

# The case of burger king finance essay

Finance



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\n[/toc]\n \nAbid AnasArcambal LauraBennani MohammedHamdoune  
InaamKhalil Nawfal

## **Company overview:**

Burger king morocco is a newly introduced fast food restaurant in morocco, it started in 2012 with opening of morocco mall, the company had a blistering success with their first location, what made them start two new locations one in Casablanca's Anfa place and the other in Rabat's KITEA GEANT. Burger King is an American chain of fast food's restaurant that started nearly a half century ago, the company has been found in 1954 after their first opening in MIAMI, Florida by the two founders James Mclamore and David Edgerton. The company's main sandwich and trademark is the whooper Sandwich that was introduced in the late fifties and became a huge success, which led to the introduction of the new advertising campaign known as " Burger King, Home of the whopper" in 1958. 1961 was the beginning of a new era in burger king's history; it noticed the acquisition of the national and international franchising rights for the burger king brand by the two founders Mclamore and Edgerton, the company's first venture in the international markets was in Puerto Rico by the opening of two new restaurants. Burger king

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corporation was bought by the Pillsbury Company in 1967 and then became a fully owned subsidiary. The burger king system had 274 restaurants with 80000 employees when the firm was acquired. The seventies noticed glorious days for the burger king company, in 1974 debuted the "have it your way" campaign, in 1975 first BK in Europe opened in Madrid. In the eighties burger innovation have become the fashion, the croissant Wish in 1985 and chicken tenders in 1986. In 1986 burger king achieved a new record for their system, with 546 newly opened locations worldwide, to accumulate 4743 restaurants 4.5 billion dollars in sales. The new system had 402 international restaurant operating in 25 countries. In 1988 Pillsbury was sold to Grand Metropolitan PLC including its subsidiaries including burger king for the price of 5.8 billion dollars. After that Grand metropolitan PLC bought Burger King, Burger King focused more in the international aspect of its business by having new market opening throughout the nineties, restaurants were opened in: East Germany, Poland, Saudi Arabia, El Salvador, Peru, Israel, the Dominican Republic, New Zealand, Paraguay, Turkey, Bolivia, and Italy. 1997 noticed another important event in Burger king's history since Grand metropolitan merged with Guinness creating Diageo PLC. The new merged corporation decided to emphasis on alcoholic beverages and decided on a discarding lead that included burger king, which to the acquisition of burger king by private equity firms Bain capital, pacific group and Goldman Sachs capital partners in 2002. Berger king completed successfully their IPO in 2006 and was listed on the NYSE. The company was bought again by 3G Capital on October 2010 to become a privately held company once again. Burger king Worldwide entered in a definitive combination agreement with Justice holding limited in April 2012, 3G Capital <https://assignbuster.com/the-case-of-burger-king-finance-essay/>

still have 70% ownership of the company. Burger King Worldwide now is a Delaware corporation operating under the name of Burger King brand, the company now is the world's second largest fast food restaurant by the total number of restaurants. The system has now 12, 667 restaurants operating over 80 countries, 41% of the restaurants are in the U. S and Canada 95% of the restaurants are owned and operated by franchisees. Burger king restaurants feature flame grilled burgers, chicken and others specialty sandwiches, chips or French fries, drinks and other food items like onion rings. The whooper star sandwich of the company it is internationally known comparable the McDonald's big mac. The company has developed a scalable and cost efficient fast food restaurant model that proposes reasonable prices to the customers. Burr king business model create value and generates revenue by : Retail sales at the company restaurants Revenues from franchises, based on royalties that consists on percentage sales of franchises and franchise fees paid by franchisees, burger king gets also money from properties leased or subleased to franchisees. 95% of burger king's restaurants are franchised which gives the company a strategic advantage since franchisees are the ones who fund the capital required and maintain the company's system. This system has also its drawbacks and risks, the limited control over franchisees and the limited ability to make changes in restaurant ownership. Furthermore, this model is tied to the success of franchisees and the need of franchisees to make new restaurants opening as a future burger king growth strategy.

## **The push system:**

In this part we will discuss the push system. First we will define this strategy; then give and discuss the "Materials Requirements Planning" system which is an example of the push strategy. Finally, we will compare the advantages and the disadvantages of this strategy; in order for us to draw conclusions.

According to the dictionary of Cambridge the push system is "a production system in which a company produces more products than customers have requested in order to have enough available if demand increases." Likewise in the fast-food industry, applying the push system is producing an amount of finished food items (packaged burgers, salads...) larger than the demand.

The classic push system is the MRP (Materials Requirements Planning) system. MRP is the straightforward process of transforming a production plan for a finished good to a set of time based requirements for all of the subassemblies and parts needed to make that set of finished goods. In fact based on forecasts of sales, this system computes the production schedules for each level of production. Once the product goes through a production level, it is pushed to the next level whether needed or not. Despite having some advantages the push system has several disadvantages too. First with the advantages; the push system can lead to economies of scale in the purchasing and production phases. Unlike the pull system, the fixed costs of production are low because there is a high quantity of products that are produced at once. Another advantage of the push strategy is allowing for the planning and completion of complex assemblies as sub-components are delivered only by scheduled need. Concerning the disadvantages of the push system, first forecasts are often inaccurate as sales can be unpredictable and vary from one year to the next. Another disadvantage is that it can lead

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not only to large inventories but also to large quantities of scrap before errors are detected. Other issues with this strategy are that it not only requires maintenance of large and complex databases but also requires diligence to maintain effective product flow.

### **The pull system:**

In this part we will discuss the pull system. The pull system is called as well the Just-in-time system. This system is not a technique that is use, but it a management philosophy that is implied. This system is used to manage a firm's inventory and orders goods. The pull system is used when the company only produces product when the order of the customer has been made. Hence this process can be called ' customer centric' which mean it produces only what the customer need, and when they needed it. This method is useful for reducing cost and keeping the firms inventory system at a low level. Another way to name it is made-to-order process since it dependent on the customer's order. This method is initially used for manufacturing environment, given that they have a stable demand and producing the same goods.[1]The main goal of the Pull system is to reduce inventory hence reducing the cost as well. By using the pull system it keeps your inventory level at it minimum, therefore it reduces the productions and the delivery lead time. The Pull system has several advantages and disadvantages. First with the advantages; reducing inventory cost is the main advantage that this system can offer.[2]Another advantaged is that the ability to change the product design for the customer needs. As well in gives you time to improve product quality in order there are complaints. Last advantage it uses a visual control to replenishing process.[3]The main

disadvantage of the pull system is a shortage on inventory, which causes a dissatisfaction of the customer because the product is not available.

[4]Another disadvantage is the cost of research and development of a product. Although the cost of inventory is reduced there is a higher cost in research and development that is occurring.

## **What does Burker King do?**

The Burger King Company in Morocco is mainly relying on pull system for its inventory management; indeed, according to both the literature review and the data collected on the field, the main technique used to manage inventory in Burger King restaurants is the use of semi-finished goods instead of finished ones, to allow the customer a total customization of its burger. Accordingly, the use of assembly to order strategy confirms this main reliance on pull system of inventory management. To explain concisely the process of this assembly to order strategy, it is mandatory to first identify and define it. The assembly to order strategy (ATO) is a business production strategy in which ordered goods are produced as fast as possible, with a certain extent allowed for customization. However, this strategy requires that the basic components of the product, in this case the different ingredients that constitute the burger such as salad, tomatoes, pickles, and beef or chicken to cite only them, have to be cooked and ready to use in order to assemble them quickly, making the lead time as small as possible. Unfortunately, as showed in the works of Menninger, Sechrist and Rueff, this approach may hurt the profit of the company, due to the fact that ATO strategy, even if being a mix of make-to-stock strategy and make-to-order strategy with the benefits of both, leads most of the time to inventory

shortage, due to the fact that a second row of ingredients is baked only if the first one was totally served and consumed. Thus, this ATO strategy brings both advantages and disadvantages for the Burger King Company, which empowers the need for change and improvement of the inventory management system. Another thing to mention is that the comparative advantage Burger King has over its major competitors resides in this pull inventory system. In fact, proposing a customized burger was first brought by the company in 1974 with the "Have It Your Way" campaign, relegating all their competitors such as Wendy's and McDonald's to a less important position in the market. Indeed, by proposing these kind of burgers, the company acquired a greater market share that allowed it to significantly increase the profit earned on their best-selling burger, the Whopper. Consequently, the ATO strategy has to be maintained, but improved and mixed with other strategy, in order to create the perfect mix for both the company and the customers.

### **Solution and recommendation:**

Considering the disadvantages of both the push and pull strategies, especially in the food industry, we believe the most suitable solution would be a combination of the above, in other words, a push-pull based strategy. A push-pull strategy implies that some of the goods in stock in the inventory will be finished goods while other goods will be semi-finished goods. Meaning, the company will keep some ingredients in stock, ready to be combined as the demand for finished goods is articulated, and it will also keep some finished goods ready even if their demand is not articulated yet. There are different ways of implementing a push-pull strategy, especially in



the food industry. We will discuss and compare some of them later on. We believe this approach will be most effective for many reasons: The finished goods will allow the company to serve the immediate need of customers (the drive through mainly) in a timely manner. The quantity of finished goods that is going to be available will be lower than that of a push system, making the risks of having a high surplus and the risks of having the food lose its "freshness/hotness" significantly lower. The semi-finished goods will allow the company to fulfill the demand of customers eating in the restaurants, those customers who can afford to wait a little bit before getting their orders. The finished products that will be in stock will be standard products, by that we mean that the burgers that are ordered the most, will be the ones that will be produced beforehand the most. For instance, if a customer orders a regular whooper, he will get it in the following minute; however, if a customer orders a burger with no salad for example, he will have to wait (the time he will have to wait is the time required to prepare a burger in the pull system and it is the time that people are currently waiting for any orders at burger king). With this model, if someday, the demand of customers eating in the restaurants is higher than usual, while the demand in the drive through remains the same or is even lower than usual, the finished goods in stock can be used toward fulfilling the orders of customers eating in the restaurant. The other way around, semi-finished goods can be used to fulfill the demand of the drive through customers when their demand is higher than usual (They will have to wait a little bit more than usual, but they will still get their orders fulfilled). This way, chances of shortage are minimal, and the chances of surplus are greatly reduced compared to those of a push system.