Managing Service Relationships

CASE STUDY

MACDONALDS
BURGER KING
HUNGRY JACKS

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Executive Summary:

This paper reports on the Quick service restaurant industry, analysing the service relationships from the perspective of McDonald's, Burger King, and Subway. The report highlights the different strategies and tactical executions each chain utilises in order to compete and create a unique appeal for their target audience. It became evident that each company had identified a set of values core to the business, and this forms the basis of how they handled their service relationships. It was also discovered that these relationships have significantly impacted the ongoing success of the chains, especially where significant changes were required to meet the changing demands of the market. The paper surmised that through continuous benchmarking, relationship development/management and ongoing analysis of the demands of the market, these key QSR companies create sustainable businesses capable of minimizing potential threats and maximizing on growth opportunities.

Table of Contents

1. General information

1.1 Defining Quick Service Restaurants

Quick Service (fast food) Restaurants: known for fast efficient, take-out-ready foods at affordable prices. Priority: getting food to the customer fast and with limited or no table service. **They are often chains** and gain momentum from operating in multiple locations under the same upper management. Companies like McDonalds or Starbucks have achieved enormous market share due to their many locations. **QSR's offer consistent food**, thanks to highly regulated production systems, food suppliers and menu development, quick service restaurants are known for their consistency. **QSR's can benefit from franchising**; this allows businesses to grow by expanding the brand and building investments.

1.2 Histories of three companies

McDonald's was established in 1955 with more than 36,000 restaurants worldwide. Its market capitalization is $96.91B USD which is equal to $127.66B AUD. It ranks number 6 world's most valuable brands (Forbes Magazines). Its mission is ''to be our customer's favourite place to eat and drink. Our worldwide operations are aligned around a global strategy called the 'Plan to win', which centre on an exceptional customer experience- people, products, place, price and promotion. We are committed to continuously improving our operations and enhancing our customer's experience''.

Burger King, which is named Hungry Jacks in Australia, was founded in 1954 with approximately 14,000 restaurants in 98 countries and territories worldwide. Its market capitalization is $11.2B USD which is equal to $14.75B AUD. It ranks the world's third-largest quick service restaurant. Its mission is ''to ensure that our guests return, by delivering great food through the highest of standards of quality, service, and cleanliness every day of the year''.

Subway was established in 1965 with 43,826 restaurants in 110 countries. Its market capitalization is $12.032B USD which is equal to $15.85B AUD. It ranks the world's second largest quick-service restaurant. Its mission is '' to be the number one quick service restaurant (QSR) franchise in the world while delivering fresh, delicious sandwiches and exceptional experience''.

1.3 Values

McDonald's	Burger King	Subway
- We place the customer experience at the core of what we do - We are committed to our people - We believe in the McDonald's System - We operate our businesses ethically - We give back to our communities - We grow our business profitably - The strive to continue to improve	- Guests matter - Safety - Integrity - Perform consistently - High standards - Fairness - Diversity - Caring - Respect - Commitment to excellent	- Takes great pride in serving its customers and communities - Seeks continuous improvement in all that it does - Emphasis on an innovative, entrepreneurial approach to business - Expects fairness and mutual respect in all our activities - Acknowledges that the company's success depends upon the initiative taken individually and the ability to work as a team.

1.4 The key strategic differences

McDonald's

1. Development of customer loyalty through relationship management and emotional buy-in. Tactical examples include:
    a. Their “McHappy” campaign; which used emotional wording to promote experiential dining with a reward/comforting feel.
    b. Ronald McDonald Houses and Rainforest Certified Coffee practices, branding McDonald's as an ethically considerate and emotionally empathetic/ community supporting company.
2. Market dominance, McDonald's is second in-store population globally (first is Subway). this creates a barrier to entry for competitors, reduces their overheads, and meets the demand for easily/improves accessibility to their customers.

Burger King

1. Emphasis on quality and consistent product, as is a core value of Quick Service Restaurants. By sticking to burgers and not differentiating their product, they have established themselves as a unique operation from their biggest competitor (McDonald's). Tactical examples include:
    a. “The burgers are better at Hungry Jacks” campaign in Australia
2. Franchisee Ownership; emphasising owner buy-in means stores don't fall behind the benchmark as owners are rewarded for their vested interest. It also means the stores can offer a localised strategy and set of tactics to address differences. Tactics include:
    a. The use of U.S Celebrity (such as Jay Leno and Mary J. Blige) as ambassadors of Burger King in the U.S.
    b. Customization of the menu offering to meet the demand of customers. For example, adding pineapple to burgers in Australia.

Subway

1. Product Differentiation: by emphasising fast fresh and healthy product, Subway meet a market gap and therefore supply a demanding market, while remaining true to the core meaning of Quick Service Restaurants. n doing so they have created a unique positioning- an advantage over their competitors. Tactical examples include:
    a. “Eat Fresh” campaign
    b. Making the product in front of you, bread included.
    c. mass customization (though the customer's ability to build the sub); a trending demand.
    d. “Subway Diet” campaign, with success story Jared Fogle as the ambassador.
2. Market Dominance: Subway has the most stores worldwide comparatively, and aim to increase their store count by 100,000 by 2030. A simplistic business model has enabled this; which is also comparatively lower in cost to set up, as well as lower overheads ongoing overall. in doing so, Subway has created and strengthened the barrier to entry for possible future competitors.

2. Service Relationships Analysis

Globally, one of the largest food sectors is Quick Service Restaurants. To attract customers worldwide, this industry collectively offers competitively low pricing on their saleable products. In doing so, they create barriers to entry, as well as challenges unto themselves, as raising prices may compromise their captive audience and market share (Basham, 2010). Despite the fact that these restaurants operate in an oligopoly market, they strive to achieve a competitive edge over each other and hence formulate a series of differentiating strategies that create a unique positioning. By analysing Service Relationships, one is able to identify their unique positioning and the ways in which these top market stakeholders have succeeded in creating a sustainable practice.

2.1 Market opportunity analysis:

2.1.1 Industry value drivers

The Quick Service Restaurant industry demands the following value drivers collectively in order to see success. These are:

- Competitively priced product
- Consistent and fast service
- Ability to meet demand (in volume)
- Market dominance especially via chains- franchising enables this to occur more easily
- Superior brand awareness
- Revolutionary technology.

The following are ways in which McDonald's, Burger King and Subway were able to successfully deliver on these values, and consequently differing their companies from one another.

McDonald's: Developed a business model known as the three-legged stool which consists of employees, suppliers and the owner (Nielson, 2013). Through the balance and alignment of this foundation, it has achieved a lot of success. This model enables McDonald's to be an integral part of the community it serves as well as consistently providing customers with locally relevant restaurant experiences. Additionally, changing customers' needs and preferences are met as McDonalds' ability to identify and implement innovative ideas is facilitated by this business model. McDonald has also considerably expanded its menu to include smoothies, wraps, fruits and salads, all in the name of meeting customer preferences.

Burger King: As the Treffis Team of Forbes (2014) wrote, Burger King merged with Tim Hortons. This merge suited the Burger King's business model which is based around its menu innovation and international expansion. As a result, Burger King was able to focus on coffee and doughnuts more on its menu. Additionally, it has been able to expand considerably as it developed new restaurants all over the world thus boosting sales.

Subway: In a bid to differentiate from competitors, Subway prided itself by going ‘green’ with the introduction of earth-friendly ‘eco-restaurants’ (Franchise Update, 2011). Offering environmentally friendly aspects of reducing the consumption of water and energy, and reducing waste is the overall goal of these eco-restaurants which reflects the brand’s “commitment to social sustainability and responsibility” according to its marketing director Elizabeth Stewart.

2.1.2 Resource implication

The following are the ways our companies have created competitive advantages through its resourcing.

McDonald's: Takes advantage of better human resourcing and recruitment when it comes to resource implication. It’s always in search of new talent that matches the skills desired- especially that of quality customer service, which drives home the relational value. This type of resource is timely, costly and difficult to copy, making it a highly valuable resource.

Burger King: Took advantage of technology advancement to introduce better Wi-Fi in its restaurants as suggested by Johnson of Napean LLC (2014). Burger King proposes that this new technology of Wi-Fi will improve the in-restaurant experience as well as enable mobile payments when they become available, especially given their current target market and young adults who they are trying to attract.

Subway: has taken advantage of its innovative service approach by introducing a loyalty card program and CRM software program (Stensby, 2012). These programs aid in identifying its customers thus helping it predict customer behaviour, monitor sales as well as enabling it to enhance the internal service quality. These programs also aid in tailoring communication to different customer needs hence building trust.

2.1.3 Organisational structure

McDonald's: highly structured training is offered to the new employees immediately after hire. Training rooms and video players are available in all of its restaurants. Through training and development, McDonald's is able to improve the quality management as well as job skills. Also, McDonald's recently changed its organisational structure by eliminating layers of management amid dwindling sales and profits as stated by Jargon of Wall Street Journal (2014). These organisational changes would ensure more autonomy would be offered to local markets thus providing products more relevant to them hence meeting customer preferences.

Burger King: Burger King's organisational structure is different according to regions (PR Newswire, 2007). In North America, divisional barriers were eliminated with a highly centralised system that is focused and functionally aligned introduced. This system aligns employees' objectives with those of the company as well as enabling easier handling of corporate learning due to the reduced number of systems. Internationally, a decentralized system was retained and this is advantageous as control is increased at the local level.

Subway: adopts a traditional or modern organisational structure. But the most notable organisation structure is a flat organisational structure which has a short chain of command from top to bottom. This enables a problem to be solved more quickly. Furthermore, any customer complaint is handled quickly and reaches the top management as well.

2.1.4 Customer types

McDonald's: most of McDonald's foods target families and younger children (Roney, 2011). As a result of this, indoor playgrounds are common in most of their restaurant to attract parents to take their children hence increasing sales.

Burger King: for years, the target audience for Burger King has been young men. However, in 2008, this target was hit hard by the economic recession (Melnick, 2012). This prompted Burger King to expand their menu to include fresh garden salads, fruit smoothies and chicken wraps among others so as to target more audience such as women, the health conscious and families.

Subway: has always focused on the young male office worker and student consumer groups. However, as competition stiffens, Subway has expanded its target audience. As stated by Luckerson of Time (2014), Subway introduced a marketing campaign that targeted kids by trying to convince them that "veggies can be cooler than cheeseburgers". The campaign emphasis was on "fruits, vegetables and non-sugary drinks'', centring on the slogan ''Playtime, Powered by Veggies''.

2.2 Demand chain analysis:

2.2.1 Customer value model

McDonald's	Burger King	Subway
- Increase the numbers of restaurants - Narrow accessibility - Remodelled and renovated restaurants	- Increase new foods (lower-calorie, lower-fat fries). - Replace Masked mascot with celebrities	- Slash price - Replace bacon and ham with halal meat

2.2.2 Value driver analysis

McDonald's: as suggested by Seeking Alpha (2013), McDonald's main value driver is raising the demand for its foods by increasing the number of restaurants. The UK, US, Germany, France and Australia have already established markets while Russia, Brazil, India and China are emerging markets. Additionally, the accessibility of its restaurants in the US has contributed to a considerable amount of profit. For instance, for every 7.58 miles, a McDonald's restaurant can be found. Furthermore, the company plans to spend $3 billion on opening new restaurants in the US. Also, the existing restaurants are being remodelled and renovated to increase their quality. This increases the company's image through customer experience as quality and hygienic food are reflected by a well maintained and clean restaurant. All these drivers are geared towards increasing customer experience and demand of their products hence an increase in sales (profits) as well

Burger King: giving away free satisfies was its main driver towards increasing consumers' demand for their new foods (Horovitz, 2013). In an attempt to get more customers to demand their new lower calorie lower fat fries, Burger King offered free satisfies for a whole weekend. And the response was positive from health-focused consumers who increased in numbers both in restaurants and on social media. Additionally, changing its marketing campaign was successful as it attracted more customers thus increasing the demand for its food. The masked mascot is no longer used, with several celebrities who are instantly recognised replacing it (Morrison, 2012).

Subway: slashing prices was Subway's main driver in increasing the demand for its products (Smith, 2011). Subway introduced its $2 six inch subs with an aim to attract more customers. Furthermore, in a successful attempt to meet strong demands from Muslims, Subway removed bacon and ham from its stores in the UK and Ireland and replaced them with halal meat (Poulter, 2014). Turkey ham and turkey rashes replaced the bacon while all meat is now prepared according to halal rules, all in an attempt to please its Muslim consumers. All these drivers have seen subway increase its consumer base.

2.2.3 Value proposition

McDonald's: as stated by Cahill (2013), McDonald's famous value proposition is based on quickly serving food of constant quality, and consistently around the world. McDonald's is able to deliver the fast, inexpensive and convenient food through its equally simple and reliable restaurants.

Burger King: the value proposition of Burger King is to provide cheap foods 43 matches "soft consumer spending" (Burger Business, 2013). Additionally, "fewer and more impactful" menus can be expected. A balance between value and premium products at budget-friendly offers is maintained by Burger King.

Subway: offer fresh, nutritious and healthy food of great tasting at a competitive price point (Subway, 2014). The value proposition also includes Subway Real Deal which hero the turkey and ham sub. Additionally, it includes the My Sub My Way platform which "emphasises on the customizable nature of the Subway menu, which empowers customers to control and order their Sub or flatbread just the way they like it."

2.3 Supply chain analysis:

2.3.1 Value production and coordination

McDonald's: involving a number of ingredients, more than 36,000 restaurants are operated by McDonald's. Since McDonald's does not make any of those ingredients, direct suppliers are used by McDonald's so as to ensure easier coordination of purchasing and distribution to its restaurants. It contracts suppliers which include: Coca-Cola, Sunny Fresh Farms, Dean Foods and Tyson Foods among others (Jones, 2014). Poultry, fish, bakery and meat are among the items supplied.

Burger King: it is Burger King's philosophy to support local suppliers in all of its restaurants around the world (Fin24, 2014). It aims to be locally supplied with products so as to meet consumer preferences.

Subway: has always streamlined its supply chain (Subway, 2015). It searches for suppliers who "share its values and commitment to environmental and social responsibility." It requires all of the suppliers to meet its 'Vendor Code of Conduct' which consist of stringent audit processes. The samples of products supplied must meet specifications from rigorous third-party audits for food safety.

2.3.2 Value delivery

McDonald's: in serving it's over 70 million customers, McDonald's demands consistency from its suppliers by setting strict standards to be adhered to. The consistency, safety and quality of products delivered are the responsibility of the suppliers. The colour, texture and freshness must be consistent as required by McDonald's with all standards met.

Burger King: always selective in terms of suppliers depending on the season. Burger King also traces the ingredients back to their origins as well as fully track the supply chain. It also ensures that all guidelines and standards related to animal husbandry are regularly monitored and met by their suppliers (Burger King 2015).

Subway: sustainable sourcing also ensures that fair labour practices and animal husbandry are maintained by its suppliers. Subway also follows the products supplied from the time they are grown and harvested to the point they reach their restaurants as serving food that consistently meets the highest quality and safety standards is their goal.

2.3.3 Value servicing

McDonald's: to avoid lawsuits, it ensures food safety at all times. To ensure this safety, tractability programs have been developed by suppliers who track food in the supply chain.

Burger King: purposefully avoids using artificial flavours and enhancers in a bid to ensure their superior quality of ingredients and great taste that can only be guaranteed by freshness.

Subway: to ensure that food quality and safety are met, Subway, on a monthly basis, evaluates all of its restaurants around the world for compliance of policies and procedures.

A report has demonstrated how different companies within one industry are constantly improving their customer service in order to meet customer's needs and wants. All fast food restaurants use a similar business concept, which is to provide a quick food at an affordable price, however, they rely on different elements to create value for customers.

A report has shown that all three companies realize the importance of customers' satisfaction and that understanding consumers is vital for their business. Quick service restaurants industry is often affected by changes in consumer tastes and for this reason, restaurant managers should study customer's preferences on a regular basis. Grasping customer's complaints in a timely and effective manner is also crucial for customer's satisfaction and helps companies to build a rapport. All three fast food restaurants analysed are doing their best to meet customers' needs and expectations. For example, all three of them, are well aware of the shift in consumer attitudes towards healthy food and for this reason they are expanding their menus to include salads and other healthy options to appeal to a wider audience.

In today's highly competitive market understanding consumers are the key to success and a major element that influence all organizations. Restaurants managers should not only listen to the needs of the customers but they should be able to build a connection to understand how these needs and desires can be fulfilled.

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