

KFC and the Colonel*

Introduction

The story of Kentucky Fried Chicken is the story of Colonel Harland Sanders. The “Colonel,” however, was not a real colonel and Sanders was not even a Kentucky native. He was, nevertheless, a prime example of the resiliency of the human spirit because he demonstrated that, even at 66 years of age, after a series of financial fiascoes, it is still not too late to become a business success and a millionaire.

After having lived in obscurity during the first six decades of his life, his benign, bewhiskered countenance became the best-known living advertising symbol throughout the world. Although he was often tough and curt with his employees and associates, he loved children and he donated much of his time and fortune to helping young people. Unpredictable and sometimes erratic in his personal and business dealings, he was unfailingly dedicated to hard work and to the perfection of details. Active until December 1980, when he died at the age of 90, he was a living example of his own philosophy, “A man will rust out faster than he’ll wear out:” this was Harland D. Sanders, the kindly curmudgeon who founded Kentucky Fried Chicken.

Harland Sanders was born in Henryville, Indiana, a small town about 17 miles north of Louisville, Kentucky. When he was five or six years old his father died, leaving his mother to raise him and two younger children. What appeared to be a disaster prepared Harland for his future success, because as the oldest child in the family Harland had to take over some of the duties of the household, including some of the cooking. Preparing meals under his mother’s direction helped to provide him with the know-how on which he would capitalize many years later. “I cooked just like Mom did, and later when I went into the restaurant business I just kept doing it the same way,” he said in an interview in his later years. When Harland was 12, his mother remarried, but his new stepfather did not take kindly to his inherited brood. In fact, on one occasion, he kicked Harland. Hurt by such harsh treatment, Harland left Henryville and found a job working on a farm in Greenwood, Indiana. At this time he also attended school, but he dropped out of the seventh grade. He said later that it was the mathematics that did him in.

Sanders’ First Restaurant—Success and Failure

Like the phoenix that rises from the ashes, Harland managed to rise again. He moved to Corbin, Kentucky, and took over a Shell station at a rather desirable location. When he heard one traveler exclaim, “There ain’t no decent place to eat around here,” he began serving meals in a small room attached to the service station. The station was rechristened “Sanders Shell Station and Café,” and, as the food service area was well received and expanded, it was again renamed, “Sanders Café and Shell Station.” He hired Nell Ray as a waitress, who was succeeded by her sister Claudia Ledington Price. The latter would become one of his most trusted employees and many years later his second wife. (Sanders’ earlier travels and many jobs had brought an end to his first marriage, to Josephine King.)

* This case was prepared by Robert J. Fitzpatrick, Bellarmine College, Louisville Kentucky.

With the continued success of his restaurant, Harland decided to add a motel, Sanders Motor Court. But cooking was his first love, and chicken was the main item on the menu. The only problem was that frying chicken took about

30 minutes, which he felt was a long time to keep customers waiting. Therefore, he began to experiment with a pressure cooker to cut down on the cooking time, seeking at the same time to keep flavor, moisture, and consistency. Finally, through trial and error, he was able to reduce the cooking time to eight or nine minutes. The significance of the success of this experiment is noted by the fact that one of Colonel Sanders' early pressure cookers is on display at the head office of KFC in Louisville.

In addition to the process using the pressure cooker, however, much of the success of Sanders' chicken was his famous recipe. On one occasion in filling an order for some 500 box lunches, he tried a somewhat different recipe with 11 spices. The food was so well received that he decided to use the recipe regularly. Sanders admitted later that he had used spices that could be found in almost any kitchen and that it was just the proportions that make the difference. He always kept the recipe a secret and even today, according to one reliable report, only two executives at the KFC head office have access to the exact formula.

Sanders' first appearance on the national scene was the recognition he received by Duncan Hines, who had made a stop in Corbin and mentioned the excellent Kentucky fried chicken in his "Adventures in Good Eating." With this added success, Sanders expanded the restaurant to accommodate 142 customers. Later he was offered \$165,000 for the restaurant, but he turned down the offer.

Again misfortune struck. In 1955 a new north-south interstate highway (I-75) was routed to bypass Corbin. As a result, Sanders' business dwindled and in 1956 he was forced to sell out for \$75,000. After paying off his debts, he found himself scraping bottom. He was 66 years old, drawing about \$125 a month in Social Security, and left with very little capital.

Franchising and Success at Last

He still had a form of capital—two, in fact—the famous recipe for fried chicken and a tremendous capacity for work. He had also ventured briefly into franchising. A few years earlier, in 1952, he had sold the rights to his recipe to Leon ("Pete") Harman of Salt Lake City and, at the time that Sanders had been forced to sell his restaurant in Corbin, Harman had some 14 restaurants operating successfully in Salt Lake City, all using the famous recipe with 11 herbs. In effect, the operations in Utah had been a good test market for Sanders' chicken on a broader scale.

With his monetary capital depleted, Sanders realized he could not open another restaurant, but he did realize that with what capital he had, he could try to sell rights or franchises to his special recipe, which had been successful at two locations. So, at age 66, when most men would have retired, Sanders hit the road to sell his then not-so-famous recipe.

In order to make the sale, Sanders would stop at a restaurant, prepare the chicken free, using the special recipe, and then let the owner decide whether he wished to acquire a franchise. The fee was

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rather modest—four cents per chicken (later increased to five cents). Sanders often tried the chicken himself after preparing it, so he generally got at least one free meal at each stop. Even early in his attempt to sell franchises, Sanders always looked for a quality restaurant—one that would maintain his reputation for a fine product.

Perhaps as the result of the Michelin tire experience, Sanders decided to adopt a new image, that of the Kentucky Colonel. He had actually been appointed a Kentucky Colonel by Governor Rudy Laffon in the early 1930s. The appointments are made rather generously by most governors, and the duties of the colonels include mainly responding to the call to attend the pre-Derby gala dinner and the post-Derby barbecue, with the proceeds going to some charities in Kentucky. No particular uniform is furnished or required. Sanders, therefore, designed his own: a white suit and black string tie. He grew a moustache and goatee, and, since his hair was on the reddish side, he dyed it white to complete the appearance of a “colonel.”

Later, Sanders was accompanied by Claudia Ledington Price, who had worked for him in Corbin at his restaurant and whom he married in 1949. To add to the “Old Kentucky” touch, she appeared on his business calls wearing an antebellum gown, until finally, when the volume of business had grown, she remained at Sanders’ office in Kentucky to manage the paperwork.

By 1960, roughly four years after he had begun selling his franchises actively, Sanders had an estimated 200 outlets under franchise in the United States and half a dozen in Canada—all of this mainly the result of the work of one individual. As the ownership of the company was not publicly held, financial results of Sanders’ operations did not have to be made public. It is estimated; however, that Sanders’ profits before taxes were in the neighborhood of \$100,000 in 1960. By 1963, there were some 600 franchised outlets in the United States and Canada, and annual profits were estimated at \$300,000 before taxes.

Enter John Young Brown, Jr.

At this point, Sanders was 73 years of age and still running his company practically single-handedly. Even with his tremendous drive and energy, he may have wondered how long he could continue to operate on his own. Through John Young Brown, Sr., a well-known Kentucky politico, he became acquainted with John Y. Brown, Jr., whom he hired to do some legal work for him. Although a lawyer by profession, John Y., Jr., was actually a super salesman. In order to work his way through the University of Kentucky, he had sold encyclopedias; and by the time he was a senior he was making \$25,000 a year. (He would, in fact, go on later to become governor of Kentucky.) When John Y., Jr., discovered that Sanders had no salesmen on the road other than himself, he is said to have remarked, “With my sales background, I began to think what you could do with this business if you had a really aggressive sales program,” which perhaps was not giving much credit to the Colonel.

Under the original arrangement between Sanders and Brown, Brown would set up a barbecue business under the unlikely name of Porky Pig’s. He would attempt to spin off franchises from the original operation. Brown soon realized, however, that chicken, not pork, was in the pot at the end of the rainbow. Brown felt that the Colonel might be persuaded to part with his creation if he could be

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convinced that the business would be carried on successfully. In order to make an offer that would be sufficiently attractive to Sanders, however, Brown needed more capital than he personally had available. He, therefore, arranged to get some financial support from Jack Massey, a Nashville millionaire.

Sale of KFC to Brown and Massey

Brown and Massey began discussing the possibility of buying the company from Sanders. The Colonel's first reaction was to snarl, stomp, grumble, and curse. Brown emphasized that, even if the Colonel sold them the company, he would be retained to continue to promote sales and to be its goodwill ambassador. After some further discussion, Sanders—apparently without any fine-line calculations on his part—said, “Well, I’ve been giving it some thought, and I think that two million dollars sounds about right.” Brown and Massey at first considered making a counteroffer, but finally decided that, rather than risk losing the deal, they would tell the Colonel that two million also sounded right to them.

Sanders apparently did not talk over the proposed deal with Claudia, who, in effect, had been his closest advisor. She said later that, if she had been consulted, she would have advised against selling at that time. The Colonel also did not consult with the members of his office staff in Shelbyville. Moreover, he had perhaps already come to the conclusion that no one on the staff had sufficient talent to keep the company going without him. That staff had been selected primarily on the basis of nepotism and friendship, rather than on administrative ability. Lee Cummings, the Colonel's nephew, and Harland Adams, his grandson, handled shipments. Several others helped with the office work. Claudia helped to keep the Colonel in touch with problems at the office when he was on the road. However, there was apparently no one with the experience and talent needed to succeed the Colonel in the overall direction of the business.

The Colonel did want to talk with Pete Harman, his original franchisee, before he came to a final decision. All three, Sanders, Brown, and Massey, went out to Salt Lake City to discuss the sale with Harman. The latter indicated the move was a wise one—one that would avoid possible bickering among the Colonel's family and franchisees by offering a continuity of leadership and a firm central control. Following Harman's advice, the Colonel agreed to sign a contract for the sale.

Under the final agreement, dated February 18, 1964, the Colonel was to receive \$500,000 by mid-April 1964 and would receive the remaining

\$1.5 million over a five-year period. In addition, he would be made a director of the company and serve as an ambassador of goodwill and as the principal public relations man. For his services, he was to receive initially a salary of \$40,000 a year. Later this would be increased to \$75,000 and then to \$125,000. Brown and Massey may have had misgivings from time to time about the Colonel's goodwill efforts. Sanders, after having visited certain franchises, was quoted as having said that their gravy “tasted like wallpaper paste.” However, whenever Sanders appeared on TV or on the screen in movies, sales jumped.

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In the negotiations prior to the final signing of the contract, the Colonel had been offered 10,000 shares of stock as partial payment for KFC, but he declined the offer, commenting in his characteristic and colorful fashion that “stock is just like toilet paper.” He also said “I thought it best to sell [for cash] so that I’d have my estate liquid and I could handle it myself. This way I can do something for my grandchildren and perpetuate the company, too.”

The Colonel, however, did not part with the entire company for the 2 million. He retained the rights to the franchises in Canada, where he had formed a separate company. Remembering his early days, he directed that all the profits from this operation should go to aid orphaned boys. He also retained his rights to Florida for his daughter, Margaret. Pete Harman was to retain his rights to Utah and Montana, and the rights to franchises in England were also excluded from the original package.

Following the takeover of the administration from Sanders, Brown assumed the immediate direction of the company, even though Massey had the largest financial interest. Under Brown’s aggressive promotion, sales almost doubled and profits more than doubled from 1965 to 1966, as follows:

	<i>Gross Income</i>	<i>Net Income (after-tax)</i>	<i>Earnings Per Share</i>
1965	\$8.5 million	\$1.5 million	\$0.79
1966	\$15.0 million	\$3.5 million	\$1.80

In 1966, following this spectacular showing, Brown and Massey decided to go public and sell stock to outsiders. The share price opened at \$15 and soared to \$100. In 1968, the stock was split two for one and an offering of a new issue of some 600,000 shares went for \$63 per share.

John Y. Brown, Jr.’s, Other Ventures

As successful as he was with Kentucky Fried Chicken, however, John Y. Brown, Jr., was not able to duplicate his efforts in fields other than fried chicken.

There are no Porky Pig’s restaurants still in existence. The purchase of H. Salt’s Fish and Chips (a British version of fried fish and french fried potatoes) also proved unsuccessful. An attempt to sell roast beef in the KFC outlets also failed. Zantigo’s, a try at going Mexican, resulted in the sale of that company to another fast-food firm.

Brown also tried using something closer to Colonel Sanders’ formula. He would locate the best hamburger in the country and duplicate it. The result was Ollie’s Trolley. Ollie had made what were supposed to be fantastic hamburgers in Florida, and “trolleys” similar to the early food diners were set up throughout Louisville to market the hamburger. The trolley, however, did not work for the most part, as there is only one remaining Ollie’s Trolley still operating in Louisville.

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Even an attempt to create a chain of Colonel Sanders Inns failed. A prototype was built near the KFC home office in Louisville, but it was sold not too long thereafter to a hotel-motel chain.

Subsequent Sales of KFC to Heublein, Reynolds, and PepsiCo

The success of the Kentucky Fried Chicken business, however, can be measured, at least in part, by the subsequent sales of the business as an entity.

In July 1971, KFC was sold to Heublein, Inc., for a total of \$280 million. This was only seven years after the company had been bought from the Colonel for \$2 million.

In July 1982, R.J. Reynolds Industries purchased Heublein for \$1.3 billion, the purchase made partly in cash and partly in stock of RJR. It is not possible, however, to determine what part of the purchase price applied to KFC, which was included as part of the deal.

In October 1986, R.J. Reynolds did sell KFC as a separate entity to Pepsico for \$841 million. At the time, Pete Harman, the second largest franchise holder of KFC, said that they were a kind of family, and “We don’t want to be sold again.”

All of this may seem to indicate that the Colonel did “do chicken right.” His flair for salesmanship and his ability to create an attractive image were important factors in creating a successful business—also his famous recipe and his emphasis on quality. The question that will always remain, however, is: Should he and could he have made a more profitable deal when he sold his company to Brown and Massey?

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