Delivery—KFC Know-How

What You Will Need to operate Delivery

Required:

♦ Phone system for access to ordering

♦ Call Center

♦ Direct to restaurant

♦ Delivery dispatch area in the restaurant

♦ Telephone

♦ POS System

♦ Dipstach order racking

♦ Pouch positioning

♦ Chiller (where chilled products available)

♦ Delivery vehicles

♦ Company owned

♦ Owner driver

♦ Cars/Motorbikes

♦ Driver certification

♦ KFC training

♦ Legal requirement training

♦ Hot Hold equipment

♦ Pouches

♦ Trade Zone MapPing

♦ Linked POS to KDS

♦ LSM leaflets and menus

♦ Full operational training program

Highly recommend:

☐ Online & Mobile Ordering

☐ Call Centre (direct or online support)

☐ Market Mapping

☐ Geo Planning

☐ Company owned motorcycles

☐ 70% bike—30% car

☐ Website

☐ LSM marketing plan

☐ By restaurant

☐ Specific packaging

☐ Developed for off-premise

☐ Delivery Manager

☐ Above Store Channel Leadership

Optional:

☐

Delivery—KFC Know-How

Off-premise delivery has the potential to deliver a billion transactions a year across KFC!

Introduction

Restaurant food delivery is a huge market and a growing one. Our sister company Pizza Hut has been using this channel for many years and has developed some great expertise. KFC has also offered delivery in many different markets, with some great know-how and expertise, however, this has usually grown in isolation and without a global standardized approach. Having said that, delivery is worth over $1billion per annum to Yum! today and is some countries, represents 50% of all business! It has huge growth potential and is becoming the expected norm for much of the territories we operate in.

This "executive summary" on delivery aims to help the understanding of the fundamentals of setting up and operating a channel that offers our customers the opportunity, via the phone or an on-line ordering platform, the chance to enjoy KFC in their home, place of work or any venue off the premises of our restaurants. After the customer places their order, the food is transported by KFC to their requested venue.. There are different types of "off-premise" channels, this introduction deals with probably the most familiar one. That of frequent, standard transaction orders delivered by bike or car to a customer from a "standard" KFC restaurant. Most of us will be familiar with this set up from our experiences of ordering Pizza Hut delivery. There is a separate supporting guide for off-premise catering.

For KFC, our mission is to develop a dominant brand that stands for one global identity. In other words, the winning formula is one global brand, competing locally. The know-how in this and the associated documents, aims to support that goal of codifying key elements around KFC delivery with the flexibility of local markets to determine the best strategic application of the channel.

All the detail regarding the implementation of this channel is contained with this website—www.KFCDAC.com

In this overview we will introduce some key areas and give an overview of the delivery channel:

Why Delivery?   *How do I get profits?*   *How do I get the store ready?*

How will I take the order?   *Where will I deliver?*   *What will I deliver?*

Who will deliver?   *How do I deliver?*   *How do I drive performance?*

How do I build delivery sales?

Why delivery? - The customer is always Why!

Understanding your markets needs and therefore your customers needs is where it all starts.

Developing a consumer proposition that works for your customers is key.

The tenets of ensuring competitive value, high quality, modernity and relevance will always be there.

The stronger the insights and locally relevant prpopositon, the higher the return.

- The global QSR delivery market is huge at well in excess of $10 billion.

- Where KFC offers a relevant consumer proipistion to the consumer and delivers against its promise, it can be a significant sales and profit generator

- Delivery customers can be the most frequent and the most loyal of all our customers, giving us hug brand sponsoirhsip when we get it right

- Delivery can ensure maximum return in underperforming assets.

And the customers loves KFC Delivery!

- **Delivery customers tend to order more frequently than dine-in customers and spend more!** (MenaPak data 2013)

  - **Average delivery transaction = $12 vs Average dine in transaction at $5**
  - **Delivery represents 50% of trade in some markets**
  - **Frequency of delivery pushes up average frequency - 4 of top 10 frequency countries are in Mena with market mix of 35% delivery and 3-4% catering mix**

- **Global spend on QSR delivery tops $10 billion!**
- **At 3% of mix delivery and catering could equate to +$1000 wpsa or +$50k per annum X 20000 KFCs = $1 Billion**

Global delivery in Billions $

0.5

10

■ Global
■ KFC

- **Unlocking potential....delivery and catering go where restaurants can't!**

- **Catering Customer is a valuable customer** (US data 2013)

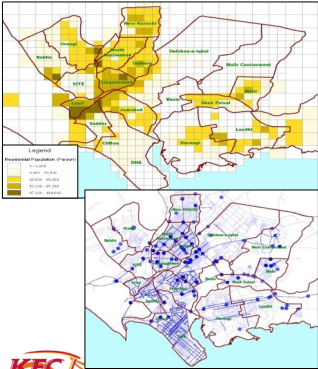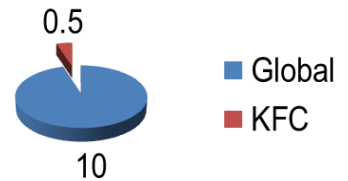| Current KFC Customer	KFC Catering Customer
• Orders 6 times per year, buys a 2 pc box meal	• Orders 3 times per year, buys a meal for 15 people
$6 per order	$80 per order
X 6 orders per year	X 3 orders per year
$36 annual spend	$240 annual spend

Market Mapping

The ideal starting place for opening up a home delivery business is to understand the end goal of what will penetration look like and what is your plan to get there. Through various methods of market mapping including Yums! global relationship with GeoMap, markets are now able to fully understand the level of restaurants they can get to and through that what is the short, medium and long-term plan for delivery stores. Regardless of how sophisticated your market mapping is, the temptation to have huge delivery areas until you open more stores is always there. Regardless of the number of restaurants, you should stick to the guidelines of trade zoning and the delivery standards to ensure that its right for the customer and the brand. Within the detail of the know-how portal, you are able to see the ideal number of household, demographic advice and so-on, but 1 restaurant should not try and deliver to a whole city!! This exercise should be led at a senior and central level as it will determine not only delivery expansion, but also all non-delivery opportunities

Mapping, zoning and podding

☐ Market Mapping should be centrally led

☐ Trade zones and podding should be led by operations

Trade Zones

At an operational, area and store level, the detailing of a trade zone should be handled by the AC and the RGM. This involves thoroughly understanding the competitive landscape, key business drivers as well as household counts, drive times and natural boundaries. This Trade zone mapping should be reviewed regularly as towns shrink and expand and especially when new KFC restaurants open.
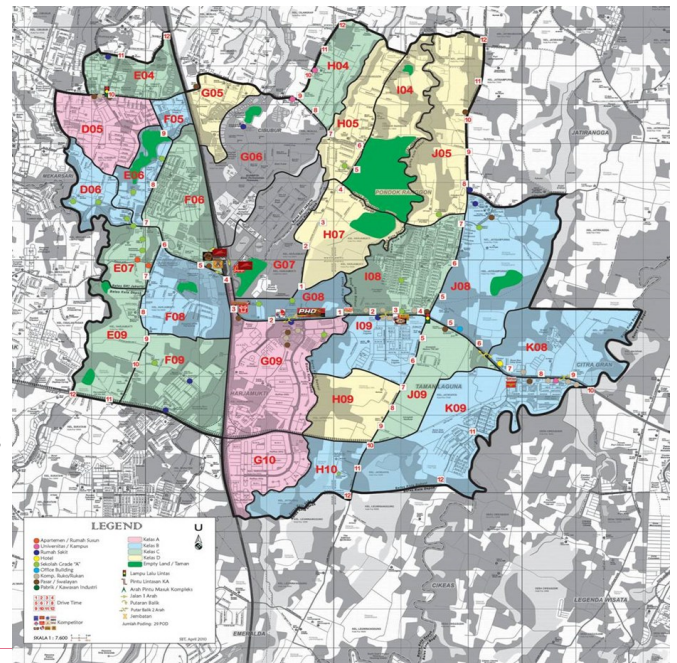
Podding and Hot Zones

Once a trade zone is established, the RGM and AC should develop pods. These are smaller, more logical jigsaw pieces of the trade zone, which will help on a number of fronts;

• You can identify and use natural boundaries, roads, rivers, tunnels, one way streets

• You can section areas in to manageable, smaller areas for individual drivers

• The dispatcher is able to facilitate faster delivery by allocating using pods close to each other or with easier access

How do I get profits?

Financials

There are two key elements addressed within the financial summary

    1. The capital expenditure

    2. The ongoi8ng P&L impact

These are financial guides and indicators which may vary from market to market, so significant thought, sense testing and rigor should be applied to both elements during the forecasting and planning of delivery as a channel. The aim is to give a structure to these considerations rather than apply a definitive $ figure to costs.

Capital Outlay

Additional cost associated with delivery

 - In restaurant

    - Additional POS

    - Additional phone line/s (without call center)

    - Hot Hold Pouches and racking

    - Approx. 10sqm for dispatch area

    - Chillers/desks/maps/uniforms

 - Outside restaurant

    - Vehicles

    - External Uniform and helmets

    - Legislative driver training

    - Parking or vehicle siting area

 - Centrally

    - Call Centre (if unit telephonists not used)

    - LSM production (may be local)

    - Delivery management (Human Resource)

    - I.T infrastructure upgrades

    - Online and mobile interface development

How do I get profits?

P&L Ongoing Costs

Delivery is a more expensive channel to maintain that a standard in restaurant offering due to the following reasons;

1—**The upkeep of vehicles (company owned) or the premium paid to owner drivers**

Whether you decide to purchase vehicles and maintain them as a company asset, or employ owner drivers, the cost will be similar.

2—**The upkeep of I.T infrastructure and hardware (call center/POS/teleph9ones/on-line)**

The use of even basic I.T is incremental. The introduction of an on-line and mobile ordering platform has significant initial expense as well as an upkeep cost, however, this is the preferred method of ordering for many of our customers and will pay back versus the cost of call center assets and operatives.

3—**The enhanced packaging costs**

Although not generic, many markets use enhanced delivery and catering packaging to support the delivery of perfect product to our customers. This is more robust than in store packaging and carries a higher cost. This can be offset due to the higher average ticket of delivery and the frequency with which off-premise customers purchase.

4—**The level of productivity obtained by the drivers, telephonists and dispatchers**

Mitigating cost with the use of technology (online ordering, in-store KDS, intelligent dispatch) to take down labor costs in call centers, dispatchers and to make drivers as productive as possible goes a long way to ensuring delivery is not only a sales driver, but a profit grower as well.

To assist you in the details of this area, a financial worksheet has been produced with in the know-how portal.

CORE ASSUMPTIONS

Sales Assumptions

Weekly sales

Weekly transactions	3,500
Average Guest Check ($)	5
WPSA ($)	17,500

Weekly sales growth

	%
SSSG Year 1 to 2	103%
SSSG Year 2 to 3	103%
SSSG Year 3 to 4	103%
SSSG Year 4 to 5	103%
SSSG Year 5 to 10	103%

Delivery Assumptions

Initial investment

No of stores	5
Initial investment per store ($)	1,000

Sales input

Weekly transactions	500
Average Guest Check ($)	6
WPSA ($)	3,000

Operating costs of Delivery

Cannobilisation of core income stream	3%
Cost of Food	30%
Cost of Labour	36%
Semi variable costs	0%
Other fixed	5%
Marketing spend	5%
Royalty fee to Yum	6%

Development Assumptions

Build inputs

Number of stores	10
Initial investment overlay ($)	1,000,000
Rental costs per annum ($)	100,000
Year 0 start up costs ($)	50,000
Year 5 refresher cost ($)	50,000
Year 10 refresher cost ($)	100,000
Annual capital maintenance costs ($)	30,000

Initial fee and Royalty agreements

Initial fee ($)	49,000
Continuing royalty (%)	6%
Marketing contribution (%)	5%

Operating assumptions

Macro assumptions

	%
Inflation rate	2%
Discount rate	5%
Long term growth rate	2%

Operating assumptions

	%
Cost of Food	26%
Cost of Labour	18%
Semi variable costs	0%
Other fixed	0%
LSM spend	2%
Year 0 inefficiency	5%

Output analysis - implementation of Delivery

Background information

	Stores	Capital $
Number of core stores		10,000,000
Number of core stores implementing Delivery	5	155,000

Core store operations - Investment metrics

| DCF - Present value of future cashflows $ - per store	6,714,332
DCF - Present value of future cashflows $ - all stores	67,143,325
Payback Period (years)	6
IRR (%)	20%

All metrics exclude any above store costs

Core store + Delivery operations - Investment metrics

DCF - Present value of future cashflows $ - per store	6,781,075
DCF - Present value of future cashflows $ - all stores	101,048,699
Payback Period (years)	6
IRR (%)	20%

EBITDA profile by store

	Core	Core + Delivery
Year 1	209,628	212,713
Year 2	239,177	241,688
Year 3	247,373	249,958
Year 4	255,834	258,498
Year 5	264,570	267,314
Year 6	273,590	276,416
Year 7	282,902	285,812
Year 8	292,515	295,513
Year 9	302,439	305,527
Year 10	312,684	315,864

How do I layout the asset and how do I operate?
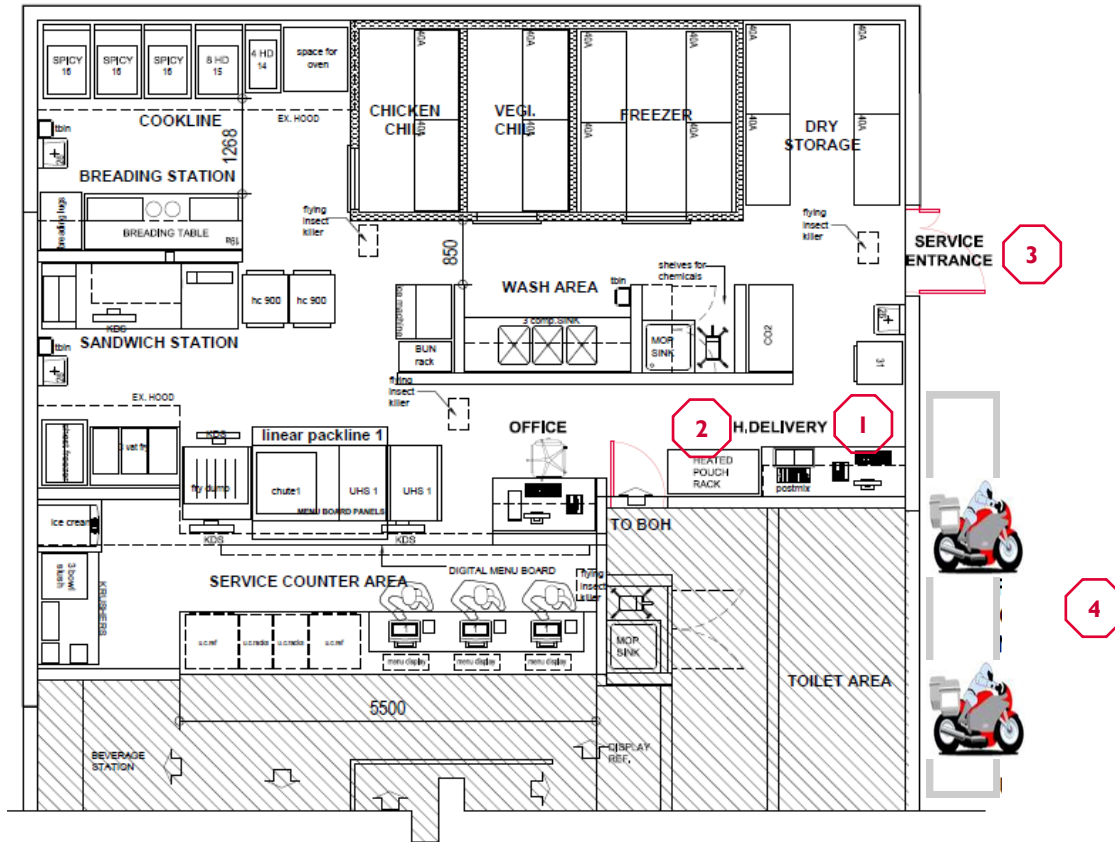
1—Dispatch area containing phone, POS, map, KPIS, printer and dispatcher

2– Pouch rack—containing heated pouches

3—Separate entrance and exit for delivery drivers

4—Parking/storage area for vehicles

The successful application of the delivery channel is very involved. There are significant changes to the layout, staffing, deployment and economics of a restaurant.

The full step by step detail of the operation is covered in full in the associated workshop and the operating manual for both delivery and catering. **IN order to give some idea of what is needed for success, we will cover 3 areas in this summary document.**

In order to delight our customers, the expectation is to receive perfect food in the promised time of 30 minutes. Here is we achieve 30 minutes;

- **Talk time 2 minutes**
- **Pack time 4 minutes—pouch time 1 minute—Speed rack time (wait) - 2 minutes = in-store 7 minutes**
- **Maximum drive time 8 minutes**
- **Total for 1 order 17 minutes**
- **+2 minutes door courtesy + 5 minutes to second delivery**
- **Total for 2 order is 24 minutes**
- **Maximum delivery is 2 orders**

Build & Deploy Great Teams

Must Have's:
- Dedicated above store leadership
- Fully staffed, trained team's deployed for peak
- Driver and Order Taker retention program
- Sales Forecasting & Labor Management System
- Dedicated dispatcher at peak

Provide Best in Class Telephone Service

Must Have's:
- All Calls answered ≤ three rings by trained order taker
- Adequate phone lines and order takers
- Suggestive selling and Call Back Program; Phone script at every terminal
- System to quote an accurate delivery time
- Phone service training and measurement program

Deliver 'Hot Food Hot & Cold Food Cold'

Must Have's:
- Heated Pouches
- Product quality monitoring system
- Beverages and sides stored chilled and pre-bagged
- Appropriate "fit for purpose" packaging

Be On Time All the Time Safely

Must Have's:
- Trade area mapped and podded ≤ 8min; Clean data base (Store &Call Center)
- Adequate Capacities & Efficient Workflows
- Ready for Revenue
- Pack times tracked and controlled
- Intelligent Dispatching KPI's posted.
- Team aware and driving results

Own the Trade Area & Beat Year Ago Sales

Must Have's:
- BYA LSM process and plan for each store
- Optimized leaflet distribution plan
- Sales and coupon redemption tracked by pod
- Competitor activity tracking discipline

Operations and KPIs

The complications that a new channel can bring to your operation should not be underestimated and this know-how portal gives all the tools necessary to run a World Class operation, whether you are starting out or just looking to enhance an existing business.

- Full operational workshop and toolkit. This support from the ASL to the RGMs

- There is a full training suite that supports the restaurant teams and the team members

- All standards are codified and suggested operating methods as well as best practice KPIs are shared and demonstrated.

Operations tools:

☐ Full Workshop

☐ Training Material

☐ Off the shelf Ops Manual

☐ Job aids and descriptions

☐ KPIs and standards

Learnings point to the benefit of having delivery know-how in your market and having an owner of the channel to lead the operational standards and galvanize the business is a huge benefit
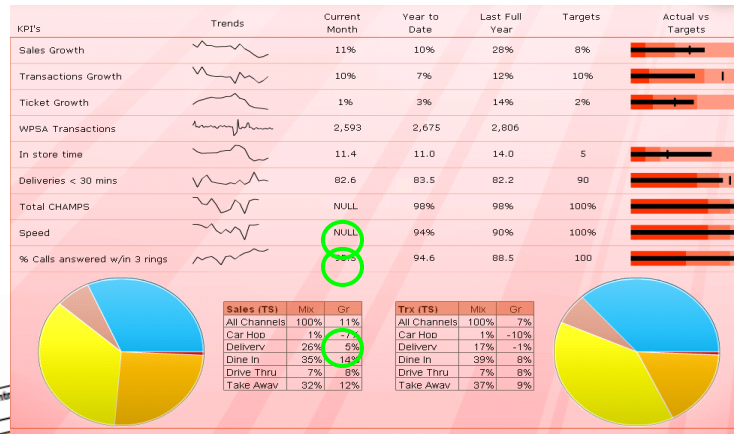
The many standards, measurements and intricacies of operations are talked through in detail throughout the know-how site and in their entirety in the "Bringing it All Together " section.

The measurement of the stores performance above and beyond the financial elements should be based on the customer interface method and the restaurant itself.

1)- Customer interface is a call center, online portal or in-store telephonists.

You should look to measure the performance for the customer as well as the throughput and productivity.

2)- Restaurant KPIs should reflect the individual (and roll-up) performance against the standards and also the throughput and productivity of transactions..

KPI's	Trends	Current Month	Year to Date	Last Full Year	Targets	Actual vs Targets
Sales Growth		11%	10%	28%	8%	
Transactions Growth		10%	7%	12%	10%	
Ticket Growth		1%	3%	14%	2%	
WPSA Transactions		2,593	2,675	2,806		
In store time		11.4	11.0	14.0	5	
Deliveries < 30 mins		82.6	83.5	82.2	90	
Total CHAMPS		NULL	98%	98%	100%	
Speed		NULL	94%	90%	100%	
% Calls answered w/in 3 rings		99%	94.6	88.5	100	

Sales (TS)	Mix	Gr
All Channels	100%	11%
Car Hop	1%	7%
Delivery	26%	5%
Dine In	35%	14%
Drive Thru	7%	8%
Take Away	32%	12%

Trx (TS)	Mix	Gr
All Channels	100%	7%
Car Hop	1%	-10%
Delivery	17%	-1%
Dine In	39%	8%
Drive Thru	7%	8%
Take Away	37%	9%

KPI's For Call Center

CALL CENTRE PERFORMANCE TRACKER

(3)   Deployment and staffing

The correct amount of staffing is vital to the success of delivery. Markets find very heavy peaks occur and to en-sure the safety of the drivers, the speed and consistency of the delivered product, all efforts in to accurate forecasting and appropriate manpower should be made. Delivery is a more expensive (in terms of %) channel than dine-in. From a labor perspective, this is due to the need for very specific roles to be carried out, with little or no sliding and the time the presentation of an order takes (the actual delivery) and the effect that has on productivity. As a rough estimate a dine-in order will cost approx. $1.50 in labor to produce, a delivery order can cost $4.00. However, the incremental sales are worth it, as the loyalty and frequency of the customer is significantly more than that of those who visit the restaurant.

Some guidelines on delivery manpower needs are shown here. Please refer to the manual and workshop for fur-ther details.

♦   You will need one telephonists for every 25 calls per hour. Example: 70 Orders = 70/25 = 2.8 = 3 telephonists

For call center operations, the entire business needs will be calculated

♦   Online ordering will of course drastically decrease the number of call center operatives you require.

♦   A dispatcher can handle up to 50 orders per hour. Example 70 orders = 70/50 = 1.4 = 2 dispatchers

Where calls are handled in the restaurant, dispatcher and telephonists can slide

♦   Drivers should work to 4 orders per hour/ Example: 70 orders = 70/4 = 17.5 = 18 drivers

Drivers should only deliver up to 2 orders at one time in order to hit <30 minutes. Average is 1.3-1.4

As you can see. For 70 delivery orders in one hour, you need 23 TMs which equates to a productivity level of just over 3 trans per labor hour. This is normal for the delivery channel. For catering, the productivity is stronger.

(4)   Standards and Measurements

KFC is built upon great tasting, fresh products. Protecting this in a delivery channel is key. Below is an example of a delivery dashboard which demonstrates some of the key measurements. With the advent of Guest Experience Surveys, we have even more opportunity to add satisfaction Reponses to this type of dashboard . Such as speed, temperature and product quality.

Markets use various measurements, but consistent are these;

♦   **Delivered within promised time (should be 30 minutes)**

♦   **% of calls answered within 3 rings**

♦   **Abandoned at less than 2%**

Delivery Pre-Launch

1st—The Customers

Then.........

Task	Responsibility	Target Date
3 Months Before Launching Delivery		
Identify Delivery Area, produce map with border		
Determine BOH Layout and plan amendments if needed		
Order Bags & PDU		
Order Bag Racks		
Order Phone lines with line hunting facility		
Order PABX + Phone Terminals		
2½ Months Before Launching Delivery		
Get Appendix for Franchise Agreement in place		
Start driver recruitment process		
Staff accident insurance need to be in place including 3rd Party insurance		
Manager Training (Delivery in DC Modules)		
Develop LSM Plan + Materials		
Order order-taker Terminals		
Order Dispatcher Terminal with Printer & Cash Drawer		
2 Months Before launching Delivery		
Order delivery vehicles as needed		
If Bikes used get helmets, kit, gloves, boxes		
Vehicle maintenance contract		
Get LSM Plan Approved		
6 Weeks Before Launching Delivery		
Order driver uniforms		
1 Month Before Launching Delivery		
Mapping with Pods to be completed		
Driver Training		
Order Taker Training		
Dispatcher Training		
Install Bags and Racks and Test		
Load addresses into IT system with grids		
Installation and cabling for terminals and printers		
2 Weeks Before Launching Delivery		
Start LSM Teaser Campaign		
Post Delivery Targets Board		
Update sales forecast to include delivery		
Map with pods posted in delivery area		
Provide podded map to drivers		
Trade area familiarisation with drivers, order takers and dispatcher		
Drivers equipped with emergency contact numbers		
Roster for drivers and call takers posted		
Confirm Sales Reporting		
Test Phone system		
Test POS system		
Soft Launch		
7 Days Before Launching Delivery		
Generate and evaluate operations reports from POS		
Ensure phone script and menu at all order taking points		
Launch Date		
Kick off LSM with menu drops		

Appendix

Links and key know-how contact details

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