

Industry

The fast-food hamburger category operated within the quick service restaurant (QSR) segment of the restaurant industry. QSR sales had grown at an annual rate of 3% over the past 10 years and were projected to continue increasing at 3% from 2010 to 2015. The fast-food hamburger restaurant (FFHR) category represented 27% of total QSR sales. FFHR sales were projected to grow 5% annually during this same time period. Burger King accounted for around 14% of total FFHR sales in the United States.

The company competed against market-leading McDonald's, Wendy's, and Hardee's restaurants in this category and against regional competitors, such as Carl's Jr., Jack in the Box, and Sonic. It also competed indirectly against a multitude of competitors in the QSR restaurant segment, including Taco Bell, Arby's, and KFC, among others. As the North American market became saturated, mergers occurred. For example, Taco Bell, KFC, and Pizza Hut became part of Yum! Brands. Wendy's and Arby's merged in 2008. Although the restaurant industry as a whole had few barriers to entry, marketing and operating economies of scale made it difficult for a new entrant to challenge established U.S. chains in the FFHR category.

The quick-service restaurant market segment appeared to be less vulnerable to a recession than other businesses. For example, during the quarter ended May 2010, both QSR and FFHR sales decreased 0.5%, compared to a 3% decline at both casual dining chains and family dining chains. The U.S. restaurant category as a whole declined 1% during the same time period.

America's increasing concern with health and fitness was putting pressure on restaurants to offer healthier menu items. Given its emphasis on fried food and saturated fat, the quick service restaurant market segment was an obvious target for likely legislation. For example, Burger King's recently introduced Pizza Burger was a 2,530-calorie item that included four hamburger patties, pepperoni, mozzarella, and Tuscan sauce on a sesame seed bun. Although the Pizza Burger may be the largest hamburger produced by a fast-food chain, the foot-long cheeseburgers of Hardee's and Carl's Jr. were similar entries. A health reform bill passed by the U.S. Congress in 2010 required restaurant chains with 20 or more outlets to list the calorie content of menu items. A study by the National Bureau of Economic Research found that a similar posting law in New York City caused the average calorie count per transaction to fall 6%, and revenue increased 3% at Starbucks stores where a Dunkin Donuts outlet was nearby. One county in California attempted to ban McDonald's from including toys in its high-calorie "Happy Meal" because legislators believed that toys attracted children to unhealthy food.

Issues

Even though Burger King was the second-largest hamburger chain in the world, it lagged far behind McDonald's, which had a total of 32,466 restaurants worldwide. McDonald's averaged about twice the sales volume per U.S. restaurant and was more profitable than Burger King. McDonald's was respected as a well-managed company. During fiscal year 2009 (ending December 31), McDonald's earned US\$4.6 billion on revenues of US\$22.7 billion. Although its total revenues had dropped from US\$23.5 billion in 2008, net income had actually increased from US\$4.3 billion in 2008. In contrast to most corporations, McDonald's common stock price had risen during the 2008–2010 recession, reaching an all-time high in August 2010.

In contrast, Burger King was perceived by industry analysts as having significant problems. As a result, Burger King's share price had fallen by half from 2008 to 2010. During fiscal year 2010 (ending June 30), Burger King earned US\$186.8 million on revenues of US\$2.50 billion. Although its total revenues had dropped only slightly from US\$2.54 billion in fiscal 2009 and increased from US\$2.45 billion in 2008, net income fell from