HOW A BURGER KING FRANCHISE CAN SUCCEED IN A COMPETITIVE FAST FOOD INDUSTRY: A CASE STUDY

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In a 2017 annual review of two Burger King locations, franchise owners discovered that their two prominent establishments were struggling in terms of growth and competitiveness. Although located in short proximity to young consumers, i.e., college and high-school students, the owners realized that these stores competed not only with other fast food brands but also with the growing number of fast casual chains, ethnic cuisine restaurants, and convenience store establishments. They also noticed that their target segment, Millennials, had become more health conscious and exhibited an increasing desire to diversify their palates. As a result, the franchisees struggled to meet Millennials' expectations in terms of their menu items. In addition, they recognized that they had not kept up with innovative technology, such as mobile apps for ordering and delivering fast food items, that had been gradually adopted by competitors. Thus, the owners of the two Burger King locations were faced with two key challenges: (a) how to stay competitive and (b) how to be more attractive to Millennials.

FRANCHISE'S BACKGROUND INFORMATION

The R. & K. J. franchise operated several Burger King establishments in 2017. Figure 1 (see Appendix A) shows what was the business structure of the R. & K. J. franchise. which had two owners; one of them, R. J., was the managing owner. As specified in the diagram, a vice-president was in-charge of the operations, maintenance, and financials of the owned stores. A district manager was the liaison between the vice-president and the regional managers who was directly responsible for the day-to-day operation of the stores in their region. Each store had a store manager who reported to the regional manager. A financial controller, who reported to the vice-president, was in charge of financial operations and was responsible for the payroll and office management.

The R. & K. J. franchise had seen great success with stores located in urban areas; however, it was struggling financially with stores located in suburban areas. Two establishments in particular, Store A and Store B, were a major concern. It became increasingly difficult to attract new customers and to operate at a comfortable profit. The franchisee was struggling to specifically target Millennials, a profitable market to attract, through their advertisements. The owners were at a crossroads, as their agreement with Burger King was expiring, and they had to decide whether to renew their contract or close the two stores.

STORE A AND STORE B: STRENGTHS AND WEAKNESSES

Traffic, Customers, and Competition

Traffic. Both Burger King franchise locations were situated in high-traffic areas. Store A was located on a main route in its town, and Store B was located off Main Street. In this respect, there were many consumers to attract with minimal effort, especially for Store A, whose route saw heavy traffic throughout the day. Many potential customers were already in the area and would not have to travel far to reach the Burger King. However, there were many other restaurants that also took advantage of the ideal location, creating various competitors for the franchise stores.

Despite the stores' ideal locations, store traffic was light. Store A had faced setbacks in recent years (2015–2017); a nearby mall shut down, significantly slowing traffic. The major problem for the store appeared to be a lack of advertising, which made it difficult to find the Burger King. The store's entrance became only more confusing to locate with a large advertisement for Popeye's located within the same building. The drive-thru was also lost with the inconvenience of the parking lot structure. Store B, inversely, saw most of its traffic from the drive-thru. Unfortunately, this meant that the store was left practically vacant, as most customers did not enter the store.

Customers and interior design. In 2017 both Burger King stores were located in suburban areas, making it challenging to attract middle- and upper-middle class customers who preferred healthier meal options. Nevertheless, stores in both areas had the potential to attract younger customers. There was a university and two high schools within less than a 3-mile radius of Store A and over 15 other schools in the area. Store B was located within 2 miles of the town's high school, and there were eight other schools within 3 miles of its location. Thus, both locations had the opportunity to increase customer flow if they focused on targeting Millennials, high school and university students, and employees on lunch breaks. In 2017, according to the Food Institute (www.foodinstitute.com), 44% of Millennials spent their food dollars on eating out, more than did Generation X and Baby Boomers; and, thus, Millennials should have been a prime target for fast food chains. Further, this

percentage was growing each year, as Millennials had seen an increase in annual income. Millennial consumers ate out 10 times per month and visited six different fast food restaurants every 90 days. In the town in which Store A was located, 15% of the population was between the ages of 18 and 34 years, while, in the town in which Store B was located, 6.1% of the population was between the ages of 18 and 24 years, and 21.5% were between 25 and 44 years.

In addition to educational institutions, there were many businesses that surrounded both stores in 2017. For example, Store A was located near two libraries and 14 small businesses. This was a rich target market to tap into. Notably, Millennials' eating-out habits did not include lunchtime. Lunch breaks were becoming fewer for many American workers, with only 1 in 5 workers' eating out during lunch in 2017. Employees were also taking shorter lunch hours, making it more difficult to leave the office for a meal. Unfortunately, neither Burger King franchise store had a means of online ordering to reach these potential consumers, which made it difficult for workers to view Burger King as a meal option during lunch hour.

As can be seen, changes needed to be made to both stores to get potential customers (e.g., Millennials, small business employees) in the door. The menus lacked innovation that would attract Millennials. For example, Store A's promotions included Grilled Dogs, Chili Cheese Dogs, and Bacon Cheeseburgers, which did not meet the needs of Millennials, as they failed to appeal to their concern with healthy food choices. Store A had major interior design issues, as it included only the bare essentials, making the store appear outdated and uninviting. Conversely, Store B had a more modern, welcoming interior; however, the space was not well used, as most customers preferred the drive-thru.

Competition. High competition in both areas was also a concern in 2017. Store A had seven direct competitors within a 2-mile radius that offered healthier options and direct substitutes for Burger King's items. These competitors included Muscle Maker Grill and Hot Bagels & Café, which provided fresher options, and McDonald's and Wendy's, which had dominated the fast food burger industry. There were 10 indirect competitors within a 2- to 8-mile radius, including another Burger King, owned by a different franchisee. This store not only had an ideal location but also was newly renovated and easily accessible, with a comfortable environment. Store B also faced considerable competition; there were nine competitors within a one-mile radius. Even though none was a direct substitute for Burger King, the competitors, including Panera Bread and Subway, offered healthier, more preferred options. There were also two sushi restaurants, providing the ethnic cuisine option. Other competitors included two pizza places and a Bagels & Deli. Such competitors appealed more to consumers, especially Millennials.

Finally, these competitors also had a more inviting atmosphere than did the Burger King franchise stores.

Reviews and Customer Satisfaction

Reviews. The Burger King franchisees should have taken note of their online reviews, as they influenced consumers' choice of restaurants. Millennials especially, who relied on technology more than did previous generations, used customer reviews to guide them where to eat. Store A did not have many online reviews; the 19 on Google, 18 of which were within the past year, scored it a 2.8/5, and the six on Yelp over the past five years gave a 2.5/5. This was acceptable, however, compared to the Popeye's next door, which had six Google reviews within the last year that scored it a 1.6/5. The store also scored higher than did its substitutes, McDonald's and Wendy's, on Yelp; however, it scored lower on Google. It's important to note that McDonald's had far more customer reviews than did Store A, 38 in total over the past seven years, a clear indication that it was more frequented. Further, the Burger King performed terribly, compared to the healthier options of Muscle Maker Grill and Hot Bagels, which scored 4.3/5 and 5/5, respectively, on Google and 3.3/5 and 3.8/5 on Yelp.

Store B performed very poorly in terms of online reviews. Its eight Yelp reviews over the past six years gave it a 2/5, while its 22 Google reviews over the past five years scored it a 2.5/5. This was very low compared to its competitors Panera and Subway, which had a Google score of 3.8/5 over the past five years and 4.6/5 within the last year, respectively. The restaurants in the shopping center next door, a sushi restaurant and a Bagels & Deli, also had high Google review scores, 4.7/5 and 3.7/5, respectively.

Customer satisfaction. Like online reviews, customer satisfaction surveys provide insight into a business's operational performance from the customer's perspective. The American Customer Satisfaction Index for Limited-Service Restaurants placed Burger King at the lower end of the index, with a score of 76. This may seem reasonable, compared to the index benchmark, 79, and the scores of direct competitors, Wendy's at 76 and McDonald's at 69; however, it is poor compared to fast casual competitors Chick-fil-A at 87 and Panera at 81. A customer satisfaction survey was conducted for Store A, with 36 students of a nearby university at which 70% of participants were between the ages of 18 and 30. Unfortunately, participants preferred McDonald's' and Popeye's to Burger King, at 58% and 64%, respectively. Despite the fact that 95% of survey participants stated that they eat fast food in general, 42% had never eaten at Burger King. This is of even greater concern when considering that only 14% of respondents indicated that they had never eaten at McDonald's. Store B was praised for location convenience, flavor, and price in an online survey of 13 participants. Customer

dissatisfaction included food quality and customer service. A survey conducted for Store A made it clear that Millennials preferred healthier food options, as 61% preferred Panera Bread over Popeye's. When asked about fast food consumption on a weekly basis, the results indicated that only 3% ate at McDonald's weekly and 0% ate at Burger King weekly.

Use of Technology

Online and mobile ordering had become an important tool for many foodservice operators, as they considered the use of technology an effective strategy to reach consumers, especially Millennials. With Millennials' purchasing power rising, it became imperative for restaurants to target them via mobile technology. US Internet users viewed online reservation services, free-Wi-Fi and online/mobile ordering as important. Fast food chains needed to incorporate technology, as 34% of participants in a 2016 survey on restaurant technology indicated that they ordered food once per month via smartphone. Restaurant communication and information provided through online means also were features that Millennials valued. Further, discounts and special offers appeared to be a top priority for consumers, as 80% of US restaurant goers would like to receive them, and 49% of Millennials viewed them as among the most important feature of a restaurant's website. Unfortunately, the Burger King franchises did not fare well in this segment. Store A did not offer online promotions, and, although Store B did engage in online advertising, they also used outdated methods, such as newspaper ads and flyers.

Both Burger King franchise locations were lacking in even the simplest technological innovation. Store A had old soda machines and no online ordering services. Store B had no method of mobile payment or online interaction with customers. Making food ordering an easier process should have been a key focus of the Burger King franchisees, as boxed-meal delivery services were expected to become a $3 to $5 billion market within the next decade. These franchise stores even lagged behind other Burger King franchise locations in technology in offering online ordering, use of mobile apps, and more updated technology in-store. The franchisees' other competitors also were far more technologically advanced. Panera Bread adopted mobile apps and online ordering, catering, and delivery systems. McDonald's and Wendy's also had mobile apps and other innovative technology. McDonald's had a nutrition calculator offered on its website, a very useful tool for the health-conscious Millennials.

Stores' Revenues, Costs, and Profits

This Burger King franchise's menu and offerings were not compatible with Millennials' demands. The inability to attract this rich market left the stores suffering financially; the business was barely making its debt payments and lacked liquidity (see Exhibit 1). The debt-to-asset ratio is a measure of the company's

financial leverage (risk), indicating the percentage of assets financed by debt, creditors, and liabilities. This ratio was problematic for Store A, which had debt nearly five times higher than its assets in 2016 and nearly two times higher for the franchise as a whole in the same year. The times interest earned and fixed payment coverage ratios concern the company's ability to make its interest expense and fixed payments. Store A could not afford to make either payment, while Store B and the franchise as a whole were barely making their fixed payments. The franchise as a whole and both stores were in poor financial health, as indicated by the current ratio, which was below 1, which meant that current liabilities exceeded current assets, rendering that the franchisee was unable to convert its assets into cash if necessary to meet its short-term obligations.

EXHIBIT 1:
Debt and Liquidity Ratios of Burger King Franchise, Store A, and Store B

	Ratios	Franchise		Store A		Store B	
		2015	**2016**	**2015**	**2016**	**2015**	**2016**
Debt	Debt to Assets	2.06	2.36	5.79	6.09	5.79	2.54
	Times Interest Earned	1.11	1.25	-1.31	-1.15	2.31	2.01
	Fixed Payment Coverage	0.31	0.27	-0.37	-0.24	0.36	0.40
Liquidity	Current Ratio	0.20	0.61	0.10	0.09	0.10	0.21

Store A saw a 5.57% decrease in revenue between 2015 and 2016. Fortunately, the store was able to decrease the cost of goods sold and reduce expenses during that same period, decreasing net loss by about 37%. However, gross profit still declined by 4.56% from 2015 to 2016 (see Exhibit 2).

Store B was more financially stable than was Store A. Store B managed to increase revenues by 2.63% and decrease the cost of goods sold by 5% between 2015 and 2016, increasing gross profit by 25% (see Exhibit 3). Net profit also increased during this period but only by about 17% due to the high increase in expenses, of about 29%. Most notable was the store's unusually large management fee in 2016. It was difficult, however, to pinpoint the correct allocation of costs and resulting profits. It would have been more accurate to analyze the store based on revenue.

EXHIBIT 2:
Store A Statement of Revenue and Expenses

	2015	**2016**
Revenue	$987,782	$932,765
Cost of Goods Sold	328,516	303,597
Gross Profit	659,266	629,167
Top Expenses		
Wages	216,017	226,429
Rent & Real Estate Taxes	212,685	212,685
Interest Expense	101,271	68,450
Other Expenses	337,342	252,787
Net Profit (Loss)	**$(208,050)**	**$(131,183)**

EXHIBIT 3:
Store B Statement of Revenue and Expenses

	2015	**2016**
Revenue	$1,234,916	$1,267,392
Cost of Goods Sold	934,801	892,028
Gross Profit	300,115	375,363
Top Expenses		
Management Fees	69,500	128,000
Advertising	43,287	52,997
Royalties	46,058	44,127
Other Expenses	47,756	40,426
Net Profit (Loss)	**$93,512**	**$109,812**

The losses of Store A and low profits of Store B barely justified the continued operation and prime locations of both stores. The financial struggle was seen in the company's gross and net profit margins, which represent the percentage of revenue after deducting the cost of goods sold and after deducting all expenses, respectively. They indicate management efficiency and measure how much money is available after accounting for expenses. Each store had its own major problem: Store B had only 28% of revenue after subtracting their cost of goods sold in 2016, while Store A had a negative profit in 2016, and the franchisee had the same revenue as costs in 2016, with a 0% profit margin (see Exhibit 4).

EXHIBIT 4:
Profitability Ratios of Burger King Franchise, Store A, and Store B

		Franchise		**Store A**		**Store B**	
	Ratios	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Profitability	Gross Profit Margin	0.860	0.870	0.840	0.840	0.290	0.350
	Net Profit Margin	0.012	0.000	-0.260	-0.170	0.025	0.025

Being a franchisee of Burger King has associated limitations for implementation of marketing strategies. The owners, R. & K. J., had serious concerns regarding the viability of their two stores' operation. They needed to rethink their marketing strategy and tactics to turn around the two stores and to see revenue growth if they intended to renew their contract with Burger King.

BURGER KING OPERATION

Burger King has been a force in the burger industry; however, it was struggling in 2017, most notably after it lost its position as the second largest burger chain in the United States in 2011. The company's revenue began to slowly decline in 2009, and it saw a massive decrease in 2013, with revenues of $1.15 billion, down from $1.97 billion in 2012. The company's rigorous refranchising strategy proved effective, however, as it resulted in a $2.8 billion increase in revenue between 2014 and 2015 (compared to a $52 million increase between 2013 and 2014 after a reported loss of $0.82 billion between 2012 and 2013). In 2016, almost 90% of Burger King establishments were franchisee owned, allowing Burger King to focus on building its image and menu to better meet consumer demand. In 2003, fast food chains began to focus their marketing strategy on developing new products rather than on price promotion, and Burger King was no exception. Its menu has become more competitive in many aspects, offering healthier and more ethnic-inspired food options. Although Burger King did take advantage of social media and digital

marketing, as did its competitors, their competitors make better use of technology. The little technological innovation that Burger King did use, such as online ordering and a mobile app, was common practice among its competitors. The company permitted its franchisees to use these methods of technology to reach new consumers. To ensure consistency among its various locations, however, Burger King did not allow much flexibility when it came to brand messaging and store image.

Franchising gives small business owners a unique opportunity to enter a multibillion-dollar industry with a pre-established, loyal customer base. Burger King offered its franchisees three methods of ownership: individually/owner-operated, entity, and corporate. The franchise agreement set forth specific standards, procedures, restrictions, and specifications by which the franchisee had to abide. Burger King specified everything from required products to be sold, offered menu items, and food preparation methods to customer service and delivery (if authorized). This provided franchisees with Burger King's successfully proven products and methods. Franchisees also received ongoing support from the franchisor, with some offering financing opportunities. For example, Burger King offered "next generation kitchen equipment" and remodeling agreements.

However, there were many limitations and difficulties that came with being a franchisee. To start, there was a large initial franchise fee of $50,000 for a 20-year agreement under Burger King. Then, the franchisee had to account for location costs, and acquiring and improving the desired real estate could cost over $2 million. There were also royalty fees; Burger King's monthly charges were 4.5% of gross sales. Notably, food costs were problematic for franchisees. To ensure consistency across locations, the franchisor required all raw materials be purchased from the same supplier. The franchisor had a special relationship with the supplier, earning rebates on franchisee orders, which meant that the franchisees had to pay higher costs, 5–10% above prevailing market value. The franchisor could even cause greater competition by attempting to fit as many locations in an area as possible. Franchising is a very restricted operation. Those who wanted to improve their stores products and services or décor and employee uniforms would have been violating their agreement, and any minor violation could have large consequences. Under Burger King, franchisees who did not finish remodeling on time were charged late payments and increased royalty fees until completion.

EXTERNAL FACTORS

Industry Trends

The fast food industry, including limited-service (order and pay before eating) and quick-service (minimal table service) restaurants, was a $570 billion industry worldwide in 2017, with $245 billion in the United States and showing an annual

growth rate of 3.2% between 2012 and 2017 in the United States. The industry has long experienced rapid growth. The quick-service restaurant industry alone has seen an approximate 28% increase in revenue, from $159.2 billion in 2002 to $203.2 billion in 2015.

In 2017, the fast food industry was dominated by three companies: McDonald's, Starbucks, and Yum! Brands, Inc. (including KFC, Pizza Hut, and Taco Bell), with the Top Five brands' accounting for over 40% of the market share in the United States. McDonald's had the largest market share in 2015, at 17%, and Yum! Brands' 2015 market share was around 10.8%. McDonald's, Subway, KFC, and Pizza Hut were ranked among the Top Five most valuable brands worldwide in 2016. McDonald's brand value far exceeded that of its competitors, at about $88.65 billion in 2016 (Starbucks came in second, with a brand value of about $43.56 billion).

In 2017, fast food has been the most favored choice of food for US consumers, mainly for its convenience, affordability, and speed. It appealed to those who were looking for a satisfying meal on a budget, including college students and families, with 34% of children who ate fast food every day. These restaurant chains were desirable, as they provided a recognizable experience no matter the location that a consumer visits. In 2016, 80% of consumers ate at a fast food restaurant at least once per month and 44%, at least once per week. Customer retention was fairly easy for fast food restaurants, and over 90% of fast food consumers indicated that they would likely sign up for a loyalty program if their favorite fast food restaurants provided one. The industry thrived even during harsh economic conditions, as fast food chains were able to capitalize on the 2008 recession by offering low-priced menu deals. However, as consumer confidence and spending started to increase over the past five years, the industry had struggled to keep up with changing preferences and the demand for healthier food options. Fast food chains competed with the food industry in general, whether with higher quality restaurants or lower end food establishments. Donut and bagel shops as well as coffee chains were becoming strong competitors if they offered fast food options.

The Burger Industry

Hamburger fast food restaurants largely dominated the market, accounting for 30% of US quick-service restaurant sales in 2016. Pizza parlors were the second largest segment in 2017, with 15% of the market share, followed by sandwich shops at 12%, chicken restaurants at 8%, and Mexican restaurants as the fifth major segment, with 7% of the market share. In 2017, the hamburger was preferred mainly for its portability and customizability, with 57% of consumers' eating hamburgers on a weekly basis. Nevertheless, hamburger sales growth had been slowing down in recent years (2015–2017), and industry watchers speculated that this growth had

peaked, as US consumers came to prefer more exotic cuisines. With the decline in sales and changing customer demands, large hamburger chains refranchised. The most franchised chain was Burger King, which owned only 1% of its US locations in 2017. By the end of 2018, McDonald's was anticipating its having 90% of its locations worldwide owned by franchisees. The refranchising strategy benefits the parent companies' bottom line. With the burden of cost now transferred to franchisees, the parent companies have very low overhead costs and no direct costs, all while continuing to raise capital and pay off debt.

In 2017, the top leaders in the burger industry were McDonald's, Wendy's, and Burger King. McDonald's had the leading position in the industry, having generated $35.8 billion in sales in 2015 as a result of operating 14,248 locations in the US (more than Burger King and Wendy's combined) and selling 75 hamburgers per second. It is no wonder that McDonald's was the largest fast food restaurant in the US and the largest restaurant company worldwide in terms of both generated revenue and customers served. Despite having the highest market share of the global fast food industry, however, the company had been losing market share to Wendy's and Burger King (down from 18.6% in 2014 to 12.8% in 2016). In 2011, Wendy's beat Burger King as the second largest burger giant in the United States, with annual sales of $8.5 billion, compared to Burger King's annual sales of $8.4 billion for that year. Wendy's was increasingly becoming a threat to McDonald's in 2017, as it had shifted its focus to improving its value menu, offering more low-priced options.

The main concern in 2017 for the burger industry, and fast food in general, was that US consumers were becoming more health conscious. This would have not been such a major threat if it were not for the ever-growing supply of cheaper healthy food. Because consumers had a wide variety of fast food options from which to choose, they also had more power to influence brands. Their preferences for healthier menu options forced the fast food industry to undergo a transition by offering more healthier choices in 2017. Because many fast food chains had an unshakably bad reputation for being unhealthy, they decided to more aggressively emphasize low prices.

Competing Fast Food Options

Competing fast food industry products include pizza, pasta, sandwiches, and chicken as well as Mexican and Asian food. In 2017, the pizza industry has $45 billion in revenue in the United States and has experienced an annual growth rate of 1.9% between 2011 and 2016. The key players in the pizza industry in 2017 were Domino's Pizza, Little Caesar's, Papa John's International, Inc., and Pizza Hut, Inc. These top companies comprised 39.7% of the total industry revenue. The majority of the remaining pizza restaurants, 54.3%, were locally focused, independently

owned stores. Industry growth had been rising slowly over the past five years since the recovery from the recession. However, as the economy improved, sustained growth was expected for the industry over the next five years.

A second major competitor to the burger industry was sandwich and sub store franchises, with $21 billion in industry revenue at the end of 2016, for which Jimmy John's and Subway dominated the market share in 2017. Despite the slow economic recovery, the industry had excelled in the past five years because sandwich shops could easily adapt to healthy food demands and offer highly desirable products at low prices. It was easy for consumers to switch from a heavy, unhealthy hamburger to a light, yet filling, turkey or chicken sandwich. The annual growth for 2011 to 2016 was a steady 2.8%. Strong revenue growth was expected to continue in the next three years.

Mexican and Asian foods became increasingly popular in the fast food industry in 2017. Mexican restaurants were a $38 billion industry at the end of 2016; this segment rose quickly, with an annual growth rate of 3% between 2011 and 2016. Chipotle and Taco Bell, companies with the largest market share, had driven the rise in the Mexican restaurant industry. Industry revenue and the number of establishments were expected to continue growing in the next three years. This expansion and related demand could be attributed to increased immigration and increased acceptance of ethnic cuisine. For example, there had been an increase in demand for Tex-Mex in 2017, which is a fusion of American and Mexican cuisine. Statistics show that, in 2016, three of the 20 leading food item trends on fast food menus included ethnic cuisine options.

In regard to such ethnic cuisines, Asian cuisine also had grown in popularity in 2017. Asian restaurants had become the fastest growing fast food category worldwide. Global sales of Asian fast food restaurants increased nearly 500% between 1999 and 2015, with a 135% increase in the United States. A survey conducted by the National Restaurant Association (NRA) found that, in 2015, 36% of US consumers reported eating Chinese food at least once per month, and 42% were eating it a few times per year. This trend could be seen in 2017; a Statista survey found that ethnic-inspired breakfast items were seen as the leading trend in breakfast/brunch restaurant menus by 68% of respondents, and 45% of respondents endorsed traditional ethnic breakfast items.

Consumers' increasing desire to diversify their palates had helped micro cuisine franchises with "regionalized" menu options, such as Hawaiian food in California, to gain popularity in 2017. This interest in ethnic cuisine had been cultivated by the new Generation Z, those born in the early 2000s. Consumers appeared to be moving further away from the past "one-Great-American-Meal-fits-all" mentality and

increasingly preferring ethnic cuisine. The results of an NRA survey showed that 80% of US consumers ate at least one ethnic meal per month, and 17% ate ethnic cuisine at least seven times per month in 2017. This caused ethnic food to become a regular part of most American diets, leading to an ever-growing demand for micro cuisine.

There were also notable substitutes in the industry that, despite having low market share, had high growth rates and were, increasingly, competitors in the fast food industry in 2017. These included street vendors, most notably food trucks, and sushi restaurants. Street vendors were a $2 billion industry in 2016 and had an annual growth rate of 3.7% between 2011 and 2016. Demand for street vendors was increasing because they offered a large variety of foods at even lower prices than did fast food chains. Statistics show that, in 2016, street food/food trucks were the 20th hottest food option in the United States. Despite the fact that food trucks were generating revenue of only $870 million per year, the industry has had substantial annual growth, 7.9%, between 2011 and 2016. Food trucks were highly desirable for their low-priced, unique, gourmet cuisine in 2017. Their revenue expansion outperformed that of broader food-service sectors by more than double, and this trend was predicted to continue within the next three years. Sushi restaurants also comprised a $2 billion industry in 2017. Although the annual growth of sushi restaurants was not as impressive as that of food trucks, at 3.3% between 2011 and 2016, revenue was expected to rise as operating conditions had been forecasted to improve. Like the Tex-Mex industry, sushi restaurants gained popularity with the introduction of American-influenced versions of sushi, such as the California roll. Sushi had become part of the mainstream food service, providing both an ethnic and a healthy meal choice in 2017.

Fast Casual Competitors

Fast casual restaurants, like fast food chains, did not offer full table service and were considered a quick-service option in 2017; however, they prided themselves on offering higher quality food than did fast food chains. The most notable examples of fast casual food included Chipotle, Panera Bread, Jimmy John’s, Panda Express, Five Guys, and Chick-fil-A. Despite fast casual’s being the smallest segment in the restaurant industry, accounting for only 7.7% of total market share, it had been growing rapidly and gained market share in 2017, mainly from fast food restaurants. Its growth far exceeded that of the full- and limited-service foodservice segments. Between 2014 and 2015 alone, fast casual restaurants had a 10.4% ($33.4 billion) growth in revenue. The segment’s sales growth rate almost doubled that of any other dining segment. Panera Bread had the largest 2015 sales, with $4.8 billion; Chipotle was second, at $4.4 billion, and Panda Express were third, with $2.6 billion.

Most fast casual restaurant chains were relatively new in 2017 but were continuing to expand throughout the country at a rapid rate. For example, after its first day of trading on January 30, 2015, Shake Shack's stock grew 123%, increasing from $700 million to a market cap worth $1.5 billion in February 2015. In 2017, there were over 11,000 stores among the Top Eight fast casual chains in the United States and a total of over 21,000 fast casual establishments. Out of the Top Ten fastest growing restaurant chains in 2015, seven were fast casual. Jersey Mike's Subs, which opened 800 new locations in the past three years and had annual sales growth of $402 to $675 million from 2013 to 2015, was at number one. Chipotle, which opened 229 new restaurants in 2015, was the second fastest growing chain. The fast casual industry continued to grow as fast food giants downsized. McDonald's had closed hundreds of stores in the past two years (2016–2017), and Burger King had been steadily closing stores for the past five years. Burger King's worldwide revenue had dropped dramatically in past few years, most notably in 2013, when it dropped to $1.15 billion from $1.97 billion in 2012. It fell further in 2014 ($1.06 billion) and rose slightly in 2015 ($1.1 billion).

Thus, fast casual options better met consumer preferences than did fast food chains in 2017, as they were more desirable due to their higher quality and healthier variety of items. They also provided more dynamic menus, catering to the consumers' evolving tastes, and a more upscale atmosphere but still were able to quickly provide food on site. These factors appeared to make up for the slightly more expensive food and slower service. The average receipt price at a fast casual establishment could be up to 40% higher than that of fast food restaurants, yet fast casual establishments were still preferred over fast food restaurants. This could be explained by consumers' preference for healthier food options, for which there was an inelastic demand in 2017; i.e., they were not sensitive to changes in price or income. Foods labeled as fresh, organic, or local would have always drawn consumers, no matter the cost. Statistics show that, in 2016, 10 out of the 20 leading food item options on menus were healthier, fast casual options.

Competitive Convenience Stores

Convenience stores were a $204 billion industry in 2017, with 7-Eleven's having the largest market share. The industry roughly doubled in size over the last three decades, with annual growth's slowing down to less than 1% between 2012 and 2017. Nevertheless, convenience stores remained an important choice of fast food for many consumers, particularly Millennials. In the past five years, Work reduces leisure time, causing full-time employed Americans to search for quicker (time-saving) food options that are still healthy. Further, convenience stores were perceived by consumers to have fresher and healthier options than did fast food chains, which allowed them to compete with fast casual restaurants in 2017. These factors had the potential to make convenience stores more appealing than fast food

and fast casual restaurants. The greater variety of food and beverage options attracted a more diverse consumer base, cutting into fast food and fast casual chains' sales. Of convenience store customers, 26% reported that they would have spent their purchase on fast food if they had not bought from the convenience store. Like fast food establishments, these stores provided convenience and inexpensive food but at higher quality than some fast food places, with more customizability, and at much lower prices. In response to the increased demand for convenience store foodservices, the industry operators opened more stores and expanded into new markets, which resulted in increased sales. The number of convenience stores increased 28.7% between 2000 and 2015, and in-store foodservice had $31.2 billion in sales in 2014.

In addition, the decline in gas sales had led operators to look into convenience store foodservices to increase revenue in 2017. Store owners had found that offering more foodservice options, as in-store products, was more profitable than was gasoline. In 2015, convenience stores in gas stations accounted for 20.8% of in-store sales and 33.7% of gross profit. Gas station foodservices became increasingly popular with Millennials and Generation Z in 2017, who did not have a negative perception of buying food at a gas station, as did older generations.

Building a Competitive Advantage

In 2017, the fast food industry was highly competitive, and competition only seemed to be increasing with the newfound popularity of fast casual restaurants and convenience stores. The fast food industry was predicted to lag behind, however, if restaurants did not evolve to match fast casual offerings. Fast casual outlet sales increased 10.5% in 2014, whereas fast food chain sales increased only 6.1% during the same year. It was becoming increasingly difficult for burger industry giants to be a consumer's first choice in 2017, even though they still took up most of the market share. Both McDonald's and Burger King had raced to diversify their menu options to keep up with competitors. Both chains had added a spicy hamburger option to compete with Chipotle; Burger King capitalized on the burrito and introduced a "Whopperrito." Nevertheless, this did not offset Burger King's decline in the year it was introduced. McDonald's took a different route, taking advantage of its already existing food options and expanded its menu according to consumer demand to remain competitive. For instance, it started to offer an all-day breakfast menu in October 2015. This strategy proved to be successful, as McDonald's saw an increase of 0.9% in store sales in that same quarter.

Fast food chains also had attempted to compete with up-and-coming fast casual operators in 2017 by including healthier options on their menus. In addition to offering vegetables as a main course, they were using fresher ingredients with fewer additives. Nevertheless, it was difficult for consumers to associate fast food with freshness when looking for a healthy meal. For example, McDonald's salads

accounted for only 2–3% of sales in 2013, as opposed to hamburgers and hash browns, which accounted for 13–14%. Burger King also failed in their attempt to provide healthier options, discontinuing their lower-calorie "Satisfries" less than a year after introducing them.

The best strategy for fast food restaurants to build their competitive advantage in 2017 appeared to be to incorporate new trends. Major chains would fight for public attention by quickly responding to any new successful trend. Burger King introduced the Mac 'n' Cheetos after Taco Bell had great success with its Doritos Locos taco. Customizability also had become a key preference of consumers. Research showed that 61% of consumers preferred to have customizable toppings on their sandwiches, and 43% preferred to build their own burger, options long offered in fast casual restaurants. Five Guys offered more than 250,000 ways to order a hamburger. To keep up with the competition, fast food restaurants began looking into customized burgers. McDonald's introduced a more upscale dining experience with "Create Your Taste" in 2014. In addition, fast casual chains, such as Chipotle, were trying to capitalize on hamburger demand. The company opened a new branch, Tasty Made, in 2016, specializing in burgers and fries. The restaurant reported strong sales and favorable reviews.

Competition in the burger industry intensified in 2015. Top competitors began announcing price promotions and new menu items. All three major players took part: Wendy's introduced the "4-for-$4"; McDonald's, the "McPick 2-for-$2; and Burger King offered two spicy menu items. Burger King's introduction of the Big King sandwich put it in direct competition with McDonald's' Big Mac. Burger King also introduced a $1 BBQ rib in response to McDonald's bringing back the McRib. Unfortunately, in an attempt to be more competitive in the fast food industry and, specifically, to compete with fast casual restaurants, fast food chains had slowed down service through increased drive-through wait time. The new options interfered with the already optimized quick service of burger and fries. McDonald's even acknowledged the problems caused by its overcrowded menu.

MILLENNIALS AS A TARGET MARKET

Millennials were changing the restaurant game in 2017, affecting greatly the fast food and fast casual industries, especially as these consumers moved into their prime spending years. These 20- and 30-something consumers had a more health-conscious and ethnically diverse palate than did their parents and grandparents. These newfound consumption habits made fast casual restaurants a more attractive option. As noted, fast food chains made multiple failed attempts at healthier menu offerings, including McDonald's creative salad, Wendy's Frescata (healthy sandwich), and Pizza Hut's fresh spinach option, to name a few. Fast food chains were overcrowding their menus and decreasing efficiency with few or no results

when it came to healthy menu items. Fast casual restaurants, however, from the beginning, had advertised themselves as healthier, with fresher food options and did not have a negative image to repair, as did fast food chains.

Food Consumption

In 2017, Millennials ate out much more often than did previous generations, making them a prime target of most foodservice segments. Of Millennials, 53% ate out at least once per week and comprised 51% of fast casual consumers. In 2006, fast casual accounted for only 3.1% of Millennials' food and beverage consumption, but this figure almost doubled, to 6.1%, in 2014 and continued to grow. Technomic.com reported that, between 2011 and 2014, there was a 12.9% decrease in monthly visits to McDonald's from consumers aged 19 to 21. During the same period, fast casual monthly visits increased by 2.3% for the same age group, and the monthly visits of consumers aged 22 to 27 to fast casual restaurants increased by 5.2%. It is clear that fast food consumption was largely decreasing due to the rise of fast casual restaurants.

Fast casual food was not the only threat to fast food operators in 2017. Millennials reportedly preferred convenience stores at twice the rate as fast casual restaurants. A marketing research group, NPD, reported that, in 2006, convenience stores accounted for 7.7% of Millennials' food and beverage, increasing to 11.1% in 2014. Further, with the nearly half of Millennials, aged 18 to 37, who ate ethnic cuisine four times per month, fast food establishments were losing business and were scrambling to attract Millennials. Even the largest fast food chain worldwide, McDonald's, did not rank among the Top Ten restaurant chains preferred by Millennials in 2017. This generation's consumption habits took a toll on fast food sales, as seen in the final quarter of 2014, when McDonald's reported a 21% decrease in net income.

With these figures in mind, it is no wonder that those in the quick- and limited-foodservice industry aimed to capitalize on marketing strategies that would attract Millennials, specifically targeting health-conscious Millennials and college students. Sheetz and 7-Eleven expanded their menu options to include nutritionally balanced salads, wraps, and sandwiches. In addition, McDonald's targeted their McWrap sandwiches to attract consumers in their mid-teens to mid-thirties.

Purchases via Digital and Mobile Technology for Purchases

In 2017, technology had become a key aspect of daily life, and companies needed to keep up with the ever-growing technological advances and consumer dependence on technology or lag behind their competitors. The fast food industry was no exception. During that time, fast food chains had largely invested in mobile apps for customer purchases. Apps were an easy and convenient way to reach a

much larger customer base, as, in 2017, 77% of Americans own a smartphone (compared to 35% in 2011), and, in the prior year, 78% owned a laptop. By 2020, over 10% of quick-service restaurant orders were expected to be placed via smartphone. At this rate, with the help of mobile ordering, the quick-service restaurant industry would realize revenues of $38 billion, with a five-year compound annual growth rate of 57%. The increased convenience, easier payment method, and faster fast food means that mobile apps could significantly increase store sales of any fast food chain.

Mobile apps catered easily to individual consumer demand. Customers could take their time browsing menu options and track a step-by-step process of their transaction. For in-store pick-ups, apps made for much quicker service. Customers simply purchased food ahead of time, using the app, and picked up their order without waiting in line. Taco Bell had seen 20% higher average-per-order sale from the use of this innovation in 2017. Taco Bell was part of Yum! Brands Inc.'s "easy beats better" strategy, in which the company was focusing more on convenience than on quality. This proved to be highly successful for Taco Bell, and the chain saw a 30% higher average-per-order value from mobile purchases compared to in-store. Taco Bell had one of the most convenient mobile apps in the industry, with 46% of delivery orders' coming from digital channels. Pizza Hut was also part of Yum! Brand's mission of convenience. It derived 46% of its sales from digital channels and saw an 18% increase in spending on the average pizza order in 2015.

Pizza parlors distinguished themselves with continually advancing technology seen in their more sophisticated web ordering system in 2017. Approximately half of Domino's and Papa John's sales were made through digital channels. Domino's had become a leading innovator in mobile ordering systems. In April 2016, the chain debuted its "no click" ordering app, which allowed the user to order a pizza simply by launching the app. Papa John's had seen a steady 5% annual increase in orders made through digital channels, from 40% in the first quarter of 2013 to 55% in the first quarter of 2016.

Almost all of the giant fast food chains had created online and mobile platforms for customers to place purchases in 2017. Starbucks was one of the first fast foodservice chains to see great success in digital purchases, incorporating mobile sales in 2010. Of Starbucks' orders, 24% were made using the mobile app in the first quarter of 2016 (compared to 21% in 2015). Other technological innovations included kiosk orders (self-ordering system) and digital menu boards in the store and for drive-thru. The boards could emphasize promotions and high-profit offers by rotating menu options. This way, more menu items could be communicated to the customer. They also sped up orders, increasing sales. These strategies boosted

operational efficiency and increased order frequency and customer retention, which, in turn, increased profit margins.

The owners of the Burger King franchisee, R. & K. J., realized their limitations in terms of implementing marketing strategies. While considering whether to renew their franchisee contact with Burger King, the owners had serious concerns regarding the viability of their two stores' operation and their ability to turn them around.

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