

Business Model

Burger King was the second-largest fast-food hamburger restaurant chain in the world as measured by the total number of restaurants and systemwide sales. As of June 30, 2010, the company owned or franchised 12,174 restaurants in 76 countries and U.S. territories, of which 1,387 were company-owned and 10,787 were owned by franchisees. Of Burger King's restaurant total, 7,258 or 60% were located in the United States. The restaurants featured flame-broiled hamburgers, chicken and other specialty sandwiches, French fries, soft drinks and other low-priced food items.

According to management, the company generated revenues from three sources: (1) retail sales at company-owned restaurants; (2) royalty payments on sales and franchise fees paid by franchisees; and (3) property income from restaurants leased to franchisees. Approximately 90% of Burger King restaurants were franchised, a higher percentage than other competitors in the fast-food hamburger category. Although such a high percentage of franchisees meant lower capital requirements compared to competitors, it also meant that management had limited control over franchisees. Franchisees in the United States and Canada paid an average of 3.9% of sales to the company in 2010. In addition, these franchisees contributed 4% of gross sales per month to the advertising fund. Franchisees were required to purchase food, packaging, and equipment from company-approved suppliers.

Restaurant Services Inc. (RSI) was a purchasing cooperative formed in 1992 to act as purchasing agent for the Burger King system in the United States. As of June 30, 2010, RSI was the distribution manager for 94% of the company's U.S. restaurants, with four distributors servicing approximately 85% of the U.S. system. Burger King had long-term exclusive contracts with Coca-Cola and with Dr Pepper/7UP to purchase soft drinks for its restaurants.

Management touted its business strategy as growing the brand, running great restaurants investing wisely, and focusing on its people. Specifically, management planned to accelerate growth between 2010 and 2015 so that international restaurants would comprise 50% of the total number. The focus in international expansion was to be in (1) countries with growth potential where Burger King was already established, such as Spain, Brazil, and Turkey; (2) countries with potential where the firm had a small presence, such as Argentina, Colombia, China, Japan, Indonesia, and Italy; and (3) attractive new markets in the Middle East, Eastern Europe, and Asia.

Management was also working to update the restaurants by implementing its new 20/20 design and complementary Whopper Bar design introduced in 2008. By 2010, more than 200 Burger King restaurants had adopted the new 20/20 design that evoked the industrial look of corrugated metal, brick, wood, and concrete. The new design was to be introduced in 95 company-owned restaurants during fiscal 2011.

Management was using a "barbell" menu strategy to introduce new products at both the premium and low-priced ends of the product continuum. As part of this strategy, the company introduced in 2010 the premium Steakhouse XT burger line and BK Fire-Grilled Ribs, the first bone-in pork ribs sold at a national fast-food hamburger restaurant chain. At the other end of the menu, the company introduced in 2010 the quarter-pound Double Cheeseburger, the Butter Double, and the US\$1 BK Breakfast Muffin Sandwich.

Management continued to look for ways to reduce costs and boost efficiency. By June 30, 2010, point-of-sale cash register systems had been installed in all company-owned restaurants and in 57% of its franchise-owned restaurants. It had also installed a flexible batch broiler to maximize cooking flexibility and facilitate a broader menu selection while reducing energy costs. By June 30, 2010, the flexible broiler was in 89% of company-owned restaurants and 68% of franchise restaurants.

Industry

Issues