

# Backyard burgers



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The Back Yard Burgers operates and franchises fast food restaurants across the United States. It has its headquarters in Memphis, Tennessee. The fast food chain is famous for its charbroiled freshly prepared gourmet hamburgers and sandwiches. The chain has 183 outlets, 44 of which are company-operated and 139 are franchisees. Since its inception in the year 1987 the company has expanded considerably following a well defined marketing and operating strategy. The fast-food industry has also witnessed a gradual change over the years and the emerging market trend has enormous potential to tap.

The rising competition and changing demographics in this industry has presented new challenges to the existing companies. What are the forces that will drive the market demand and how effectively can the companies adapt themselves to these changing forces are some of the questions that need to be analyzed in a broad perspective. The paper analyzes the existing strategy and brand positioning of the Back Yard Burgers – the emerging market trends and the capability of the company to adapt to these changing forces.

The paper also recommends changes in the company's operational and marketing strategy to face these challenges in the coming years and establish a strong market presence.

## **Introduction**

The fast-food industry Home cooked food has rapidly given way to over the counter fast food service appealing to the taste buds of the masses. This change in food culture was fuelled by a number of factors that made a huge impact on the American lifestyle. The rising number of women joining the

workforce leaving them with lesser time to spend in the kitchen and cook for their families is seen as the predominant factor.

A number of companies and brands came to the forefront to tap this extensive revenue-generating business. Well, known brands like McDonald's, Wendy's and Burger King have been widely recognized by the consumers. The success model was adopted extensively to generate more outlets over the country and build a global presence. The past four decades have witnessed enormous growth in the fast food industry in the United States. Small stalls and outlets selling homemade burgers and hotdogs have invaded every nook and corner of the country.

Most of the fast food outlets offer hamburgers, pizzas, sandwiches, and other snack items with accompaniments like French fries, soups, beverages, and desserts. Fast and efficient customer service, effective management, and aggressive marketing strategy drive the profitability of companies in this industry. The industry has propelled chains of restaurant outlets across the nation with universal brand positioning strategies. The franchise concept has seen wide acceptance in this business arena. This business requires voluminous processing of ready to eat food items, packaging, and delivery at a fast pace.

Hence fast and efficient customer service is of prime importance. Another distinctive feature of this industry is the location of these outlets - supermarkets, railway stations, airports, petrol pumps, and other high traffic areas.

## **Back Yard Burgers – An Introduction**

Lattimore M. Michael founded the Back Yard Burgers in the year 1987 in Cleveland, Mississippi. He started as a grocery store owner and extended his business to providing delicious homemade burgers that became quite famous in the area.

Aided with a bank loan and family investment Michael opened the first double drive-through restaurant on March 21st, 1987 in Cleveland, Mississippi. This outlet offered a charbroiled Black Angus beef burger dressed in lettuce, tomatoes, red onions, pickles, mayonnaise, mustard, and ketchup. The popularity of this outlet generated franchisee inquiries and a year later in 1988 a franchise store was opened in Greenville, Mississippi. The success of these outlets paved the way for 180 restaurant outlets across 20 states by the year 2007.

“ To deliver the highest quality service and best-tasting food in a clean environment for a fair price” states the mission of the fast food restaurant chain. Quality food, exceptional service, and clean dining environment are the key ingredients to the success of Back Yard Burgers. After all, it is only great food and good service that will keep customers returning for more. The fast food chain continued to do big business till the mid 90s recording sales of \$17. 2 million and a net profit of \$682, 000 in 1994. The consecutive years witnessed a gradual decline in sales and profit margins.

What went wrong and how could this situation be redressed? The study reflects the company strategy and policies adopted over the years, the issues and shortcomings faced by the company and its remedial measures.

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## **Back Yard Burgers – The Business Model**

The Back Yard Burgers has 183 outlets of which 44 are company-operated and 139 are franchisees. The principal source of revenue for the company is from company-operated restaurant sales, franchisee fees, area development fees, and royalty fees paid by the franchisees. 84.9% of revenue is accounted to direct restaurant sales and 10.

8% to royalty fees from the franchisees. Royalty and advertising fee revenue is calculated on the sales amount reported by the franchisees on a weekly basis. The franchise fee is realized when the company has assisted the setting up of the franchisee in terms of training, site location, equipment, structural design and operating guidance. The area development fee is applicable when a franchisee has been given the right to develop, own, and operate additional units of Black Yard Burgers outlets in certain geographical areas.

Other revenue items include the sale of proprietary food products to franchisees and payment from other vendors on volume purchases from the franchisees. The company's operating strategy endorses a diverse menu that is not only fresh but also competitive with other food chains in terms of quality and pricing. The company also emphasizes the restaurant design having a single drive-thru concept in integration with an indoor dining area. Training and supervision of franchisee and company-operated restaurant staff are given due priority to meet the goals of prompt, friendly, and efficient customer service.

**Growth strategy model**

The company growth strategy focuses on increasing sales through good quality food and efficient service. Addition of dining rooms to create a pleasing ambience and a memorable dining experience, opening of more franchised outlets along with increasing number of company operated restaurants are synonymous to increased sales and revenue. Back Yard Burgers started with a small double drive through outlet catering to 120 to 140 cars per hour generating sales of \$600 per hour at peak times.

The concept was widely popular and within a year the company saw growth in number of outlets using the franchisee model. The success of the franchisee model was mainly due to the low startup cost and seen as an attractive investment option. The setting up of a franchisee on leased land and a building structure required an investment of \$260, 000 to \$400, 000 as compared \$1 million investment for franchisee of other reputed fast food brands. Back Yard Burgers maintain a dedicated staff for training and assisting the opening of new franchisees and supervising the franchisee operations.

The team helps in monitoring and assessing the quality of food being served, cleanliness of the restaurant, and the service efficiency. They ensure strict adherence to company guidelines and policies. The team sends a report to the franchisees with their observations and in case of any lapses in any area the suggestions to overcome these shortcomings are also given. This strategy keeps the company updated with all facts and ensures an overall supervision over all its franchisees. The company enters into a 10-year agreement with the franchisees that is renewable for a fee of \$500.

The key to success in the franchisee model is uniformity. The uniformity of outlets in terms of design, color-coding, logo, style, menu, and quality is extremely important. Customers are drawn to known brands and the uniformity of the outlets assures them of the brand and quality of service. The franchisee strategy spells success and but with ever changing market trends and rising competition managing this strategy is getting tougher.

### **Market Competition**

Back Yard Burgers faces stiff competition from three major brands that have gained acceptance and popularity among the masses.

Burger King, McDonald's, and Wendy's are the biggest competitors that Back Yard Burgers has to face today. The global recognition of the McDonald's brand and its universal presence makes it one of the biggest challenges that Back Yard Burgers face. The visibility of the McDonald's has spread to such an extent that even toddlers recognize Ronald McDonald. The success of McDonald's encouraged others to tap this huge market in the fast food industry. This saw a rise in number of fast food outlets in the country.

Wendy's and Burger King are also growing brand names that have given stiff competition to fast food giants like McDonald's. Their success is attributed to their marketing strategy that involves deep market penetration and brand recognition among children and adolescent who form a large chunk of the consumer base. Back Yard Burgers face stiff competition from supermarkets and convenience stores too that offer the consumers take out meals and discount stores like Wal-Mart too pose a challenge to the company. The home delivery system introduced by companies like Dominos is also eating away the market share of the company.

So what are competitive forces that the Back Yard Burgers face?

- The brand popularity and image recognition of the McDonald's trademark logo and character in the form of Ronald McDonald that has become iconic in the fast food industry.
- The training of personnel in the hamburger industry given by McDonald's that has provided a new career avenue for the youngsters.
- The innovation in the menu and product offerings by Wendy's targeting the matured consumer base.
- The penetration of market segments by Pizza Hut, Dominos, cafeterias, and coffee joints.
- The introduction of home delivery system of pizzas by Dominos.
- The option available to the consumers with take-away meals from convenience stores.
- The widespread openings of discount stores like Wal-Mart. These are some of the major competitive challenges faced by the company. A look into the strategies of big brands like McDonald and Wendy's highlights the importance of branding. It is the force of a strong brand presence that drives the consumer taste and preference. Brands create a consumer expectation with their consistency and uniformity of service and quality.

Strong brand awareness correlates with loyal consumer base and increased revenues in the fast food industry. An effective strategy to achieve this goal is the company logo that portrays the company's image in the consumer's minds. In the initial stages Back Yard Burger had managed to capture the consumer interest with its homemade burgers and sandwiches. Consumers



came back for more of the great taste and quality of food being served to them. As part of its expansion strategy, Back Yard Burgers had entered into a Development Agreement with the YUM! Brands Inc., for sub-licensing of the Back Yard Burgers concept and trademarks in the year 2002. YUM! Brands were given the right to open ten Back Yard Burgers outlet as part of multi-brand units with Taco Bell, Pizza Hut, and KFC. But this agreement fell through and further discussions were terminated. Lattimore M. Michael, Chairman of the Board and Chief Executive Officer of Back Yard Burgers, had stated on this development, " While we are disappointed with today's developments, we are optimistic about the future of the segment of the quick-serve restaurant industry that seeks to provide premium food and service.

We will continue to focus on our principal growth strategy of setting our restaurants apart from other fast-food competition by serving freshly prepared, great-tasting food comparable to that of the best full-service casual dining restaurants. " SWOT Analysis An elementary step to analyze the company's strategies and policies is to assess the strengths, weaknesses, opportunities, and threats that are faced by the company. A SWOT analysis can provide the framework for identifying and analyzing the company's opportunities and future course of action to achieve the marketing goals.

The strengths, weakness, opportunities, and threats for Back Yard Burgers are identified in the subsequent paragraphs.

**Strengths**

- Home cooked quality of hamburgers and other products offered on the menu that the consumers feel worth the money to pay for.
- Cleanliness of the restaurant premises and fast efficient service by the staff.
- Rapid expansion strategy using the franchisee concept to tap the regional markets.
- Strict control of the over the franchisee operations and management right from the site selection to establishment and starting up of the restaurants.
- Well-trained and experienced staff committed to training and assisting the franchisees as part of the company franchise program.
- Black Angus Beef Burgers charbroiled and grilled to perfection with variety of toppings is one of the USPs of the company.

**Weakness**

- Declining market share with other big brands playing a dominant role.
- Weak brand positioning and brand awareness
- Low control over franchisees at later stages of operation
- Slow growth of revenue

**Opportunities**

- Brand development and brand positioning – creating awareness among the consumers
- Tapping the overseas market
- Promoting healthy alternatives to attract the health-conscious segment of the consumer base.

**Threats**

- Competition from big brands and other upcoming eateries and joints

- Growing awareness of the consumers to healthy eating habits
- Advertising and Promotion Strategy
- Since the inception of the company's first outlet in Cleveland, Mississippi in the year 1987, Back Yard Burgers depended mostly on the word of mouth publicity to spread awareness and promote its home-cooked burgers.

New outlets that opened in the subsequent years expanded not only the company's consumer base and revenue but also stressed the need for aggressive marketing strategy to sustain the increased cost of operations. Back Yard Burgers started advertising on television in the year 1993. The initial advertising campaigns were titled " the great burger wars" that took a punch at the competitors. In June 1994 the company launched a series of campaigns that featured Dennis R. Phillipi, a popular comedian in Memphis who soon became famous as Dennis the " Back Yard Burgers Guy".

The commercials projected the burgers as bigger, tastier, and healthier than those offered by the competitors due to its grilled cooking method that melted most of the fat. The advertising campaigns were effective in increasing sales and raising the revenue by 10 to 15%. Launch of new products and subsequent commercials on the television featuring Dennis Phillipi was an effective strategy. The company used the audio of these commercials in radio advertising that was cheaper. In addition the company also used direct mail advertising.

The company collects 1% of taxable sales from each franchisee and company-operated restaurants that goes to the national advertising fund. 50% of this fund is utilized for marketing promos through various channels

like radio, television, and print media. The rest 50% is used for market research, new product testing, and development, improvising on the operational front. The company's marketing director monitors product launch and new restaurant opening promotions and marketing managers with a well-trained staff.

The management works in collaboration with the franchisees towards advertising and promotion of its restaurants. The advertising fee earned by the company increased from \$314, 000 in July 1, 2006 period to \$318, 000 in June 30, 2007 period. The \$4000 increase over the earlier period is accounted to the 1% of sales that goes to the national advertising fund as per company policies. The company also recorded an increase in the advertising expense from \$668, 000 in July 1, 2006 to \$814, 000 in June 30, 2007 that attributes to approximately 5% of the net restaurant sales on advertising in the past year (see annexure for the comparative income statements). The company has been stressing on the advertising and promotion strategy but it has not been very effective. There are some important points that can be highlighted in this respect. The company has not been able to create brand loyalty and brand awareness in spite of good quality products and effective marketing strategy. This could be attributed to low brand visibility. This can be remedied with aggressive market campaigns that aim at the younger generation since this is the biggest consumer segment for the fast food industry.

Strategies that aim for deeper market penetration, fun logo that people can relate to enjoyable food and moments are essential for brand positioning. "Fun logo" is a concept that the consumers can equate with good times. The

simple logo of McDonald's is easily identifiable and children and youngsters can spot it from a distance – this is one of the best examples of effective brand positioning.

- The other concept that the Back Yard Burgers can adopt is the use of bright color-coding for their outlets and the signboards. A bright color scheme attracts the younger generation and gives it an inviting look. The uniformity in look and feel of the franchisee restaurants and the other company-operated restaurant is essential to make an easily identifiable picture in the consumer minds.
- In running a successful brand promotion campaign the essential point is to identify the consumer segment. Who are the consumers and the target focus group for this chain of restaurants? The children and adolescents who form a major chunk of the consumer group typically favour the fast food industry. The working people segment is another segment that will stop by for fast and filling food in their office hours. Fast service food is ideal meal for this segment. Campaigns attracting these two segments will create brand awareness and spell higher revenues for the company.
- Last but not the least the quality of food and service efficiency is the crux of the fast food industry. A good and satisfying meal will have the consumers returning for more. The satisfied and happy customer will not only promote brand loyalty but will have high recommendations regarding the food and service to their friends and families.

This is the greatest form of publicity that a fast food outlet can expect. External factors affecting the fast food industry There are a number of

external factors that have a deep impact on the sales and revenue earnings of the fast food chains. The changing demographics, shift in consumer taste and preference, eating habits, increase in cost of supplies and labor, economic condition of the geographical area in which the outlets are located – all these are some of the factors that affect the profitability of the business.

### **Pricing strategy**

Families and individuals in the higher income group are most frequent visitors to the fast food restaurant. The disposable income plays an important role in determining consumerism in this sector. The prices on the menu card is not so important when it comes to catering to high disposable income group. But that restricts the customer base and may not be an ideal situation for the company. Today's lifestyle has incorporated the fast food industry into its daily schedule. The Wendy's or the McDonald's have menu cards that suit the pocket of the low-income segment group too.

Recently McDonald's had introduced the Dollar Menu where all items cost \$1 only. It was a runaway hit with the teenagers and youngsters. The variance in price has enabled McDonald's to attract customers from all segments. In response to this pricing strategy Wendy's and Burger King also introduced low priced meals to suit the pocket of all segments. Back Yard Burgers on the other hand have higher priced burgers at \$3. 59. The premium-priced menu card has not found acceptance with all consumer segments but the management does not want to compromise on the price of the products.

It believes that in terms of quality of the food items the prices are reasonable. Back Yard Burgers wanted to distinguish itself from the cutthroat competition in the industry with premium quality products. The management

strategy holds good in terms of quality and service but is it good enough for the survival of the company? A look at the sales figures for the past 3 years gives an indication of the sales and revenue trend.

### **Consumer taste and preference**

The ever changing taste buds and increasing changes in lifestyle of the consumer has kept the fast food industry on their toes.

Rising mobility, increasing number of women joining the workforce and hectic schedules leave very little time for a home cooked meal. The need for faster options in food and service was felt that led to the tremendous growth in the fast food industry. Quick serve burgers, pizzas and sandwiches accompanied by French fries and coke became the ideal meal for the average Americans. A diet rich in fat and sugar attracted the consumers in plenty. This resulted in obesity and a disease prone society. Diabetes, heart problems were some of the impacts that the cheesy diet had on the consumers.

Lawsuits were filed against some major players in this field like McDonalds for the growing obesity among children and adolescents. This awakened the consumers of fast food and they realized the necessity for healthy alternatives. Health conscious consumers are more alert of what they eat and how it can affect them. The industry witnessed a radical change in consumer taste and preference. This brought about a sharp decline in revenues for the fast food industry. The fast food chain operators brought about a change in their strategy by adding salads, fruits, and soups to the menu cards.

Low calorie burgers and sandwiches are offered in addition to the regular menu items. This offers the customers with choice to healthier meal options. Back Yard Burgers has also adapted to the changing consumer preference by adding nutritious salads and milkshakes to their menu card. Introduction of grilled charbroiled burgers that claim lesser fat and lower calories have attracted the consumer interest and taste. Healthier and tastier alternatives in food items prepared with fresh ingredients are the strategic point of Back Yard Burger's customer service.

This has not only earned it a good reputation among the loyal consumers who return for more of the great quality food and taste but has also strengthened its market position. But the fast-food industry cannot ensure consumer loyalty since the interest of consumers is flickering. They always want to try something new and a better variety of options in food that they consume. To serve the changing tastes of the consumer and maintain their interest the restaurant needs to constantly make changes to its menu card by adapting to their taste buds.

Back Yard Burgers should keep this mind while formulating their operating strategy. With more fast food companies offering a wide range of products and services, Back Yard Burgers should also draft changes to its existing operating structure. One way of achieving this objective would be to combine the essential features of both fast food and full-service restaurants. A menu card that features in a regular full-service restaurant integrated with fast food service will work wonders for the company - boosting sales and revenue with an increasing consumer base.



Event catering and home delivery service could also open newer avenues for the company. **Manpower Issues** The fast food industry is a labor driven sector. It has an extensive requirement of manpower to serve the increasing flow of consumer traffic at the outlets. Skilled labor with fast pace of work is the basic requirement for this job. It is mostly youngsters who are eligible for this job but it can be stressful and at times hazardous. This industry requirement for long hours of duty, on the toe at all times, and attentive to the needs of the customer is quite an uphill task.

There is no doubt that the emergence and growth of this industry sector has solved the unemployment problem to a great extent. Many youngsters have found a living in this industry but the pay packages earlier were not very attractive. The pay scales have no doubt improved now but the work conditions remain almost the same. The Back Yard Burgers currently employ over 10, 000 people throughout their chain of restaurants. Each restaurant employs around 25 employees, of which some are part-timers. A company-operated restaurant has a unit supervisor and two co-unit supervisors.

Each unit supervisor reports to the district manager. A district manager has about five to eight restaurants in their supervision. Their role constitutes of keeping tabs on all aspects of operations and management of the restaurants in their jurisdiction. Each of these district managers' report to the Director of Operations. The company endorses strict training and personnel development strategy. All personnel have to go through a personnel-training program on fast friendly and efficient customer service, restaurant cleanliness, and proper management of day-to-day operations.

The employees have to go through classroom sessions that brief them about aspects of food safety, sanitation, laws, and regulations related to the food industry and operational aspects of restaurant. The company envisages labor to be a critical factor in the coming years since the opportunities have increased manifolds. The demand for skilled labor is rising and this will lead to higher wages and compensation packages. Managing and retaining quality workforce in this industry will be a little difficult task and the key to effective manpower management is to keep the employees happy and satisfied with their jobs.

**Financial Analysis** The Back Yard Burgers has 183 restaurants – 44 company-operated and 139 franchisees as on June 30, 2007. The sales figures indicate total revenue of \$12, 610, 000 as compared to last year sales figure of \$11, 695, 000. Restaurant sales accounted for \$10, 688, 000 that is a 10. 3% increase from last year figures of \$9, 686, 000. Out of this 10. 3% increase of revenue, 6. 8% is attributed to the addition of two new company-operated restaurants till Jun 30, 2007 since July 1, 2006. The remaining 3. 5% increase in the revenue from restaurant sales is from the existing restaurants.

**Statement of income for the period July 1, 2006 to June 30, 2007** The statement of income shows a net income of \$209, 000 only for the current year as compared to \$576, 000 in the previous year. An increase in the general and administrative expenses and increased advertising expenditure accounts for the lower net income of the company. The annual turnover of the company in the year 2006 was \$44, 710, 000 as compared to \$41, 000, 000 in the year 2005. The company reported a 9% annual growth in sales.