

8/12/08 - Restaurant Research LLC reported the release of its Burger King Concept Benchmark Analysis. Our analysis of the Burger King restaurant concept provides readers with unique data and insight into the ongoing revival of the second largest US QSR chain. Look for our reports on McDonald's and Wendy's which will be published over the next several weeks.

What's Value?



Oil prices go up, and then they come back down. Commodity prices go up, then they come back down. The stock market goes down, then comes back a little bit. House prices have just plain come down...

No matter how you look at it, consumers have not been enjoying the economic roller coaster that has been forced upon them over the last year or more. Most consumers (especially those frequenting fast food restaurants) were already strapped for cash and even more so lately. Resultantly, it is no mistake that value is playing an increasing role on QSR menus and we do not expect this trend to change anytime soon. It may be true that our country gets to enjoy a period of easing fuel and food prices, but for how long? The long-term trends of escalating price pressure are clear to even the most short-sighted and it is our opinion that consumers are no fools either. We believe consumers once burned will not be as quick to buy a SUV or an expensive burger for that matter. This implies that the age of the value menu is firmly upon us and, as long-term economic pressures mount, the role of lower price points will also increase.

So we see the big QSR chains speaking more about their value menus on conference calls while franchisee operators increasingly complain about already squeezed unit level margins becoming more compressed as their sales mix moves away from core/premium towards a higher percentage of revenue from value items. Of course, franchisors have less to worry about from value menus as their take comes from a percentage of their franchisees' top-line (in the form of royalty payments) such that prospects of share losses pose far more of a threat to them than unit level margin pressure (even assuming they own some stores of their own).

To this end, we heard Burger King management speak about the upside potential of increasing the percentage of sales driven by the value menu from about 13% - 14% presently to closer to 25% of sales where McDonald's and Wendy's currently stand. Of course, we suppose BK would prefer to keep value sales to a minimum (from a margin perspective) if it meant they could continue growing the top-line - therefore, such an objective suggests to us that BK assumes future growth is strongly contingent upon driving more value sales. In any case, we thought it was very interesting that McDonald's management recently announced on a conference call that its Dollar menu drove approximately 14% of total sales - conflicting with the BK info. So we thought to dig around a little in order to provide some insight into where the big QSR chains currently stand in terms of sales as a percent of the total driven by their value menus and, further, how much of their sales is driven by couponing (i.e. temporary value). Of course, we personally prefer the barbell approach to leveraging a dedicated value menu (hopefully with products designed to maximize margins) along with a premium menu as opposed to a coupon discount strategy which can cheapen the perception of premium products. To be fair, we note that couponing can sometimes be used to drive interest in a new product. Be that as it may, here is the information we have gathered to represent the value strategies of the largest QSR chains.

Value Strategies of Major QSR Players

QSR Player	Value Menu Sales As % of Total	Coupons Sales As % of Total	Comments
McDonald's	14%	N/A	Testing various product/pricing strategies including smaller portion sizes and price points above \$1 – necessitating a new moniker for the dollar menu.
Burger King	13% - 14%	1% - 3%	Likely to maintain value pricing as a way to gain share as McDonald's increases its value pricing.
Wendy's	20% - 25%	1% - 2%	Some portion sizes have been reduced to help maintain prices.
Taco Bell	12% - 17%	Very little	Value sales have been growing, with a more pronounced up-tick over the last few months.

Source: Restaurant Research LLC estimates

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More About Us

Restaurant Research LLC leverages an extensive network of industry players as part of its annual Concept Benchmark Analysis due diligence process for 22 large US restaurant chains. Also, RR tracks store level data for all major chains with system-wide sales in excess of \$1B across all major restaurant segments in order to produce 11 key Industry Data Topic reports. For more information please contact us at info@restaurantresearch.info or 860-274-4962.

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