |   |   |
| Accumulated deficit | -7,592 | -6,063 |
| Accumulated other comprehensive loss | -334 | -271 |
| Total Shareholders’ Deficit | -7,926 | -6,334 |
| Long-term debt | 9,751 | 9,429 |
| Other liabilities and deferred credits | 1,004 | 704 |
| Non-current liabilities | 10,755 | 10,133 |
| Accounts payable and other current liabilities | 911 | 813 |
| Income taxes payable | 69 | 123 |
| Short-term borrowings | 321 | 375 |
| Advertising cooperative liabilities | — | 201 |
| Current liabilities | 1,301 | 1,512 |
| Total Liabilities | 12,056 | 11,645 |
| Total Liabilities and Shareholders’ Deficit | 4,130 | 5,311 |

**Table A.2**

**Income Statement of Yum! Brands (2017-2018)**

|  |  |  |  |
| --- | --- | --- | --- |
| **(CHF in millions, except per share and unit amounts)** | **2018** | **2017** | **2016** |
| **1** | **2** | **3** | **4** |
| Revenues  |   |   |   |
| Company sales  | 2,000 | 3,572 | 4,189 |
| Franchise and property revenues  | 2,482 | 2,306 | 2,167 |
| Franchise contributions for advertising and other services  | 1,206 | - | - |
| Total revenues  | 5,688 | 5,878 | 6,356 |
| Costs and Expenses, Net  |   |   |   |
| Company restaurant expenses  | 1,634 | 2,954 | 3,489 |
| General and administrative expenses  | 895 | 999 | 1,129 |
| Franchise and property expenses  | 188 | 237 | 201 |

**Continuation of table A.2**

|  |  |  |  |
| --- | --- | --- | --- |
| **1** | **2** | **3** | **4** |
| Franchise advertising and other services expense  | 1,208 | - | - |
| Refranchising (gain) loss  | (540) | (1,083) | (163) |
| Other (income) expense  | 7 | 10 | 18 |
| Total costs and expenses, net  | 3,392 | 3,117 | 4,674 |
| Operating Profit | 2,296 | 2,761 | 1,682 |
| Investment (income) expense, net  | (9) | (5) | (2) |
| Other pension (income) expense  | 14 | 47 | 32 |
| Interest expense, net  | 452 | 445 | 307 |
| Income before income taxes  | 1,839 | 2,274 | 1,345 |
| Income tax provision  | 297 | 934 | 327 |
|  Income from continuing operations  | 1,542 | 1,340 | 1,018  |
|  Income from discontinued operations, net of tax  | N/A | N/A | 625 |
|  Net Income - YUM! Brands, Inc.  | $ 1,542 | $ 1,340 | $ 1,643 |

**Table A.3**

**Sales and Market Share**

|  |  |  |  |
| --- | --- | --- | --- |
| **(CHF in millions, except per share and unit amounts)** | **2018** | **2017** | **2016** |
| Basic EPS - Continuing Operations |   |   |   |
| Reported EPS | $ 4.80 | $ 3.86 | $ 2.58 |
| Weighted average shares used in computation | 322 | 347 | 394 |
| Basic EPS - Discontinued Operations |   |   |   |
| Reported EPS | N/A | N/A | $1.59 |
| Special Items EPS |   |   | 0.34  |
| EPS before Special Items |   |   | 1.25  |
| Weighted average shares used in computation | N/A  | N/A  | 394  |
| Diluted EPS - Continuing Operations |   |   |   |
| Reported EPS | $ 4.69  | $ 3.77  | $ 2.54  |
| Weighted average shares used in computation | 329  | 355  | 400  |
| Diluted EPS - Discontinued Operations |   |   |   |
| Reported EPS |  N/A  |  N/A  | $ 1.56  |
| Special Items EPS |   |   | 0.33  |
| EPS before Special Items |   |   | 1.23  |
| Weighted average shares used in computation |  N/A  |  N/A  | 400  |
|  System sales growth  |  |  |  |
|  Reported  | 5% | 4% | 3% |
|  Ex/FX  | 5% | 4% | 5% |
|  Ex/FX and 53rd week | N/A | 5% | 4% |
|  Company sales  | $ 2,000  | $ 3,572  | $ 4,189  |
|  Franchisee sales  | 47,237  | 43,122  | 40,732  |
|  System Sales  | $49,237  | $46,694  | $44,921  |
|  Worldwide System Same Store Sales Growth  | 2% | 2% | 1% |
|  Net Unit Growth  | 3,040  | 1,409  | 1,192  |

**Table A.4**

**Income Statement of KFC**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **(in millions, except unit amounts)** | **2018** | **2017** | **2016** | **2015** |
|  Revenues  |  |  |  |  |
|  Company sales  | 894  | 1,928  | 2,156  |  2,191  |
|  Franchise and property revenues  |  1,294  |  1,182  |  1,069  |  1,031  |
|  Franchise contributions for advertising and other services  |  456  |  -  |  -  |  -  |
|  Total revenues  |  2,644  |  3,110  |  3,225  |  3,222  |
|  Costs and Expenses, Net  |   |   |   |   |
|  Company restaurant expenses  |  775  |  1,639  |  1,839  |  1,884  |
|  General and administrative expenses  |  350  |  370  |  396  |  395  |
|  Franchise and property expenses  |  107  |  117  |  108  |  101  |
|  Franchise advertising and other services expense  |  452  |  -  |  -  |  -  |
|  Other (income) expense  |  1  |  3  |  11  |  7  |
|  Total costs and expenses, net  |  1,685  |  2,129  |  2,354  |  2,387  |
|  Operating Profit  |  $ 959  |  $ 981  |  $ 871  |  $ 835  |
|  System sales growth  |  |  |  |   |
|  Reported  | 7% | 5% | 3% | (3)% |
|  Ex/FX  | 6% | 6% | 7% | 5% |
|  Ex/FX and 53rd week | N/A | 6% | 6% | N/A |
|  Company sales  |  $ 894  |  $ 1,928  |  $ 2,156  |  $ 2,191  |
|  Franchisee sales  |  25,345  |  22,587  |  21,086  |  20,437  |
|  System Sales  |  $26,239  |  $24,515  |  $23,242  |  $22,628  |
|  System Same Store Sales Growth  | 2% | 3% | 2% | 1% |
|  Net Unit Growth  |  1,134  |  844  |  657  |  568  |