Ruler of the Roost Lays A Golden Egg

Interview with Loy Weston, chairman of Kentucky Fried Chicken Japan
by George Faas

The following is an exclusive interview with the colorful and unconventional Loy Weston, founder and chairman of Kentucky Fried Chicken Japan. Weston—who has not given an English-language print media interview for over two years—says he's stayed in Japan so long that he's considering changing his name from Weston to Easton. Almost all of his friends are Japanese and he fits easily into the Japanese community, even though he says "I never learned to speak Japanese well. That's one thing I did right. The Japanese might resent you if you're fluent." Weston blazed the trail for western-style fast food firms in Japan by starting KFC's chain of stores in Japan in 1970 "with a cooking pot, a bag of seasoning and the tiniest of seed money." Last year, KFCJ's sales totaled close to $300 million. "Today I'm probably the best-known American businessman among the Japanese community," smiled Weston with his foot on the coffee table. Japanese people who meet him say his casual manner puts them at ease.


Loy Weston, chairman of Kentucky Fried Chicken Japan

Q: *Mr. Weston, you've been holding 96% of the western-style chicken business in Japan for more than a decade. What's ahead?*

Weston: Long term, we have to think about when we'll be wall-to-wall chicken stores, which is fast coming on us. Now we have 450 stores here, and the saturation point might be 600 or 800 stores. You can't think that because Japan has half the population of the United States, it can accommodate half the stores. Japan is a much smaller, densely populated country, so fewer convenience stores can handle more people in a neighborhood. There will come a time when we'll have to diversify, and we're working toward that now.

Another thing we have to worry about is that we have this hire-for-life situation here, and we've got to provide career paths for our guys getting older. If we don't have any more chicken stores to build, we won't have any more supervisors to appoint, etc. So we are looking into diversification to provide new jobs.

Q: *Could you tell us about past milestones and future goals?*

Weston: Our biggest milestone, of course, was to get profitable. That took about four years. I think that's normal for companies coming into this market. Companies coming here should think in terms of five- to ten-year spans. They shouldn't come with the expectation they're going to make money quickly... and therefore, most companies probably shouldn't come.

Our future objectives and goals are written down in our strategic plan. We want to continue to grow and provide for the welfare of our permanent employees—that means both life-time employment and career advancement. That's an extremely important objective of ours that we take very seriously. In our meetings I don't hear a lot of talk about how much money we're going to make. We're constantly thinking about how we can improve and how we can promote our good people. When I was down here (pointing toward the floor) working for IBM, I never knew the top guys were thinking that way. Now I'm up here (pointing), and I *know* the top guys are thinking that way, —at least they are in this company. Of course we want to increase total profits too. That way, everybody wins.

Q: *What were the biggest difficulties you ran up against in coming into the Japanese market?*

Weston: Our biggest difficulty was coming here with no money. I came over with $100,000 from KFC, and to start a business in the Japanese context with essentially no money, that was really difficult. Nowadays, our biggest difficulty is getting good locations. The proliferation of fast-food companies that have come, all looking for the same kinds of sites, makes it very difficult to get good locations. Now that's both good and bad from our standpoint. That means no other

George Faas is the president of ANSA Corporation, an international public relations and advertising company. He also serves as the Japan correspondent for the San Diego Union.

chicken operation is ever going to come here and really get established because we've already got the key locations.

Q: *Do you have any particular advice to give foreign companies who might want to get established in Japan?*

Weston: Yeh, the first piece of advice I would give them is: "Don't come." I'm appalled by the number of American companies who come over here with grandiose ideas of making a fast buck. Many companies come before they learn the rules of the game, or even know where the game is being played. They come over here hiring a bunch of people, not making money right away, and then withdrawing. Or they try to squeeze out too much of a profit, which is a good way to get yourself a bad union. That gives American companies a bad reputation. When Japanese people join a company, they think they're joining it for their entire life. But maybe a new president comes in, and he says: "Stop the bleeding!" (red ink). You know, he doesn't have the same objectives as the guy ahead of him, or maybe the company is hurting back home, and so they pull out. And that makes it harder for us to hire good people, the tigers you need to make it happen. So I say, don't come unless you're willing to make a long-term commitment. I'd also suggest they get some advice from people who have proved themselves in this environment.

There are about 4,000 foreign companies here now, and about 400 new ones come each year. Most of these new ones won't stay. In three or four years, most of them will be gone. That makes a terrible impression here, and I don't like it. So unless they've got a long-term commitment, a product that makes sense to the Japanese market, and a tremendous amount of patience, I wish to hell they wouldn't come.

When most people talk about successful American companies in Japan, they talk about IBM, Coca-Cola, Kentucky Fried Chicken... Now that's really pretty terrific, come to think of it. I had something to do with two of those companies. I was a 16-year IBM man. Now, what do these companies have in common? We all came over here with a good product and got good people. We all have a deep commitment to this market, which means we have patience. Firms coming over here shouldn't have "quarteritis" like they have in America, not for their Japan operation at least. You've got to think in terms of inches, not miles. And you've got to attract good people capable of making the necessary adaptation. I mean tigers like Shin Okawara, KFCJ's president.

Japan is the biggest single market outside of the U.S. But it's the toughest market there is, because the Japanese people are very, very competitive. So it's a two-edged sword. If you can make it in Japan,

you can make it anywhere. Kentucky Fried Chicken Japan was the first and only successful KFC company operation in a foreign-language (non-English speaking) country, and we're the biggest in the world now outside the States.

Q: *Your experience has been in a joint venture with Mitsubishi Co. Do you recommend that companies coming here go it alone or form a joint venture?*

Weston: Depends entirely on the situation. I've got two, one of each. I've got a joint venture here in KFCJ, and I've got Heublein Japan, a wholly-owned subsidiary of which I'm also chairman. All things being equal, I'll come down on (favor) the side of the joint venture. In some cases, it may not be necessary, but if you need to go through the Japanese distribution system, you'd better have yourself a joint venture, because of all the entangling relationships. Even though Mitsubishi didn't do a lot for us in the beginning in terms of involvement, they gave us their name.

Now, remember I said that foreign companies tend to misbehave. If Mitsubishi's got their thumbprint on it, the real estate people, the supermarkets, or whoever you're dealing with tend to believe you're going to hang around. So Mitsubishi gave us their reputation. Also remember I said we had no money. Mitsubishi guaranteed some loans. And I was very lucky with a guy from Mitsubishi named Toru (Tom) Aizawa, my adviser from 'day one'. And he's proved to be a fine adviser. He's moved up in Mitsubishi from at that time being a *bucho,* to today being the senior managing director of the food department with over eight billion dollars in sales. I still talk with him regularly... now that's continuity! I'm still dealing with the same guy that I negotiated with 15 years ago.

Another good reason for a joint venture is when the home office wants you to do something dumb, and you've tried to explain to them why that idea is dumb. You can tell the home office that your joint venture partner doesn't like the idea—even though you've probably never even told your partner about it, because *he'd* think it was dumb. I've punched that ticket so often it looks like a lace curtain.

Q: *What do you think of Japanese management, and in what ways do you follow local business styles and customs?*

Weston: First off, keep in mind I spent 16 years working for IBM. In IBM they have the hire-for-life idea, they promote from within, they rarely acquire anybody, they train their people—all, I think, just good business management practices. They have a tendency toward action, they think about their customers, they encourage initiative and crazy ideas. For example, I was one of 45 guys in IBM they called "wild ducks." We could do anything we wanted. On IBM's time, I even made a pacemaker for my great dane when he was dying of congestive heart failure. They really care about their people. So when I came over here, all of those things that well-run Japanese companies do were second nature to me. I tried to build this company as a kind of IBM of the fast-food industry, and, guess what, all those IBM ideas were the way Japanese companies run their businesses. So we're a 100% Japanese-thinking, Japanese-run company.

Q: *What is the potential of development in this market and the future outlook of the Japanese economy?*

Weston: Well, the sixties and the seventies are surely behind us. We're not going to have the double-digit growth that we've had, but there's nothing wrong with a five or six percent growth. And in our industry, we're growing faster than that. So, a qualified "very good" (to your question). I qualify it because Japan has to import all of its raw materials and is heavily dependent on exports, so it can be hurt bad by events it can't control—external factors like the oil shock or protectionism.

Q: *What do you think needs improvement at your stores in Japan?*

Weston: Japanese people are a little shy, and it's very hard to get them to do suggestive selling. When someone comes in to buy lunch, it's hard to get our salesgirls to say, "Would you like a large coke with that?" It's sort of impolite.

Q: *What changes have you made to accommodate the Japanese market?*

Weston: In the U.S., Kentucky Fried serves mash potatoes and gravy. But we did a taste test, and the Japanese didn't like it. So we switched to french fries, and incidentally created the frozen french fry market in Japan. In Japan, we also cut to half the sugar content of our salads, and added some foods so that we have a roader product line than in the U.S. For example we added milk shakes, yogurt, smoked chicken and fish and chips.

"In-store" type Kentucky Fried Chicken shop, Tokyo

Q: *You were given very little money to start the company. How did you advertise in the beginning?*

Weston: We had no money for advertising, so we couldn't even hire an agency. I could only leverage our $200,000 paid-in capital so far (50% from KFC and 50% from Mitsubishi). At one point, I leveraged it up to $8,000,000, and if KFC Japan hadn't worked, I'd be in jail now. That's a fact. So what did we do? We used publicity. We were very nice to journalists. We held weddings in stores. I made outlandish statements that I was going to drop 5,000 chickens over Tokyo out of an airplane with a note attached, "Take this to the chicken store..." Shin Okawara, our president now, was on NHK, the government TV station, explaining what franchising was all about... I cooked chicken on the 11 P.M. Show...

We were news, and we beat publicity to death. We got on the cover of about 21 different magazines, we were in every newspaper, TV quiz shows, anything.

When I first came to Japan, nobody knew what publicity was. They thought publicity was paying an editor to write something good about you. I did publicity for Mike Nichols and Shelley Berman when they appeared at a nightclub I owned part of in Chicago. So I knew that publicity is creating news. But there wasn't such a thing as a good PR agency in Japan at that time. There is now.

Q: *Isn't your market in Japan a higher class of people than in the States?*

Weston: When we first came to Japan, we positioned ourselves as "fashion food" not "fast food." So we definitely aimed at upscale people at that time. Now, young girls, single men, and young housewives with kids are our main target markets. But we're after everyone who eats. Lots of times you reach the housewives through their kids. Kids will be even more important to us in the future. Everybody talks about young men and women—we talk to them!

Q: *What plans do you have for diversification?*

Weston: We're doing tests now on the possibility of starting a chain of *yakitori* shops. You see, when we buy our chickens—we get most of them in Kyushu—we want 2.2 pound (1 kilo) birds. We get a discount when we buy a whole house of chickens at a time. But only about 70% of the birds weigh 2.2 pounds. So we're trying to diversify into products which allow us to efficiently use the off-size birds that are not in that 70%. The best way seems to be to cut up those small and big chickens into *yakitori*. Strategically, it makes a lot of sense, too, because it would help us take care of our older employees who have been around for 15 years or more.

Another benefit would be that, while all of Japan is now totally franchised with 40 KFCJ franchisees, there are a lot of other people who would like to get in on the action. And we've got nothing to give them. They're a resource, and if we had another thing to franchise, like a *yakitori* store, it would be really fantastic. We've got 17 test *yakitori* shops operating in Japan right now. I think they would work in the U.S. as well, maybe everywhere.

Q: *I'd like to ask about finding good site locations.*

Weston: Tough... they're hard to get. The best sites are near the train stations, though many highway sites are being established since the Japanese are traveling more and more by car. We have a very developed site selection formula. We can calculate within a few thousand yen what the buying will be in that area. We have a big map of Japan, and we put pins in every city and every street where we want

"Drive-through" type shop in Chiba, southeast of Tokyo

a store, and then we turn 125 real estate agents loose to watch those areas. Then when one of those locations matures, we grab it. And we come very close to our projections.

Q: *Do you prefer to be the sole provider of food in each area or do you want some competition?*

Weston: In Japan you get competition whether you want it or not. But no, we don't mind competition. In fact, we've stated our policy to other non-competitive fast-food operators such as Dunkin' Donuts and Baskin Robbins. We say, "Look, if you find a site that's too big or if we find a site that's too big, let's take it together." We consider them colleagues. It complements us if we have a good ice cream or donut shop operation in the same complex with us. But we wouldn't do this with MacDonald's or Lotteria; they're our main competition. They dare to serve chicken! Preposterous! We're the experts on chicken!

Q: *Do you have ways to get better sites than your competitors?*

Weston: We try very, very hard and take pride in being a member of the community wherever we are. We always join community organizations, and that reputation proceeds us and helps us get locations. Also, we're franchising while some of our competitors are not. We've appointed the best franchisee we could find in each prefecture, so anyone who comes after us has to take second best. Our franchisees have clout and they have real estate. And we've got some very good locations because of that.

Q: *Can you tell us a couple of funny experiences you've had in doing business here in Japan?*

Weston: In our early days, one franchisee totally redesigned his store because his wife's mother, a Chinese astrologer, didn't like the way we'd designed it. So she changed the front door and the place where we had the toilet. And now it's one of our best volume stores. I think that's pretty funny. Don't be afraid of the unknown is a good motto.

The idea of us consoling the souls of 20 million dead chickens at a Shinto funeral mass every year may seem weird to you too. We've been doing it for the past 12 years, and we're still growing, so I'd be afraid to stop now! In Japan, I say, do what the Japanese do—just do it a little better. ●