Management efficiency ratios: burger king vs. mcdonalds

Business, Company

This paper seeks to compare Burger King (BK) with its competitor McDonald (MCD) in the restaurant industry, using their financial statements as basis in terms of profitability and management efficiency ratios for the latest fiscal year. This will also discuss the concept of operating cost, evaluate the annual and year-end results of the two companies, and interpret BK as takeover target compared with its competitors. Burger King's profitability is obviously lower than MCD.

Based on net profit margin for year 2008, BK had 7. 3% as compared with MCD's 18. 3% for the same year. The same behavior may be observed in terms of pre-tax margin, where BK had 11% as against that of MCD at 26. 2 % for the same year. It is only in terms of gross margins that BK has exceeded that of MCD but the net margin and pre-tax margin are better ways to measure profitability as expenses need to be deducted further.

For purposes of comparing the net profit margin and pre-tax margin of the two companies against the industry average, BK is worse but MCD is definitely better. The Return of Asset (ROA) of BK is 7. 1% for the 2008 and is lower than that of MCD, which reflected ROA of 14. 9% for the same year. The results of these ratios further confirmed earlierobservationin net profit margin. The same better profitability is further observed in terms of Return of Equity (ROE) where BK showed 22. 2% for 2008, which is still lower than MCD's 30.

1% for 2008. While ROA measures how efficient management a company is in terms of assets employed in business, ROE measures how much management is compensating resources invested by stockholders, the results would still reinforce earlier finding that BK, is less profitable and less efficient than MCD. The less profitability and efficiency of BK as against MCD is also further proven in terms of the former's lower receivable turnover of 18. 67 for 2008 as against 23. 7 for MCD and 46. 8 for industry average.

Inventory turnover for BK is not possible because of its absence of inventory for 2008 while that of MCD, the figure is over 100 times for 2008, which is even higher than industry average. Even if no comparison could be made in terms of inventory turnover, there is sufficient evidence to show better profitability and efficiency for MCD as against BK. To discuss the concept of operating cost for operating a business, the same must be minimized in order to maximize profits since costs or expenses must be deducted from revenues in order to derive profit.

The lower the cost, the higher would be the profit assuming revenues are the same. To evaluate the annual and year-end results of the two companies and interpret BK as takeover target compared with its competitors, there is need to look at profitability and management efficiency of the two companies. As found out, BK was less profitable and less efficient than MCD. However, a company wishing to take over another company does not necessarily follow that it can also take over a better competitor of the target for many reasons.

What must be controlling on the part of the company making the takeover is the expected profit of the takeover, both over the short and the longer-term, and which should be higher than the cost of capital or operating cost in order to justify the takeover. It can be concluded that BK may be less profitable and less efficient than its competitor MCD may, but if the profitability of BK could improve the profitability and efficiency of both the acquired and the acquired company combined together after the takeover, there is still justification to continue the takeover of BK.

References:

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