

Fast food industry challenges and opportunities



Fast food franchising was still in its infancy in the 1950's however this picked up greatly in the 1970's due to several factors including the " steady decline on hourly wages of US workers" which resulted in a substantial percentage of women re-entering the job market to support their families. This trend resulted in great business opportunities for fast food chains whose product saw a substantial increase in demand due to long working hours of parents, thus lack of time to dedicate to cooking due to other family commitments, including a lack of quality time between family members. Fast food options thus made it easier for families who could choose to either purchase take away food, on their way home, or else consume it at the chain's premises together with family members or friends. Thus this provided an affordable solution to purchase cooked food, for families, single parents, youths and professionals.

" Burger King was the first fast food chain to introduce drive thru service which now accounts for a majority of the company's business." www.datamonitor.com

Apart from the ' drive thru' option, Burger King as well as other fast food retailers, offered home service delivery in order to suit the needs of consumers who were pressed for time. The provision of such convenient services boosted the organisation's turnover. Lack of elaborate furnishings and low skilled labour of fast food chains, compared to full service restaurants were substantially lower, contributed to low operating costs, which was reflected in the price of meals, rendering them affordable.

Although the chain's sales were very promising, stiff competition from other fast food operators forced fast food leaders to engage in aggressive marketing campaigns and diversified product offerings. Burger King's major limitation has been the adoption of a reactive rather than a proactive strategy. This resulted in higher costs which were at times wasted as the reactive strategy would have been employed too late, and the competitor's effort would have by then been too effective to be beaten. It is also worth noting that although in the case of Burger King, its major competitors have been McDonald's and Wendy's being the first and third placed leaders respectively, in the fast food industry, so far, yet competition from many well-established food service companies, has been cut throat. " The restaurant industry is intensely competitive and BKC competes with many well-established food service companies on the basis of product choice, quality, affordability, service and location." Burger King Corporation- SWOT Analysis: May 2010 ([www. datamonitor. com](http://www.datamonitor.com))

Health concerns lead to a substantial slow down by fast food chain companies in the 1990's. Health campaigns bombarded the media claiming that obesity was the result of excessive fast food consumption. Fear of heart conditions, damaged liver and other health conditions, resulted in lower consumption of fast food, which proved to be a major threat to fast food sellers, particularly large chains like Burger King who had thousands of outlets spread across the globe reflecting high investments in the franchise. This major setback also led to a considerable drop in value meals which had been introduced to beat stiff competition from other fast food suppliers. Such favourable pricing strategies encouraged consumers to opt for the ' added

value' meal options, contributing further to health problems including obesity.

During this period, " Obesity was believed to cause more deaths than smoking." (Case Study: 4) Apart from consuming high levels of fast food, people hardly engaged in physical due to their working commitments and hectic lifestyles which were the main reasons for drawing crowds to fast food consumption. Had fast food companies not have catered for such a shift in demand, they would have probably been driven out of the market particularly since people have become more health conscious due to higher exposure to media and the internet - the latter being a super highway of information.

The emerging popularity of certain diets including the Atkins and the South Beach diets, which proved to be effective for many, were also a threat to the industry, thus the introduction of a much varied menu by fast food retailers. " With increased health consciousness, consumers shifted to healthy food like salads and organic food." (Case Study: 6). Leaders in the fast food industry sought to adapt to changing consumer preferences. The provision of healthier options increased operational costs, including the requirement for more cooking spaces. Fast food leaders sought to transform the initial threat into an opportunity for business development, particularly since the desire for healthy options at fast food outlets, was not a phase but is still in demand today.

Awareness of the negative effects of hydrogenated oils which were deemed to be cancerous, had to be eliminated from fast food kitchens and replaced

buy healthier oils. The industry was further challenged by the bird flu and Mad Cow diseases which also contributed to a decrease in consumer traffic. In 2005, the World Health Organisation (WHO), also made reference to the fact that Acrylamide in certain foods as fried or roasted potato products, has shown to cause cancer. Growing public awareness about Acrylamide levels in French fries, could affect the company's sales.

Other threats faced by fast food retailers including Burger King, include “ Legal tangles such as violation of accessibility requirements under federal and state law”, which will reflect negatively the brand image of the organisation. “ Unemployment and low consumer confidence – the US a case in point, will affect consumer spending and thus will impact directly Burger King's financial performance which tends to be highly sensitive to such economic conditions.

Burger King, apart from dealing with the number of threats faced earlier in the write up, had a number of internal issues to solve. These problems contributed to higher challenges the company has to face particularly since for a company to deal with external factors, it must be backed up by key important factors, including internal organisational stability. Lack of constructive communication between the Mother Company and franchisees led to a number of outlets to close down. “[...] disagreements soon erupted between the franchisees and the parent company regarding issues of product control, store image, design and operations.” (Case Study: pp 6)

Franchisees claimed that Burger King failed to understand and adapt to the needs and requirements of the franchisees' target audience who demanded a varied product to suit the culture and trends of the particular country and

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location. Franchisees also claimed that they had no financial backing from the mother company to refurbish their outlets, thus a considerable percentage of Burger King's outlets were shabby and neglected. " The No. 2 fast food chain may need to spend billions on refurbishing. " Burt Helm (2010)

Burger King also faces the threat of expiry franchise agreements. " Of the 409 agreements that expired in fiscal 2006, only 47% were renewed and 28% were extended for similar periods. If a substantial number of franchisees decide not to renew their agreement, the company's operations would be affected." (www. datamonitor. com)

In spite of the number of threats faced by fast food retailers during the past decades, one must not underestimate the future opportunities which such industry players can take advantage of. In this regard there has been a considerable rise of the restaurant industry in the US. New dining and lifestyle patterns including an increased percentage of working women, divorce, rise in single parent household and longer working hours have all been extended further over the last three decades. Demographic changes including the demand for ' snacking' and increased comfort requirements are creating further opportunities for businesses within the catering industry." The FFHR business in the US is expected to grow at an annual rate of 4% per annum during 2006-2011." (www. datamonitor. com)

Burger King is seeking to extend on product development by introducing new products and an increase in limited time offers. Ongoing product development must be in line with current market trends to ensure that the

menu is appealing to the target market and to ensure that the menu is not stale, which will benefit competitors. Launching new products will enhance the brand image in line with the success of its direct competitors. However the success of the Whopper which is Burger King's signature product which initially contributed to Burger King Brand's image, should continue to appear in the chain's marketing campaigns, with the latter being more innovative. Burger King is also seeking to expand in current and tap potential markets, including Asian markets such as China and Malaysia. This diversification plan will hopefully improve Burger King's threat of market concentration.

Further investment in the chain's restaurants could also be an opportunity to boost the brand image. A change in design and image of the outlets, would provide an opportunity for further growth, targeting upcoming generations proactively. Market analysis and in-depth research will provide the company with feedback regarding the emerging customer needs not only as regards food menu, but also design and décor and in-store facilities including a potential area accommodating business meetings and coffee breaks, if in demand.

In today's global, fast changing and ever growing competitive environment being a market leader, today, will give you some advantages but definitely will not grant you automatic market leadership for the future. A competitive strategy based on a number of key internal competences will provide a solid platform for organisation sustainability and long-term success. Internal competences may be referred to as stated by Barney (1991) in Lado et al. (1994)

“ organisational resources that are rare, valuable, non substitutable and imperfectly imitable form the basis for a firm’s sustainable competitive advantage.”

Unless these core competences are unique to the company, achieving competitive advantage would be harder particularly in today’s competitive business environments. Further more Prahalad and Hamel (1990) state that

“ In the 1990s managers will be judged on their ability to identify, cultivate, and exploit th core competences that make growth possible – indeed, they’ll have to rethink the concept of the corporation it self.”

Organisations must seek to understand first and foremost the micro and macro environment including, the immediate industry (micro) and competitive environment, and general economic conditions (macro).

Understanding the Critical Success Factors of the industry in which they operate helps companies identify the areas in which the company must excel over its competitors to achieve competitive advantage in the market place.

Internal competences will prove to be effective if they contribute directly or indirectly to the organisation’s success, based on the industry’ Critical Success Factors. In this respect, the Board of Directors and the CEO should:

- have the ability of understanding the process of industry evolution;
- be able to predict change that would satisfy customers in terms of their expectations and preferences;

understand that company Strengths, Weaknesses, Opportunities and Threats, is not a one off exercise. Such factors have to be analysed and

revised regularly to ensure that the organisation's strategy is updated to cater for any changing patterns, newly recognized weaknesses or threats and that any potential opportunities are tapped in real time

Investment in quality Human Resources contributes towards achieving competitive advantage. Recruitment and selection processes are fundamental for a company's long term success, considering nowadays, the organisations' best resources are human resources. Ongoing training and development of employees contributes to high efficiency levels within companies, and in the case of retail, ongoing training and monitoring ensures that high levels of customer service by the organisation's employees, is practiced at all times. In the case of a large company as Burger King, standardised and compulsory training ensures that service standardisation is achieved throughout its franchise outlets.

Apart from providing ongoing, updated training, companies should seek to develop their staff complement so that their key staff members will improve their skills and will be given the opportunity to be promoted internally and contribute to the company's success, rather than leave the organisation in search for better opportunities. This investment in human resources contributes highly to a company's internal competences, thus to the company's overall success, considering a substantial percentage of Burger King's (as an example) employees are the chain's front liners, providing the service directly to the customer. The way employees are treated at the workplace and the relationships with their superiors, automatically affects their performance and hence the efforts they give. In a way this all depends on the management level and as Foot and Hook (1999) state

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“[...] they enhance the willingness and ability of employees to contribute to the achievement of their organisation’s goal.”

The level of Information Sharing and Effective Communication within organisations may also be viewed as a fundamental internal competence. Members within an organisation should be informed and should feel part of the organisation’s success or failure. The Mission and Vision of the company must be clear from top to bottom, otherwise it may result in lack of commitment due to a lack of understanding of the company’s goals.

Dissemination of information and communication within companies may take different forms ranging from meetings, e-mails, intranet and newsletters.

Further advancements in technologies, have reduced communication barriers to a substantial degree, thus communication between the head office, or parents company and its internationally spread businesses, is now even more possible than ever. The use of Skype, conference calls, video conferencing have contributed to new forms of communication options.

Total Quality Management (TQM) emphasises the responsibility of each individual for ensuring high levels of quality throughout the organisation. Commitment and training in this regard will require less supervision and higher levels of commitment. Encouraging Quality Circles, involves having a group of people who meet away from the shop floor to discuss potential improvements in the work systems. Members of quality circles will then analyse the data and set up proposals addressed to senior management for consideration. Achievement of effective Total Quality Management within companies provides results in competitive advantage over competitor organisations since high levels of quality, are the order of the day.

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Other examples of organisational competences include; innovation, embracing change rather than resisting it and other key characteristics which render a company's product or service distinct from those of direct competitors or substitutes. Organisations must not take their internal competences for granted but must seek to develop them further so as to maintain long-term competitive advantage. Seeking other forms of key internal competences is very important in view of the ever changing market conditions in which organisations operate. Unless organisations have key ingredients distinguishing them from what their competitors are offering, it would be very challenging to operate sustainably and register ongoing growth. Market research including competitor analysis is carried out by companies with the main purpose of identifying any potential threats or new opportunities within the diverse business markets. Unless companies seek to embrace their key competences and improve to maintain market leadership position whenever possible, they will soon be challenged by upcoming competitors.

Enterprises across the whole spectrum of the economy are faced with multiple challenges generated within the parameters of national and global economy. Globalisation is resulting in a high degree of economic openness, and to a very large measure, this exposes emerging businesses to vulnerable business scenarios. Ruysseveldt et al (1995) highlighted that " In general, companies now face fierce competition, and this in turn affects the employment relationship, which is increasingly subject to the logic of the market." In this regard, organisations which fail in adapting their structures to emerging societies of the market will eventually face a natural death.

Subsequently, visionary agile organisations need to capitalise on a proactive approach, in anticipating and responding to change effectively.

2. Discuss the advantages and disadvantages of the franchising business model used by Burger King. What are the implications of this approach for successful implementation of their strategies?

Franchising is a form of business in which the franchiser gives the authority to a franchisee to distribute services, products or methods of business to affiliated dealers. In many cases franchisees are given exclusive access to a particular geographical area. The franchiser usually mandates uniform symbols, trademarks and standardization of services. On the other hand negative macro consequences of franchising include the propensity of franchising to promote anticompetitive distribution systems (Hunt, 1972), the rationalization of consumer choice (Alon, 2004), and the destruction of local customs (Ram, 2004), leading to what has been called the “McDonaldization of Society” (Ritzer, 1995).

Currently Burger King has 3 different forms of franchise schemes, which correspond to 3 different types of franchise ownership:

- Individual or Owner/ Operator
- Entity
- Corporate

Individual or owner/ operator ownership was traditionally used for individuals who signed the franchise agreement personally and who were personally responsible for operating the franchise restaurant. Although the individual franchise agreement can be assigned to an operating company under certain

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conditions, the individual remains personally responsible under the franchise agreement.

Entity ownership allows different forms of ownership and management of, and equity investment in the franchisee. Under the Entity ownership program, a corporation, a limited partnership or a limited liability company can directly execute the Entity franchisee scheme if they satisfy Burger King's guidelines and for approval of franchise ownership distribution plans. Generally, one of the conditions of Entity ownership is that one or more individuals or entities guarantee to be responsible for the franchisee obligations to Burger King out of which one of them has to be designated by Burger King's approval to be the managing owner who shall be responsible to ensure that they comply to the franchise agreement and has to have enough authority to make certain decisions. Additionally the managing owner must have at least 5% ownership of the franchisee.

Corporate ownership franchise scheme occurs when a company with publicly-traded stock or a subsidiary of a publicly-traded company, that controls locations that are not accessible or have limited access to the general public. Such franchisees are typically food service companies that provide a variety of contract feeding services in a institutional location such as government buildings and facilities, airports, bus and train stations, theme parks and zoos. A qualified director of operations who shall be approved by Burger King needs to be appointed who will have certain responsibilities and authority to ensure that the corporate franchisee is complying with the franchise agreement.

Although these 3 franchise schemes may slightly vary between them as to responsibilities and setup costs, however in substance they follow the traditional franchise setup that Burger King has adopted through the years. Burger King grants franchisees to operate restaurants using Burger King trademarks, trade dress and other intellectual property rights that it owns, from quality of products and standardization of service. For each franchise restaurant, Burger King enters into a franchise agreement that covers a number of standard terms and conditions that are common to all franchisees. Franchisees incur recurring fees consisting of royalty and advertising payments that range between 3.5% to 5% on monthly gross sales, and a fixed yearly fee that starts from \$50,000 depending on the size of franchisee set-up.

Burger King offers its franchisees its renowned barbell menu strategy, which gives the franchisees the opportunity to expand on Burger King's high-margin premium products and value products in order to grow the core drivers of its product offerings. The barbell menu strategy is aimed at driving average check and traffic, since Burger King's management team believes that by adopting this strategy Burger King is balancing higher margin products with value offerings and at the same time increasing the brand equity of flame-broiled taste.

However the fast food industry is highly competitive and some of Burger King's competitors have greater resources, such as Macdonald's. This leads to a disadvantage when it comes to compete with Macdonald's, since Burger King takes a reactive mode to price changes, furthermore Macdonald's marketing campaigns in general are more effective than Burger King's.

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Clearly this gives the competitors a competitive advantage through higher levels of brand awareness among consumers. In addition, our major competitors are also able to devote greater resources to accelerate their restaurant re-modelling and rebuilding efforts, introduce new product and implement advantageous product offerings, which in most cases gives them a competitive edge over Burger King.

Furthermore, the market for retail real estate is highly competitive. Due to the economies of scale that Burger Kings competitors managed to achieve, Burger King's major competitors may have the ability to negotiate more favourable terms and entrepreneurs may offer priority or grant exclusivity to these competitors for more desirable locations. As a result, this may hinder the ability to obtain new franchisees or renew existing agreements.

The capital required to grow and maintain Burger King Corporation is primarily funded by franchise agreements, this presents a number of drawbacks in Burger King's portfolio management strategy, especially when the company currently holds ownership of only 10% of its restaurants. Burger King is planning to significantly reduce the ownership of these restaurants over the next 5 years. This may lead to problematic situations whereby Burger King being the franchisor will have limited influence over franchisees and high reliance on franchisees to implement major initiatives. This may also lead to limited ability to facilitate changes in restaurant ownership, limitations on enforcement of franchise obligations due to bankruptcy or insolvency proceedings and inability or unwillingness of franchisees to participate in our strategic initiatives.

On the other hand Burger King's principal competitors are mainly Macdonald's and Wendy's. These have greater influence over their respective franchisees due to the significantly higher percentage of company restaurants and ownership of franchisee real estate that they hold. This may result, that they may have a greater ability to implement operational initiatives and business strategies, including their marketing and advertising programs.

While Burger King can mandate certain strategic initiatives through the enforcement of its franchise agreements, they need to actively seek support from its franchisees for a successful implementation of these initiatives. These efforts to build this alignment with its franchisees may result in a delay in the implementation of the marketing and advertising programs. Although the current relationship with its franchisees is positive, there is no assurance that it will continue to be so. In fact Burger King has already been sued by the National Franchisee association, this organisation represents over 50% of Burger King's franchisees in the United States. This law suit is due to Burger King's decision to dictate to the U. S. franchisees to sell the 1/4 lb. Double Cheeseburger and the Buck Double burger at \$1. This is a clear example whereby Burger King's failure to win the franchisees support in its marketing programs and strategic initiatives could lead to negatively affect the ability to implement the strategy that it would have decided to adopt.

Burger King's operating results substantially depend upon its franchisees sales. However, its franchisees are independent operators and they cannot control many factors that impact the profitability of their restaurants.

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Pursuant to the franchise agreements and their operational manual, Burger King mandate menu items, signage, equipment, hours of operation and value menu, standardization of procedures and approval of suppliers.

However, the quality of franchise restaurant operations may be diminished by any number of factors beyond its control. Consequently, franchisees may not successfully operate restaurants in a consistent manner with the mother company standards and requirements. Due to various factors, Burger King as a franchisor may not be able to identify problems and take action quickly enough; as a result, its image and reputation may suffer.

Most of Burger King's franchisee restaurants are presently located on leased premises. As restaurant leases expire, our franchisees may be unable to renegotiate a new lease, on commercially acceptable terms or nothing at all, which could cause a number of its franchisees to close down.

As already stated, the fast food industry is intensely competitive and Burger King has to compete both in the U. S. and internationally with a number of established companies on the basis of product choice, quality, affordability, service and location. Burger Kings competitors include a variety of independent operators, in addition to well-capitalized national and international chains and franchises. Furthermore, this industry has few barriers to entry, and therefore new competitors may emerge at any time. Burger King's ability to compete will mainly depend on the success to improve existing products, to develop new products, effectively respond to consumer preferences and to manage the complexity of its operations as well as the impact of our competitors' actions.

3. Using relevant theory and examples to support your answer, critically evaluate the role of leadership in managing cultural and behavioural factors during the execution of a turnaround strategy.

In the rapidly developing modern world and the age of globalization, the concept of organisational change has become more important than ever before. Although it has always been an important feature of organisational life, the 'place, magnitude and necessity' of organisational change has considerably escalated over the past two decades (Arnold, 2005). As Mullins (2007) states,

“ Change is a pervasive influence. It is an inescapable part of both social and organisational life and we are all subject to continual change of one form or another”.

There exists a multitude of reasons as to why organisations must constantly make changes, both external and internal. Although internal factors play a role, the main pressures faced by companies to change comes from external forces. This is because in order to survive in the corporate world, organisations must be properly prepared to face and respond to the new challenges and opportunities presented by the ever-changing external environment (Mullins, 2007).

Many organisations appear to be in a continuous state of change as they are forced to increase the speed with which they respond to the unpredictability of external factors, essential for their survival (Hussey, 2000). One of the most influential forces instigating organisational change today is the rapid rate of globalisation and consequent fierce world competition. With the

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accelerating emergence of economies such as India and China, Mayle (2006) states that

“ globalisation is no longer an academic discipline or a fringe movement but a business imperative”

Thus creating the need for constant change and the fact that competition is intensifying, means that organisations cannot simply ignore developments and give advantage to their competitors. Technological change has therefore become extremely significant as the rate of obsolescence increases, a trend that is set to become more significant with the rapid growth of the internet and E-commerce. As Hussey (2000) states, it is unlikely that organisations can introduce new developments without causing changes to skills, jobs, structure and often culture. Another external factor to consider is that the demographic profile of most countries is changing – the proportion of older people is increasing relative to the proportion of younger people. This will create huge pressures for organisations, and corporate issues may involve ‘ finding ways of dealing with skill shortages, changes in attitudes to the employment of older people and problems of motivation in flat organisational structures which offer little opportunity for promotion’ (Hussey, 2000). Other external forces of change relevant to organisations include government intervention, political interests, scarcity of natural resources and the nature of customers. Internal sources of change include innovations, new methods of work, re-locating, training, staff development and the re-allocation of resources and responsibilities (Mullins, 2007). The survival and success of any organisation depends how they choose to adapt to these internal and external demands. It is not about whether to change, but to how and when.

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Burger King started this process in 1977, by hiring Donald Smith as president and CEO. Smith identified the shortfalls that Burger King was facing at the time. Smith adapted and executed his turnaround strategy, and modelled on the basis of Macdonald's strategy which proved rather successful.

The processes involved in organisational change may differ widely depending on the corporation in question and the current situation that it is facing. However, it is important for all organisations in today's globalised economy to understand the importance of continual change - constantly transforming in order to keep up with the changing environment and hence survive in the competitive modern world. The actual changes to an organisation can either be implemented in a planned and systematic fashion, often designed and implemented by consultants, or in a more informal and reactive way, where managers react to situations on a daily basis and implement change accordingly (Tosi, Rizzo & Carroll, 1994). The notion of organisational development - change that focuses on the whole organisation - is concerned with anticipated, planned and consciously designed change that will serve to increase an organisations effectiveness (Cummings and Worley, 2001). Lewin's change model provides a fundamental model of planned change, which perceives change as a 'modification of those forces keeping a system's behaviour stable'. In this model, Lewin believes that the change process consists of three steps: Unfreezing, Moving and Refreezing. Unfreezing involves diminishing the forces that uphold an organisations current behaviour - often done by showing employees the discrepancies between behaviour desired by the organisation and behaviour that is currently displayed. Through a process of 'psychological disconfirmation'

members can thereby be motivated to change. The second step, 'Moving' aims to shift the current behaviour of