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Burger chains battle to lead the pack

Top three burger QSRs fight for market share with new menu items

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If you drove into a McDonald's restaurant 10 or 15 years ago, you undoubtedly would have been greeted with a bright red-and-yellow sign boasting that the chain had served billions and billions of burgers around the globe.

These days, however, those signs are not quite so ubiquitous, as McDonald's menu focus has shifted away from being a burger-centric business to one featuring a broader, more quality-conscious array of products appealing to a wider audience.

That also has been the case with McDonald's archrivals, Burger King and Wendy's. As the three brands battle competition from inside and outside the quick-service segment, the once-unassailable "keep it simple" mantra that governed fast-food places for so long has morphed into a more ambitious approach to menu development.

This new mission to diversify offerings, however, is not just a matter of rolling out new items haphazardly.

Menu moves at quick service's big-three burger chains seem to touch on two different strategies that encompass both breakthrough platforms — think McCafé — and lesser line extensions or limited-time-only products.

And while the quick-service trio is playing the same game, McDonald's is just further along the continuum in which steady menu improvements lead to new platforms, experts say. As a result, McDonald's can drive incremental sales dramatically through limited-time offers and smaller introductions, while rivals race to bring their menus up to speed.

McDonald's recently indicated to investors that the brand would bolster its menu next year via some new flavors and extensions of popular product lines, but no new platforms the caliber of the sales-driving McCafé beverages are expected, officials said.

Burger King and Wendy's, however, appear to be going for broke with menu rollouts. Both brands recently introduced premium hamburgers — presumably in part to compete with the Angus Third Pounder that McDonald's launched two years ago — and are working to upgrade desserts, beverages, side items and breakfast menus.

Always bet on both

Industry watchers said restaurants always must focus menu research and development on both incremental improvements and the next breakthrough product, because brands that embrace both strategies as being complementary and not mutually exclusive tend to succeed.

"As we speak, McDonald's has done revolutionary things with their beverages and evolutionary things with their Happy Meals," said Gary Stibel, founder and chief executive of New England Consulting Group.

He referred to McDonald's McCafé beverages and the brand's more healthful repositioning of the Happy Meal — the kids' meals now have smaller servings of French fries and include apple slices and milk — as an example of going big and going small simultaneously.

Menu trends expert Nancy Kruse, founder of The Kruse Co. in Atlanta, also doesn't see menu innovation as an either/or prospect, maintaining that even big platforms at McDonald's, like McCafé or Angus burgers, represent gradual improvement rather than dramatic leaps forward.

"They're really creating new menu items along three pillars: premium, freshness and freshly made, and then flavor accents," Kruse said. "They've been evolving in a very safe way while hitting a lot of consumer hot buttons."

Dennis Lombardi, executive vice president of Columbus, Ohio-based WD Partners, agreed, saying Burger King and Wendy's, or any other restaurant brand, could turn around sluggish sales by emulating McDonald's approach. Using a baseball analogy, Lombardi characterized that strategy not as swinging for the fences with every product, but loading the bases and scoring runs with solid hits.

"Singles and doubles are probably going to be the route out [of the doldrums]," Lombardi said.

"McDonald's improvements just to its brewed coffee — which are several years old — think about what that did, over and above increasing coffee sales. Now, you see lots of McDonald's coffee cups among all these morning commuters. It improved the profitability of that line, and it defended their breakfast daypart. More importantly, it gave them license and consumer credibility to do the specialty drinks."

Constant change

McDonald's grew U.S. same-store sales 2.6 percent in fiscal 2009 and 3.8 percent in fiscal 2010 by improving upon McCafé and Angus Third Pounders — launched in May and July 2009, respectively — through extensions like Frappés and Real Fruit Smoothies or Angus Snack Wraps, said chief executive Jim Skinner.

"McDonald's doesn't have the luxury of picking one thing that can enhance the customer's experience and riding that horse," Skinner told Nation's Restaurant News last year. "We have to have all of those things be done, because to be able to grow this system incrementally through our 32,000 restaurants in 117 countries, you have to have a lot of things going well for you."

Same-store sales are running even higher this year, officials said during a third-quarter conference call, not because McDonald's has dropped another breakthrough platform, but because it keeps improving its existing lineup, via items like Fruit & Maple Oatmeal in January or the Chipotle BBQ Bacon variety that rolled out to the Angus lineup this spring. McCafé welcomed Frozen Strawberry Lemonade this past May and the Mango Pineapple Real Fruit Smoothie in June.

"We're at a 4-percent comp through the first nine months with a combination of line extensions and limited-time offerings, from the introduction of oatmeal to the BBQ Bacon flavor of Angus [Third Pounders] or the Asian Salad [limited-time offer] and new beverages," said chief financial officer Pete Bensen. "As we review the 2012 calendar for the U.S., it feels like a similar year to 2011."

For its most recent third quarter, in which it drove a 4.4-percent increase in U.S. same-store sales, McDonald's pointed to a mix of old and relatively new menu items contributing to results, with the Egg McMuffin and Chicken McNuggets driving sales alongside McCafé beverages and Fruit & Maple Oatmeal.

The Nov. 7 introduction of McCafé Peppermint Mocha and McCafé Peppermint Hot Chocolate marked the beginning of the chain's seasonal strategy around that platform. A repeat of the nationwide McRib offering also took place throughout November.

Taking on all comers

The impressive thing about McDonald's menu innovation over the past several years, said Bonnie Riggs, restaurant analyst with The NPD Group, is that the chain's recent new platforms not only drove incremental traffic and sales, but also protected the brand's flank from competitors outside quick service, like Five Guys Burgers and Fries.

"I'm sure McDonald's looked at the better-burger segment in fast casual, and that's why they introduced the Angus burger," Riggs said. "When they introduced McCafé, it didn't really steal share from the coffee category; it broadened the market. McDonald's customers who'd never tried specialty beverages tried them at the lower prices. They've also hit the breakfast and snack dayparts, where all the growth is."

Riggs predicted that, with high beef costs sparking more inventiveness around chicken products, McDonald's soon would have a new poultry-related item in its arsenal. An online story from Crain's Chicago Business last month speculated that the brand's McBites popcorn chicken product, imported from its Australian system and tested in the Detroit market, would debut systemwide next spring for a limited time.

Stibel of the New England Consulting Group added that expanding into new menu categories not only improves McDonald's food portfolio, but also reinforces the chain's ongoing evolution in decor.

"So much of what you experience in a restaurant is about attitude, and McDonald's is reinventing itself around that," Stibel said. "Thirty years ago, if I said McDonald's is going to compete with a brand like Starbucks, you'd have said, 'Whose dumb idea is that?'"

Reinventing the meal

While McDonald's steadily grew sales through the recession and slow recovery, Burger King and Wendy's struggled to find their way.

Since 3G Capital took Burger King private and brought in chief executive Bernardo Hees and North American president Steve Wiborg in October 2010, the Miami-based chain has battled falling sales and traffic and has overhauled everything from its menu to its marketing.

"Burger King had a lead in terms of [sales to] men and in indulgence, and they had a lead in product superiority, but they let a lot get in the way," Stibel said. "They got too cute for their own good. They had the Whopper, and [now] they're not promoting it effectively."

Most recently, the chain has rolled out several new platforms, including the premium Chef's Choice Burger Oct. 24 and a soft-serve menu Sept. 19, as well as oatmeal at breakfast Aug. 24. Also in August, Burger King announced that it was testing an overhauled menu that included items successful for McDonald's: fruit smoothies, specialty coffees, low-fat parfaits and salads.

Burger King's new marketing campaign departed from its advertisements with Crispin Porter + Bogusky, which featured the brand's somewhat polarizing mascot, The King. New ads debuted in mid-August and were quality-focused commercials heavy on images of the California Whopper, a sandwich with more premium touches, like guacamole.

'Old-fashioned' no more

Wendy's also went big and got back to basics this year, first by completing the sale of Arby's Restaurant Group to Roark Capital Group in July.

In addition, Wendy's rolled out new advertising this year to promote its rebooted burger, Dave's Hot 'N Juicy Cheeseburger. The commercials represented another return to form, starring Wendy Thomas, the chain's namesake and daughter of founder Dave Thomas.

Like McDonald's, Wendy's has embarked upon a reimagining program, testing 10 prototypes from four designs in five markets throughout 2011, including a Canadian location opened Oct. 27 in Etobicoke, Ontario, where the chain's breakfast menu also is available.

Wendy's 2.3-percent increase in domestic same-store sales in the second quarter was the first such result above flat in more than a year, and Wendy's officials pointed out that new platforms in test contributed in part to those figures. Same-store sales increased between 2 percent and 3 percent above the rest of the system in the five test markets for Dave's Hot 'N Juicy Cheeseburger, officials said.

Sales were trending "well above" those levels during the first five weeks of the premium burger's nationwide rollout to start the fourth quarter, said new chief executive Emil Brolick.

"The thing we feel we've done with the launch of Dave's Hot 'N Juicy is refocusing on core items," Brolick said during the chain's third-quarter earnings call. "What's really gotten us back into the business is selling large hamburgers, chicken sandwiches and salads as a balance with our My 99 value menu. We probably went through a time as a brand where that [balance] got a little out of whack."

In August securities analyst Chris O'Cull of SunTrust Robinson Humphrey wrote in a research note that the new burger should increase sales, profit and market share for Wendy's.

Wendy's also reported previously that, after relaunching its French fries as Natural-Cut Fries with Sea Salt last November, sales of French fries rose 17 percent the next month.

Not overly dramatic

Kruse and other industry watchers said Wendy's and Burger King aren't taking huge chances as much as they are paying attention to principles that got them into the game in the first place.

"In both cases, it was a superior product, and they lost sight of that," Kruse said. "It isn't scattershot menu development for the sake of it, but rather, 'Let's go back to what made us successful at the outset.' It's about taking the basic products and bringing them in line with the 21st-century competitive set."

"Wendy's has been on the airwaves nonstop, and the way they present [Dave's Hot 'N Juicy Cheeseburger], you just want to try it," NPD's Riggs said. "With the new owners at Burger King, I'd expect to see major changes, and getting rid of The King is a start, because they felt like their focus was too narrow and now are trying to broaden their appeal."

Franchisee buy-in

New menu items also must appeal to franchisees, WD's Lombardi said, both in terms of sales potential and operational feasibility. Mature brands like McDonald's, Burger King and Wendy's increase shareholder value not by opening more stores but by generating more money per store via the menu, he said.

For instance, he said, McDonald's could create significant shareholder value simply by finding a way to ring up \$150 more per day at each store. Driving incremental sales of \$150 per day, multiplied by 365 days and by approximately 14,000 domestic McDonald's locations, would yield \$766.5 million in extra revenue, Lombardi said. That figure, divided by an average unit volume that Lombardi estimated to be \$2.3 million, means that McDonald's could achieve the same incremental revenues of 333 new stores just by conjuring up \$150 more per day from the menu at its existing units.

"It also applies for Wendy's and Burger King," Lombardi said. "If Wendy's found a way to add \$150 a day and had a 40-percent flow-through to its franchisees, that's a substantial benefit to operators, who would become that much more enthusiastic for the brand."

In fact, Wendy's reported in its second-quarter earnings call that its test of breakfast, in place in 1,000 units in seven markets by year-end, was achieving its goal of adding \$150,000 in annual sales to its average unit volume of \$1.4 million. The company also is trying to get franchisee buy-in for the test of breakfast by giving royalty abatements to early adopters of the breakfast menu and providing loan guarantees for the \$25,000 equipment package.

"That's the advantage of hitting singles and doubles consistently," Lombardi said. "That's how you get franchisees embracing new ideas, instead of them saying, 'Prove it to me.'"

Contact Mark Brandau at mark.brandau@penton.com.

Follow him on Twitter @Mark_from_NRN.

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