Departmentalization and Allocation of Factory Overheads

**SUBJECT:** Managerial Accounting
**Subject Code:** 8508

*SUBMITTED FOR 2ND ASSIGNMENT FULFILLMENT*

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Dedication

I hereby thank my honorable teachers who taught us patiently and encouraged to complete this scenario of 2nd assignment of 2nd semester of MBA (HRM). To sum up this hard work at the university. I dedicate this to my parents who wholeheartedly supported me financially, morally, physically and psychologically having achieved this prestigious degree from the Allama Iqbal Open University.
Acknowledgement:

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Executive Summary

Departmentalization refers to the process of grouping task activities into departments. The division of labor or degree of departmentalization is driven by the need for specialization whether by process or purpose within an organization. The most common way of process departmentalization is the division of the firm into business functions, such as purchasing, manufacturing, sales, accounting, etc. When taking a closer look at the three ways of departmentalization by purpose—product, customer, and location—we note that there are some specific advantages related to it. That said, there are some advantages to departmentalization. Firstly, departmentalization as a form of self-containment tends to improve the ability for the coordination of tasks within the department. Secondly, departmentalization allows for a clearer focus of the purpose for the group (i.e., serving a specific product, customer, or market). From a process prospective, a high degree of specialization can be very efficient in some instances and enable the development of highly centralized control functions.

Departmentalization at the functional level can take advantage of employees’ specialization. In this regard, a high degree of specialization can enhance skill proficiency and professional competence intra-departmentally. Employees with similar training, education, skills, or equipment work together and under a supervisor responsible for that department's activities. Because one supervisor typically oversees a major area of activity, functional departmentalization also facilitates coordination. For instance, in a larger retail operation, one marketing department supervisor would control and coordinate the work of buyers, merchandisers, and the sales force so that information and activities of each function would be more efficient and productive.
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CHAPTER No. 1
INTRODUCTION
TO
DEPARTMENTALIZATION
AND
ALLOCATION
OF
FACTORY OVERHEADS
1.1 What is Departmentalization? Definition

"Departmentalization is the grouping of jobs, processes, and resources into logical units to perform some organizational task."

![Departmentalization Diagram](image-url)

1.2 Meaning of Departmentalization

In departmentalization, similar activities are grouped together to form various departments.

For example, all the activities relating to accounts are grouped together to make the accounts department. Similarly, we have purchase department, production department, sales department, finance department, human resource (HR) department, etc.

So, departmentalization is the process of dividing the organization into different departments. It is the process by which an organization expands horizontally. There are many bases or types of departmentalization. A department consists of, head of department, specific functions and staff. The head of department (HOD) is responsible to the CEO of the organization for the functions of his department.

(http://kalyan-city.blogspot.com/2012/02/what-is-departmentalization-definition.html)

1.3 Departmentalization

All large companies have multiple departments. These departments are specialized units that carryout specific functions for a company. Most organizations have the functional departments of human resources, accounting, sales, and information technology.

Departmentalization is the process of grouping activities, customers, or job functions into specialized groups of an organization to create better coordination. A department store is
a good analogy for how departmentalization works in practice. A department store has
different sections for specific materials or goods. Each section is designed around a
specific product. Product departmentalization within an organization is similar to a
department store. A company that makes multiple products will create separate
departments for each product line. This makes each department of the organization
efficient. Some organizations segregate groups of the company by customer type. This is
known as customer departmentalization. The credit card industry uses this approach in
managing credit. Within a credit card company, customers are categorized as business
customers, high-credit customers, or high-risk customers. This approach allows the credit
card company to create products and services based on a specific customer type, with
experts in that field. Geographic departmentalization is the business approach of breaking
an organization into regions of the country or world. Most large international firms use
this approach. By having customer service available within a specific country or region,
products and services can be designed to enhance the customer experience in that area.
This works well for companies with customers from both eastern and western cultures, as
they typically have different expectations.
Process departmentalization is a business strategy that is analogous to an assembly line.
Creating an organization that groups activities based on a specific process flow creates
higher productivity. A good example of process departmentalization is built into customer
service centers. Customers are typically routed through specific units based on the
product and issue. These could include billing, defects, warranties, or general
complaints. With the increase of mergers over the last few decades brand
departmentalization has also become a strategy for managing customers. The hotel
industry has multiple types of hotels and chains that typically belong to a master hotel
organization. These range from low-end motels to high-end, five-star resorts. This brand
version of departmentalization creates customer loyalty to the specific brand. One of the
issues that companies face when using a departmentalization approach is reporting for the
entire organization. With each department working as an independent unit, reporting for
the larger company becomes difficult. This typically requires a significant integration
process.

(http://www.wisegeek.com/what-is-departmentalization.htm)
1.4 Bases Methods Types of Departmentalization

Bases or methods or types of departmentalization are depicted in this image.

The bases or methods or types of departmentalization are listed as follows:

1. Functional departmentalization.
2. Process departmentalization.
3. Product departmentalization.
4. Geographic departmentalization.
5. Customer departmentalization.
6. Combined departmentalization.
7. Time departmentalization.

Number departmentalization.

Now let's proceed further to explain each base or type of departmentalization.

1.4.1 Functional departmentalization

In functional departmentalization, departments are segregated i.e. separated from each other based on functions or tasks they perform.

Examples of functional departmentalization include; production department, finance department, marketing department, human resource (HR) department, etc. Here, all activities, which are directly or indirectly connected with production are grouped together to make a production department.

Departmentalization based on function is depicted in the image given below.
1.4.2 Process departmentalization

In process departmentalization, departments are separated based on their role in a production process. Best example of process departmentalization can be seen in a textile mill where we may have a spinning department, weaving department, dyeing department, printing department, etc. Here, inside a textile mill, all activities, which are directly or indirectly related with spinning are grouped together to make a spinning department. Departmentalization based on a production process is depicted below.

1.4.3 Product departmentalization

In process departmentalization, departments are separated based on a type of product produced by the company. Here, every individual department is responsible for producing and selling the type of product assigned to them. A good example of product departmentalization is witnessed in an automobile manufacturing company. In such a company, we generally see departments like a two-wheeler department, three-wheeler department, four-wheeler department, heavy motors department, etc., which manufacture vehicles such as motorcycles (bikes), auto
Rickshaws, cars, buses and trucks, respectively. Here, inside an automobile company, all activities, which are directly or indirectly related to car manufacturing are grouped together and assigned to four-wheeler or car department. Departmentalization made on the type of product produced is depicted below.

**Product departmentalization**

![Diagram Credits © Noon Rodriguez.](image)

**1.4.4 Geographic departmentalization**

In geographic departmentalization, separate departments are made based on the company's (i.e. institution's) operations to be carried out either over a vast area or within some restricted area through branches or offices established at different zones or places in that area. First, an entire area of operation (e.g. world, country, state, city, etc.) is decided followed by division of that area into different zones. Secondly, a branch or an office is established in each geographical zone to manage local affairs of the company in that zone. For example, a large company may operate globally through its different zonal departments established on a country basis. In a similar context, a small business or firm may operate only within city boundaries through its offices established in east zone, west zone, north zone and south zone of the city. Departmentalization based on the division of an area of operation into different zones is shown in the following image.

![Diagram Credits © Noon Rodriguez.](image)
1.4.5 Customer departmentalization

In customer departmentalization, departments are separated from each other based on the types or groups of customers to be handled or dealt with. For example, customers can be classified under types such as, international or foreign customers, inland or domestic customers, bulk purchasing or wholesale customers, retail customers, etc. Each group of customers needs different tactics and strategies to handle them better. Hence, an appropriate customer departmentalization serves this purpose. Departmentalization based on the types or groups of customers to be handled in shown in the following image. Customer departmentalization

1.4.6 Combined departmentalization

In combined departmentalization, a company or an organization uses a mixture or combination or union of two or more different bases of departmentalization. For example, in practice, owing to rising market competition and emerging complexity of tasks most organizations often uses a combination of above-discussed (see point no. 1 to 5) types (i.e. methods or bases) of departmentalization. Departmentalization by using a combination of two or more different bases is shown in the following diagram. combined departmentalization
1.4.7 Time departmentalization

In time departmentalization, departments are separated based on the division of their working time or job shifts. For an example, departments can be made based on night shift, morning or regular shift, evening shift, etc. This method of departmentalization is generally seen among those organizations who render 24-hours emergency and/or essential public services for 365 days a year. Examples of such organizations include; hospitals, hotels, airports, police, security, and so on. Departmentalization done on a basis of division of work time is depicted in the following image.

![Time Departmentalization Diagram](http://kalyan-city.blogspot.com/2012/02/bases-methods-types-of.html)

1.4.8 Number departmentalization

In number departmentalization, separate departments are made after analyzing and judging the maximum limit up to which number of persons can be managed or educated or supervised or taken care of. This method of departmentalization is generally used in schools and colleges for making division of classes. For example, students having numbers from 1 to 50 are made to sit in A division of their class and so on. Military forces also use this method. Departmentalization by numbers is depicted in the image given below.

![Number Departmentalization Diagram](http://kalyan-city.blogspot.com/2012/02/bases-methods-types-of.html)
1.5 Overhead Cost Allocation

Costs incurred by cost centers are classified into two types

a) Direct Costs
b) Indirect Costs

Costs which can be traced to the finished products manufactured are called ‘direct costs’. In other words a relationship between costs and finished products manufactured can be established.

Costs which cannot be traced to the finished products manufactured are called ‘indirect costs’. They are also known as ‘Overheads’. This implies overheads can only be apportioned to the finished products.

Example: A unit manufactures two products – Leather shoes & Leather wallets
Material (Leather) used for both the products is traceable to them individually. However, expenditure of a common machine used in making both the products cannot be traceable to them.

Therefore in the above case ‘Material’ would be a direct cost and ‘Machine expenses’ would be indirect cost.

1.6 Importance of overhead allocation

Total cost of product constitutes Direct Material, Direct Labor & Overheads. Direct Material and Direct Labor are directly traceable to the products manufactured. Accuracy of product cost computation depends on accurate distribution of overheads to products. Inaccuracies would lead to incorrect decisions – especially the pricing decisions. However, the method of overhead distribution should be chosen by considering time and cost factors in addition to accuracy.

Traditional Distribution

Traditionally overhead apportionment to products was made in the following three step approach

I. Primary Distribution (Allocation & Apportionment)
II. Secondary Distribution (Re-apportionment)
III. Absorption
1.7 Allocation & Apportionment (Primary Distribution)

Primary distribution of overheads which is also called as ‘Departmentalization’ of overheads involves allocation & apportionment. Allocation of overheads is made when they are traceable to cost centers. Overheads are apportioned when they are not traceable to cost centers. Apportionment is made using the most suitable bases.

Re-apportionment (Secondary Distribution)

Cost centers are two types:

a) Production Cost Centers: They are cost centers where finished products are manufactured

b) Service Cost Centers: They are cost centers that support the production cost centers in manufacture of a product

Ex: Stores, Engineering, Purchase etc.

Re-apportionment is a process where service centers costs are transferred to production centers. Methods of re-apportionment The following are the methods used to re-apportion service department costs to production departments.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Method for re-apportionment</th>
</tr>
</thead>
<tbody>
<tr>
<td>No service between service cost centers</td>
<td>Direct re-distribution method</td>
</tr>
<tr>
<td>Non reciprocal service between service</td>
<td>Step ladder method</td>
</tr>
<tr>
<td>cost centers</td>
<td></td>
</tr>
<tr>
<td>Reciprocal service between service</td>
<td>1) Repeated distribution method</td>
</tr>
<tr>
<td>cost centers</td>
<td>2) Trial &amp; Error method</td>
</tr>
<tr>
<td></td>
<td>3) Simultaneous Equation method</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1.8 Absorption

The process of recovering overheads to cost of products is called ‘absorption’. In other words all the overheads allocated & apportioned to a department are finally absorbed by the units produced. Absorption of overheads can be made based on some suitable basis.

The following are some of widely used methods of absorption:

a) On the basis of ‘Production units’
b) As a % of ‘Direct Labor Cost’
c) As a % of ‘Direct Material Cost’
d) As a % of ‘Prime Cost’
e) On the basis of ‘Direct Labour Hours’ i.e. Labour Hour Rate
f) On the basis of ‘Machine Hours’ i.e. Machine Hour Rate

Overhead absorption rates are determined based on any one of the above methods. This rate is applied to individual cost units (products, services etc) to derive the total overhead absorbed. When actual overhead rate is applied on actual cost units, the actual and absorbed overheads would be equal. However if a pre-determined rate is applied on the actual base, it would result in a difference between actual and absorbed overheads. This would happen either because the actual base deviated from the budgeted base or the actual expenses deviated from the budget.

If the absorbed overhead is more than the actual, it is called ‘over absorption’. On the other hand if the actual overhead is more than the absorbed overhead then it is called ‘under absorption’.

Example:

Budgeted Overhead – $ 50,000
Budgeted Volume (units) – 25,000
Actual Overhead – $ 48,000
Actual Volume (units) – 26,000
Absorbed overheads = 26,000 X 50,000 / 25,000 = 52,000
Absorbed overheads – Actual overheads = 52,000 – 48,000 = 4000
Therefore Over Absorption = $ 4000
1.9 Activity Based Costing

Traditionally cost accountants had arbitrarily added a percentage of expenses into the direct costs to include overheads. This method is quite satisfactory when the overhead costs are a small percentage compared to direct labor component in actual making of products. However as the percentages of overhead costs had risen, this technique became increasingly inaccurate because the indirect costs were not caused equally by all the products.

For example, one product might take more time in one machine than another product, but since the amount of direct labor and materials might be the same, the additional cost for the use of the machine would not be recognized when the same broad ‘on-cost’ percentage is added to all products. Consequently, when multiple products share common costs, there is a danger of one product subsidizing another.

Therefore, using an arbitrary percentage leads to distortion of costs resulting in the following problems:

a) Fixation of wrong selling prices (By pricing low profitable opportunities may be missed or by pricing high customers may be lost)

b) Taking wrong decisions (product sales mix decisions etc)

Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the activities have been identified, the cost of each activity is attributed to each product to the extent that the product uses the activity.

Cost drivers are used to measure the use of activities by different products / services. For example the cost of the activity ‘purchasing’ is measured by the number of purchase orders placed.
1.10 Overhead Allocation – Traditional vs Activity Based Costing

<table>
<thead>
<tr>
<th>Traditional Costing</th>
<th>ABC Costing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overhead (by expense category)</td>
<td>Overhead (by activity)</td>
</tr>
<tr>
<td>Cost Centers</td>
<td></td>
</tr>
<tr>
<td>Finished Products</td>
<td></td>
</tr>
</tbody>
</table>

1.11 Steps involved in ABC model

a) Pick resource wise cost data financial accounting records
b) Identify activities
c) Map resource costs to activities
d) Identify activity cost drivers
e) Compute overhead costs of the products / services

Example

Map resource costs to activities

<table>
<thead>
<tr>
<th>Financial Accounting Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
</tr>
<tr>
<td>Power</td>
</tr>
<tr>
<td>Fuel</td>
</tr>
<tr>
<td>Salaries</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>R &amp; E</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
<th>Machining</th>
<th>Purchase</th>
<th>Quality</th>
<th>Material Handling</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>190,000</td>
<td>12,000</td>
<td>30,000</td>
<td>15,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Fuel</td>
<td>30,000</td>
<td>0</td>
<td>4,000</td>
<td>0</td>
<td>34,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>120,000</td>
<td>80,000</td>
<td>100,000</td>
<td>90,000</td>
<td>530,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>300,000</td>
<td>20,000</td>
<td>5,000</td>
<td>25,000</td>
<td>320,000</td>
</tr>
<tr>
<td>R &amp; E</td>
<td>90,000</td>
<td>10,000</td>
<td>2,000</td>
<td>23,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Total</td>
<td>890,000</td>
<td>125,000</td>
<td>131,000</td>
<td>125,000</td>
<td>1,059,000</td>
</tr>
</tbody>
</table>

Identify cost drivers & compute cost driver rates

<table>
<thead>
<tr>
<th>Activity</th>
<th>Cost Driver</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machining</td>
<td># of production runs</td>
<td>$100 per production run</td>
</tr>
<tr>
<td>Purchase</td>
<td># of purchase orders</td>
<td>$50 per purchase order</td>
</tr>
<tr>
<td>Quality</td>
<td># of inspections</td>
<td>$282 per inspection</td>
</tr>
<tr>
<td>Material Handling</td>
<td># of components</td>
<td>$6150 per component</td>
</tr>
</tbody>
</table>

12
1.12 Selling and Distribution Overhead

Selling is a common function in both manufacturing companies as well as trading companies. Thus selling and distribution costs are incurred both manufacturing and trading companies. Most of the selling and distribution costs are not identifiable to products; therefore they are in the nature of indirect costs.

Selling overhead and distribution overhead are two different terms. Selling overhead represents indirect costs incurred for: i) Creation and simulation of demand ii) Securing orders.

Distribution overhead is incurred after the completion of the manufacture process. They are incurred to move the product the customer (or customer’s place).

It is difficult to lay down an exhaustive list of groups under which selling and distribution overheads may be classified. Below is an illustrative classification.

1.13 Process of absorption

The process of collection and distribution of selling & distribution overheads has three stages of analysis as below
1.14 Bases for analysis by function / cost center

Some of the commonly used bases for apportionment of selling & distribution overheads to functions / cost centers are

<table>
<thead>
<tr>
<th>Type of overhead</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertisement</td>
<td>Sales value or sales units</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Value of assets used</td>
</tr>
<tr>
<td>Credit monitoring</td>
<td># of sales orders</td>
</tr>
<tr>
<td>Warehouse rent</td>
<td>Floor area</td>
</tr>
<tr>
<td>Transportation</td>
<td>Weight and distance carried</td>
</tr>
<tr>
<td>Insurance of stock</td>
<td>Value of stock</td>
</tr>
</tbody>
</table>

1.15 Bases for analysis by products or group of products

Functional costs that cannot be directly allocable to the products are apportioned using one or more of the following bases -

1. Overhead rate per unit of the product: This method is used for allocation of Advertisement costs, warehouse costs etc.
2. As per the number of orders delivered: This method is often used to distribute Transportation costs.
3. As a percentage of sales value: This method is used to allocate Sales Commission, Salesman travel costs etc.
4. As a percentage of cash collected: This method is used to allocate bad debts, collection expenses etc.

(http://www.managementaccountancy.com/2009/05/overhead-cost-allocation/)
CHAPTER No. 2
Case Study of KFC
2.1 Mission statement:

KFC is an internationally renowned fast food industry in the world. They have the main ambition to increase & maintain the quality in fast food industry. Their aim is to capture the fast food market. Basically they want to provide their products to anyone that is why they expending their branches in all over the world. They want to increase their profit through giving maximum satisfaction & other better facilities to people that they want. Now after catching such a marvelous position in the satisfaction & other better facilities to people that they want. Now after catching such a marvelous position in the International Market, KFC is introducing a new item “Boneless Fried Chicken”, with even more attractive and charming taste.

(KFC)

2.2 VISION:

“Our passion, as a restaurant company, is to put a YUM on people's faces around the world, satisfying customers every time they eat our food and doing it better than any other restaurant company”.

KFC In Pakistan

Presently KFC is branched out in nine major cities of Pakistan (Karachi, Lahore, Rawalpindi, Faisalabad, Multan, Peshawar, Sialkot, Hyderabad, and Islamabad) with 45 outlets nation-wide. Opening the first KFC outlet in Gulshan-e-Iqbal, Karachi in 1997, and KFC wore the title of being the market leader in its industry. Serving delicious and hygienic food in a relaxing environment made KFC everyone’s favorite. Since then, KFC has been constantly introducing new products and opening new restaurants for its customers. In Pakistan totally Chicken buy from Pakistani Poultry Forms and also this Chicken is 100% Halal.

(KFC)

2.3 About Cupola

Cupola is a Dubai based multinational company involved in several business including, oil gas exploration, plastic cards, retail markets and food franchising.
2.4 Cupola Pakistan
Cupola holds the master franchise rights to operate KFC in Pakistan since 1999. That was a major difference that when Cupola takes complete Operate in Pakistan that was only 05 Outlets in all over Pakistan, and then now the major difference that Cupola takes 45 Outlets in Pakistan. Apart from fulfilling the commitment of serving delicious, fresh and hygienic food and at the same time providing the customers with the ultimate entertainment; KFC also plays part in the economic development of our country.

2.5 KFC Facts

- Presently KFC has provided employment to over 1200 Pakistanis, which adds up to 6000 individuals directly dependent on KFC Pakistan.
- The Government of Pakistan receives over Rs.10 to 11 million per month from KFC Pakistan as direct taxes.
- 95% of all food and packaging material used in KFC Pakistan is procured locally, which sums up to a purchase of over Rs.35 million per month.
- Each new outlet developed by KFC Pakistan costs approximately Rs.40 million, which is a huge amount for our construction industry.
- Annual turnover in Pakistan 2.5 billion.
- KFC doesn’t buy its supplies from Pakistan

(KFC)

2.6 Departmentalization in KFC

To departmentalize a organization you first need to divide the jobs as per their difference in departments. Once you’ve divided jobs up through work specialization, you need to group these jobs together so that common tasks can be coordinated. The basis by which jobs are grouped together is called departmentalization.

One of the most popular ways to group activities is by functions performed. A manufacturing manager might organize his or her plant by separating engineering, accounting, manufacturing, human resources, and supply specialists into common departments. Of course, departmentalization by function can be used in all types of
organizations like KFC. Only the function change to reflect the organizations objectives and activities. Same as KFC has different departments like Production of their products, Raw material, Procurement department, Financing departments. Human resource department and Delivery department. Jobs can also be departmentalized by the type of product the organization produces. KFC for instance, is organized along these lines. Each major product such as their Chicken burgers, Rice dishes and Zinger is placed under the authority of an executive who has complete nationwide responsibility for that product. The major advantage to this type of grouping is increased accountability for product performance, since all activities related to a specific product are under the direction of a single manager. If an organization's activities are service rather than product-related each service can be autonomously grouped. For instance, Automatic Data processing has departments for each of its employer-provided services payroll, retirement, expense management, tax, and the like. Each offers a common array of services under the direction of a product or service manager.

A final category of departmentalization is to use the particular type of customer the organization seeks to reach. Microsoft, for instance, is organized around four customer markets: Consumers, large corporations, software developers and small businesses. The assumption underlying customer departmentalization is that customers in each department have a common set of problems and needs that can be best met by having specialists for each.

Large organizations may use all of the forms of departmentalization that we have described. A major Japanese electronic firm, for instance, organizes each of its divisions along functional lines and its manufacturing units around processes; it departmentalizes sales around seven geographic regions, and divides each sales region into four customer groupings.

Across organizations of all sizes, one strong trend has developed over the past decade. Rigid and functional departmentalization is being increasingly complemented by teams that cross traditional departmental lines. As tasks have become more complex and more diverse skills are needed to accomplish those tasks, management has turned to cross-functional teams.

(http://www.citeman.com/942-departmentalization.html)
CHAPTER NO. 3
SWOT Analysis
Of
KFC
3.1 Strengths

- It is the oldest and finest in Business having a high Goodwill.
- They have a large Number of Outlets at prime locations in Pakistan.
- They have different departments for different type of food category.
- They are successful in maintaining their customer support departments with positive feedback.
- Having individual departments for each function of their business which ultimately gives strength to the organization.
- High number of products
- Effective Good advertising and marketing department

3.2 Weaknesses

- Failed to rank in top 20 in growth in 2013
- Lack of development and improvement in Research and Development department.
- Lack of check and balance which is not being carried by any of its department, In result untrustworthy supplier are supplying them required materials.
- Franchise management globally is a challenge
- Company not seeing Return on Assets with significant diversification into new product lines to capture new markets (drain of capital expenditure was not worth it)

3.3 Opportunities

- The opportunities are the cheap and easy availability of labor.
- The increase consumption of fast food has increased the market size of KFC.
- As the consumer usually prefer “All under one roof”, therefore, in order to increase their sales turnover they can increase or add the served items.
- Consumers in emerging markets demonstrate a greater propensity than those in developed markets to believe that international brands are of better quality than local brands, with only 30 percent of developing market respondents indicating that local brands are just as good as those internationally manufactured,”
- Venture into newer markets
3.4 Threats

- The threats faced by KFC are the entrance of many new competitors into the market that may be local or international brands which operating more functions and more departments for smooth working.

- High employee turnover in fast food business, Sometimes as much as 200%, these employees are the backbone of these companies, and with this amount of turnover, very costly to franchisee and/or companies to consistently retrain - High turnover due to many students working there for part time work, also very low pay

- Minimum wage is constantly increasing, especially in develop countries, hurts the bottom line

- (Americans) 66% of adults eat out once per week, however only 41% of adults eat fast food once per week (u.s. market research survey)

- And being in Pakistan, there is high political instability/uncertainty involved.
CONCLUSION:

KFC is a very strong chain of fast food restaurants with more than 10,000 restaurants all over the world. KFC is providing employment to 1200 Pakistanis an around 6000 Pakistanis dependent on KFC. They are paying Rs. 10 million to government of Pakistan as direct taxes. 95% of its food and packaging material used in KFC produced in Pakistan locally which sums up to the purchase of 35 million per month. Each new outlet developed by KFC in Pakistan spends 40 million rupees, that’s a massive amount for this industry.

From all of the above detailed discussion about KFC in Pakistan, it is really clear that KFC and Pakistan are growing together. KFC is doing well in Pakistan and keeps following its marketing strategies as a market leader and segmenting the market into different variables and increasing their market share. KFC is leading in Fried Chicken. It gives quality, variety and fresh meals as of its competitors.
**Recommendation:**

KFC is a market leader in providing Fried chicken. As KFC, so it is competing with the prominent market signs like pizza hut, McDonalds. To stand out in the competition they should divide more closely for putting them in new category of departments so each department can be looked over easily. Gathering so many information from different units under one department is very difficult to manage. And its product category, it is doing really well but they need improvements in their hot menu. They should also make their menu dynamic, by introducing new meals after certain period of time. New items should be introduced by varying the taste. They should also try the local desi taste addressing the desi food lovers, thus it will help to increase their market share.

The prices of KFC are reasonable as compared with other fast food restaurants. But as price is always a primary concern for the customer, therefore, they should adopt certain strategy to attract the customers. And it can only be done by lowering the prices. It could be by introducing some discount packages for families, employees, students or regular customers. The membership card can be used to provide certain extra value to the customer.

AS far as placement of the products is concerned, it is an important factor, for a company to increase its market share, by targeting the right customer. KFC needs to have more outlets, at commercial areas. It will help to target the actual as well as the potential customers. Mobile outlets may be an effective addition as well.

KFC should work for having more solid marketing departments. They should organize and run the proper advertisement campaign.
Bibliography


