

FAST FOOD INDUSTRY



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AGENDA



INTRODUCTION



BRIEF HISTORY



INDUSTRY ANALYSIS



ADVERTISING STRATEGIES



DATA ANALYSIS



Recommendations



INTRODUCTION

WHY FAST FOOD INDUSTRY?

- ✓ Hundreds of Thousands of Restaurants
- ✓ High Brand Recognition
- ✓ Dramatic Shift in industry trending towards health
- ✓ Prolific Advertising
- ✓ Saturated, Competitive Market



WHAT IS FAST FOOD?

Includes restaurants where patrons pay for quick-service food products before eating

Purchases may be consumed on-site, taken out or delivered





BRIEF HISTORY

BRIEF HISTORY

History of fast food industry intertwined with the inception of the automobile industry: Curb service, carhops and drive-thru windows

1921: White Castle was the first fast food chain and changed the public's negative perception of hamburgers.

Franchising introduced by A&W Root Beer

McDonald's first to use the assembly-line system

1950's: Fast food industry in full swing

1960s: Children's menus and heavy advertising targeting children was prevalent



FAST FOOD TODAY

US claims the largest fast food industry in the world

Most successful franchises have gone global

Menus are diversifying: shift from exclusively offering burgers and fries to more eclectic and ethnic foods





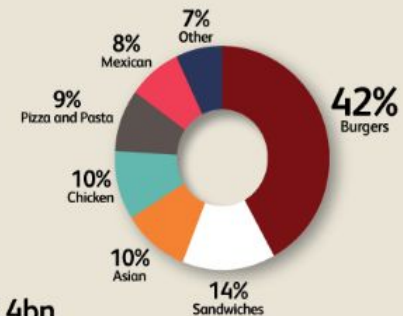
INDUSTRY ANALYSIS

ABOUT THE INDUSTRY

Mature Industry

- Key Economic Drivers
 - Consumer Spending
 - Healthy Eating Index
 - Consumer Confidence Index
- Supply Industries
 - Beef and Pork Wholesaling
 - Dairy Wholesaling
 - Egg and Poultry Wholesaling
- Demand Industries
 - Consumers

Products and services segmentation (2017)



Total \$245.4bn

SOURCE: WWW.IBISWORLD.COM

STATISTICS

Revenue

\$245.4bn

Annual Growth 12-17

3.2%

Annual Growth 17-22

1.6%

Profit

\$13.0bn

Wages

\$61.2bn

Businesses

208,210



FRANCHISE MODEL

Major fast food brands primarily franchise restaurants

The franchisor controls the business concept while the franchisee purchases the license, but is seen as an independent merchant

Franchisor receives a royalty from the franchisee for use of the trademark and any other advisory services given to the franchisee



BARRIERS TO ENTRY

Low Barriers to entry, but high risk/high return

- Franchising allows operator to lease the premises, equipment, furniture and fittings from the franchisor, cutting down initial capital costs.
- Franchisors provide training, food and beverage, and financial and accounting functions for a proportional share of revenue from their franchisees.
- Allows for lower operational costs and minimizes risk.



CONCENTRATION

Four-Firm Concentration Ratio (CR4): 34

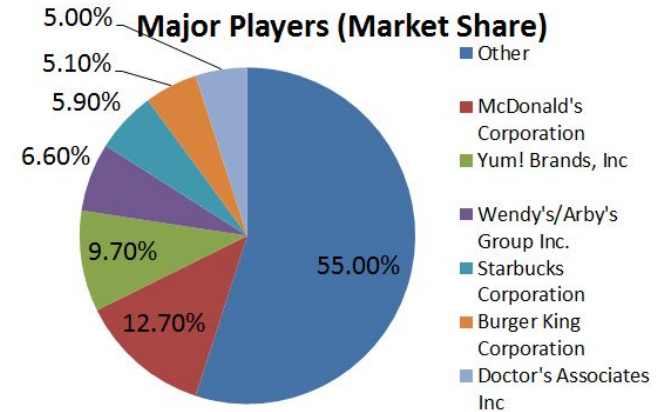
HHI using top 8 companies: 362.54

Concentration is extremely low

Small operators run a majority of all restaurants.

90% of all operators have fewer than 50 employees.

Low barriers to entry allow for the high number of small-scale entrepreneurs.



COMPETITION

3 Top Players (Market Share)

McDonald's: 15.2%

Yum! Brands Inc.: 8.4%

Subway: 4.6%

Others:

The Wendy's Co: 3.8%

Burger King Corp: 3.4%

Major players (Market share)

Yum! Brands Inc. 8.4%

Subway 4.6%

McDonald's Corp. 15.2%

71.8%
Other

COFFEE

HOT

Sm	5 cal	1.29
Med	10 cal	1.59
Lg	10 cal	1.79
X-Lg	15 cal	1.99

ICED

Sm	70 cal	1.89
Med	100 cal	2.29
Lg	130 cal	2.59

all available in regular or decaf

TURBO HOT® or TURBO ICE®

Add a Turbo Shot of Espresso to any Beverage 0-10 cal 0.99

LATTE

ICED

☒ LATTE LITE

ICED

BOX O' JOE®

	Cal	Sm	Cal	Med	Cal	Lg
LATTE	120	2.29	170	2.89	230	3.59
ICED	120	2.99	170	3.99	230	4.59
LATTE LITE	80	2.29	120	2.89	160	3.59
ICED	80	2.99	120	3.99	160	4.59

100 cal 13.99

Cal Sm Cal Med Cal Lg Cal X-Lg

Calories	meal™
300	450
450	600
430	580
510	660
410	560
420	570

extra value		meals	
1 Big Mac®		3 Quarter Pounder® with cheese	
5.69 meal	3.49 sandwich	5.39 meal	3.19 sandwich
920-1160 cal	540 cal	890-1130 cal	510 cal
2 Cheeseburgers		4 Double Quarter Pounder® with cheese	
5.29 meal	0.99 sandwich	5.99 meal	3.79 sandwich
980-1220 cal	600 cal 2 sandwiches	1120-1360 cal	740 cal

REGULATIONS

FDA Menu Labeling Requirements: By May 2017, all restaurants must display calorie information on menus and menu boards.

The National Salt Reduction Initiative (NSRI): partnership of health organization set voluntary targets for salt levels in attempt to reduce sodium in restaurant food by 20% in 5 years. Taco Bell and KFC have reduced sodium in line with this program.

NYC requires chain restaurants to post warning labels next to menu items containing high levels of sodium.



FAST FOOD ADVERTISING REGULATION

Federal Regulations:

FTC requires fast food ads to be truthful and non-deceptive

Must back up claims with evidence

Local Regulations:

Ex: San Francisco requires that children's meals meet specific nutritional standards before toys can be included with their purchase



MAJOR TREND TOWARDS HEALTH

Increased consumer demand for healthy and convenient options

Industry has struggled with consumer preferences moving away from traditional unhealthy foods.

Restaurants responding by expanding the number of healthy menu items

Healthy Eating Index: 66.9% in 2017. Percentage representing the degree that the average American adheres to the consumption guidelines set out by the USDA.



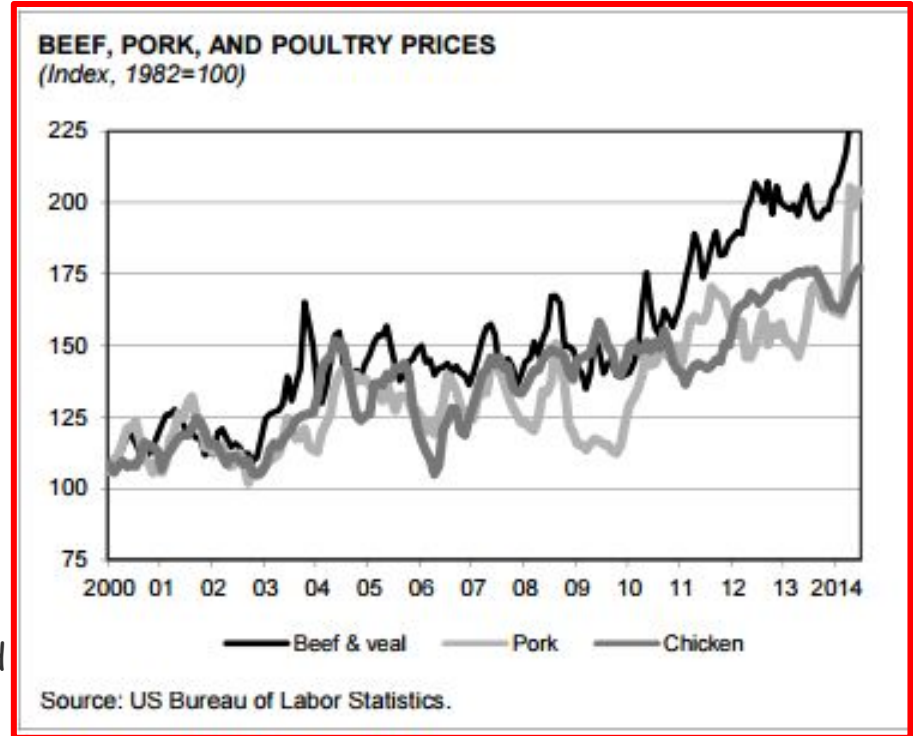
Rising Costs: In order to keep prices low, rising costs cut into profit margins

Labor Costs

- Hourly compensation rising due to increases in the federal minimum wage
- Legislation to push for \$15/hr for fast food workers
- Solutions: Automation - installation of self-ordering kiosks

Commodity Costs

- Dairy, grain, beef and corn prices have increased throughout the past decade
- Customers are price sensitive so increased costs must be matched with increased efficiency, portion control and menu changes

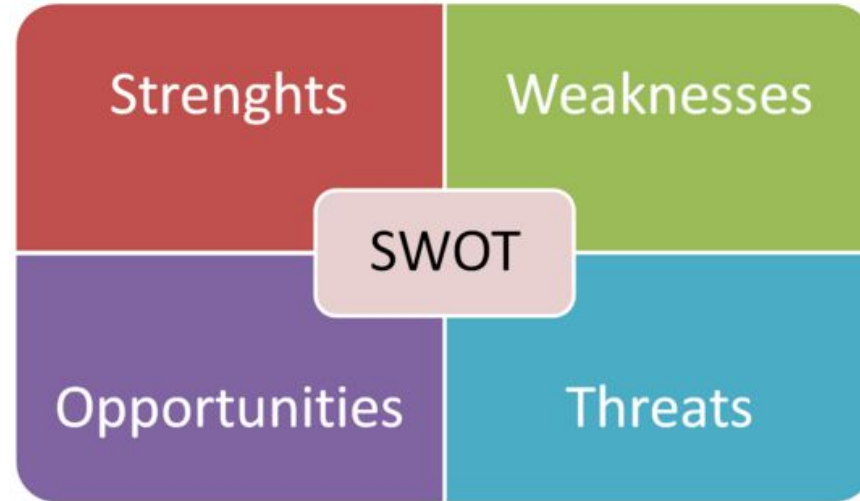


Strengths:

Low prices
Convenience
Locations everywhere
Economies of Scale

Weaknesses:

Negative publicity
Unhealthy food menu
Customer retention challenges

**Opportunities:**

International Expansion
New product development
More Healthy Options
Consumer Spending
Increasing

Threats:

Shifting consumer preferences
Increasing labor and commodity costs
Emerging competitors (fast casual and meal delivery services)

FUTURE INNOVATIONS

Self-Serve Kiosks

Fast Casual Formats

Delivery Services

Mobile Ordering



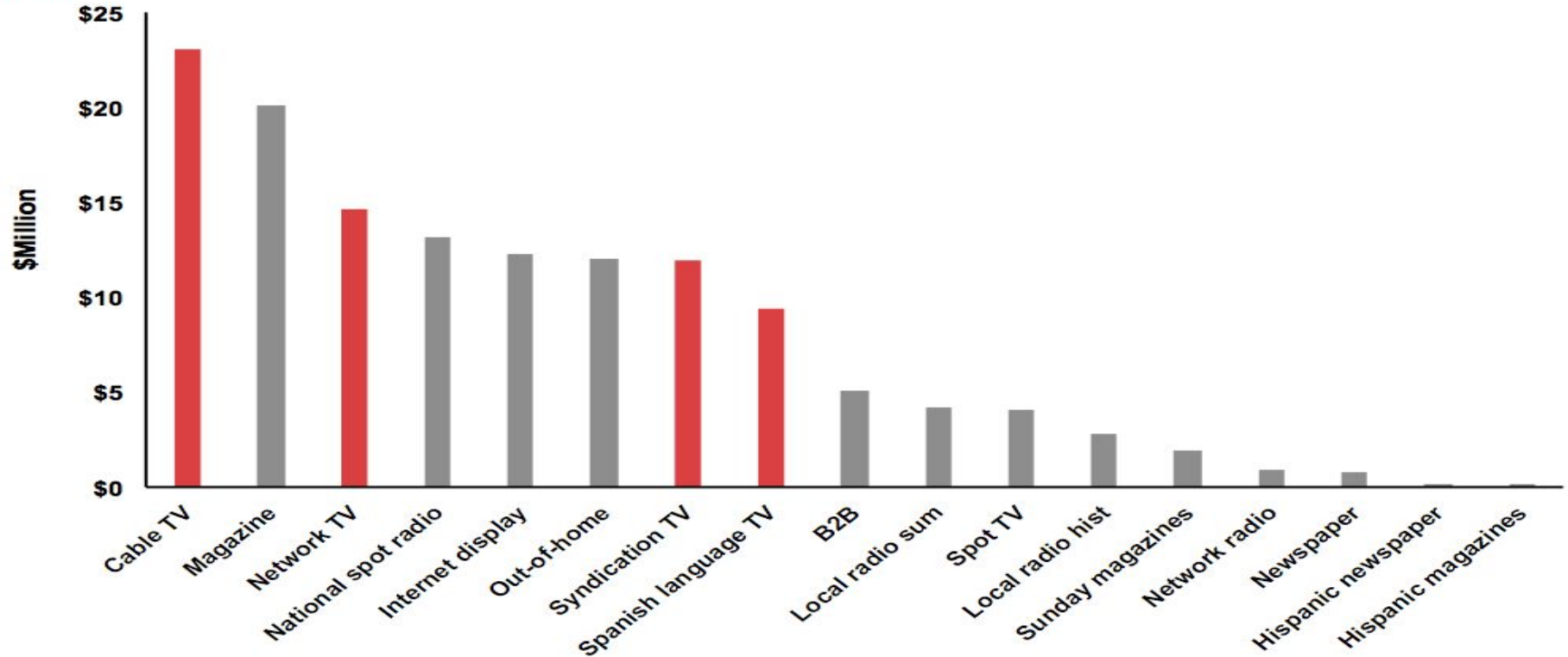


ADVERTISING STRATEGIES

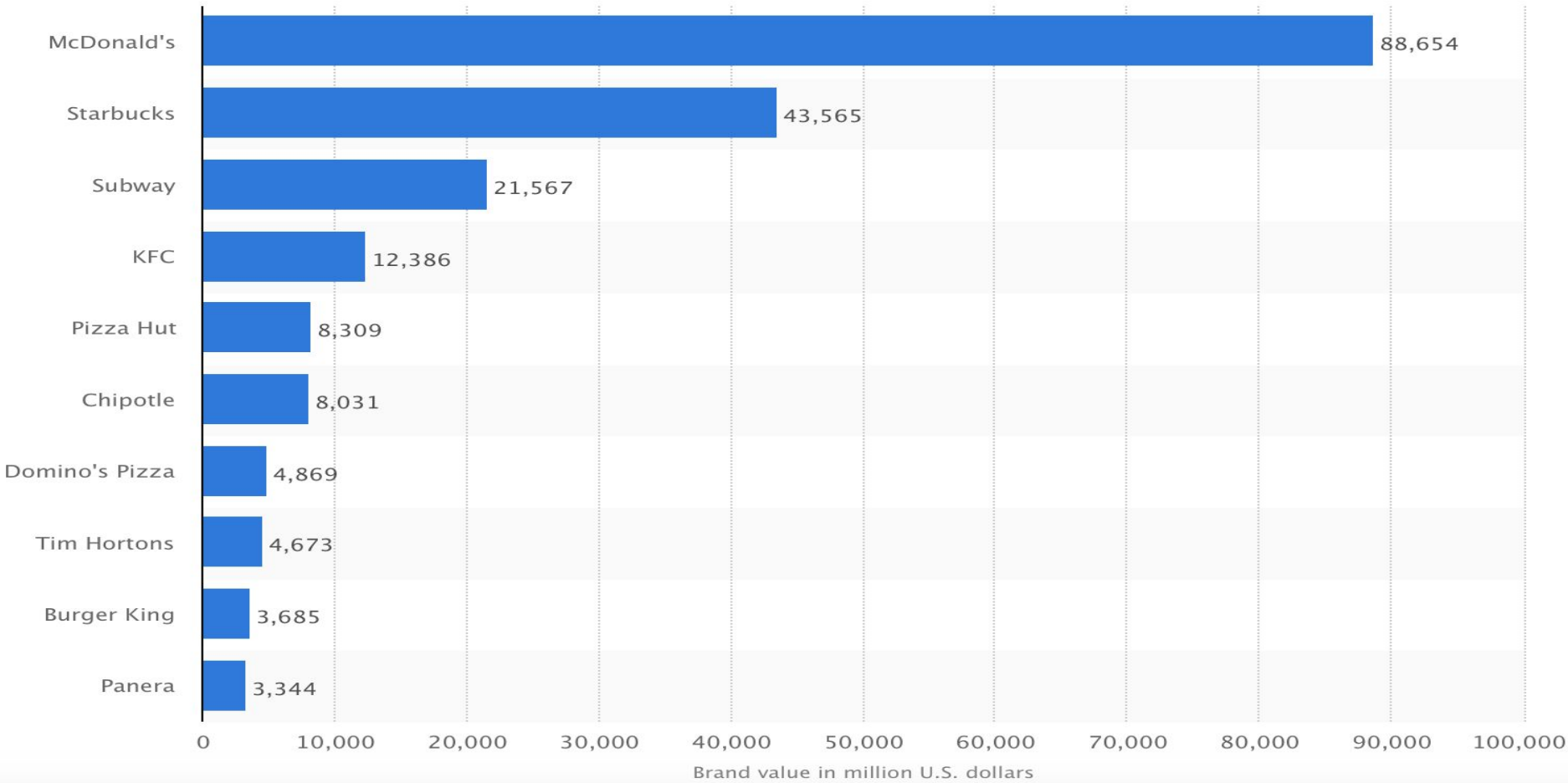
CABLE TV DOMINATES ADVERTISING EXPENDITURE

2013 Advertising Spend in the food & beverage industry in the US by medium

Statista



Brand value of the 10 most valuable fast food brands worldwide in 2016 (in million U.S. dollars)



BRAND VALUES (2016)



\$88.65 billion



\$4.7 billion



\$3.69 billion



\$2 billion



AD-TO-SALES RATIO

Total Industry 2013: 2.93%

McDonald's 2016: 2.98%

Burger King 2013: 5.40%

Wendy's 2017: 5.28%



Perceptual Map of Fast Food Industry



PERSUASIVE ADVERTISING



Focus: consumer's wants and needs

→ Desire for **tasty meals**,
convenience & **collectibles**

Result: Alters consumer tastes and
create product differentiation
(unrealistic perception)

→ 2011: 57% of visits made were done
without stepping out of car

→ Nearly \$2 billion is spent (yearly)
by U.S. food and beverage companies
to market products towards children

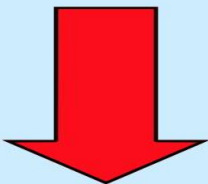
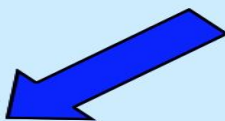
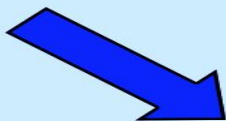
MCDONALD'S PERSUASIVE ADVERTISING



Interactive Marketing In the Digital Era

- Purpose: to promote **addictive** and **compulsive consumption** by kids and adults
- Example: McDonald's introduced the McPlay mobile app (2013)





"The exaggerated imitation can cause a stronger pull than the real thing."

MCDONALDS BIG MAC

ADVERTISEMENTS

ACTUAL BIG MAC



BURGER KING WHOPPER

ADVERTISEMENTS

ACTUAL WHOPPER



MVS. **BURGER KING**

COMPARATIVE ADVERTISING

EST. 1986



Focus: continuously diminishing others' perceived quality

Result: effective way to reduce quality of competition & exaggerates the prisoner's dilemma

→ Examples: Wendy's "where's the beef" (vs. McDonald's), Subway claim having healthier sandwiches (vs. McDonald's), etc.



Wendy's SUPER BOWL COMMERCIAL





Fresh beef available in the contiguous U.S., Alaska and Canada.



Wendy's 
@Wendys

 Follow

Our beef is way too cool to ever be frozen. 😎

6:24 PM - 30 Dec 2016



Thuggy D @NHride

2 Jan

@Wendys your beef is frozen and we all know it. Y'all know we laugh at your slogan "fresh, never frozen" right? Like you're really a joke.



Wendy's 
@Wendys

 Follow

@NHride Sorry to hear you think that! But you're wrong, we've only ever used fresh beef since we were founded in 1969.

12:27 PM - 2 Jan 2017

  832  4,259



Thuggy D @NHride

2 Jan

@Wendys y'all should give up. @McDonalds got you guys beat with the dope ass breakfast



Wendy's 
@Wendys

 Follow

@NHride You don't have to bring them into this just because you forgot refrigerators existed for a second there.

12:31 PM - 2 Jan 2017

  9,931  27,841



COMBATIVE ADVERTISING



Shifts consumer preferences
towards the advertising firm but
does NOT expand category
demand

→ Basis of Prisoner's Dilemma in
advertising

Result: advertising wars





MEMORY JAMMING

Focus: why do familiar brands advertise so heavily?

Reasons: advertising can influence the way consumers encode and recall their consumption experiences (favorable)

Examples: memorable slogans, paired with creative cartoons



INFORMATIVE ADVERTISING



Advertising used to convey information to consumers

Reduce consumers' search costs

Informs consumers about new price promotions and new products

Reduces price dispersion

Ex: McPick 2 and Naked Chicken Chalupa







DATA ANALYSIS

TRENDS IN THE FAST FOOD INDUSTRY

Trends: breakfast foods and coffee, healthy menu items advertised in the Spring

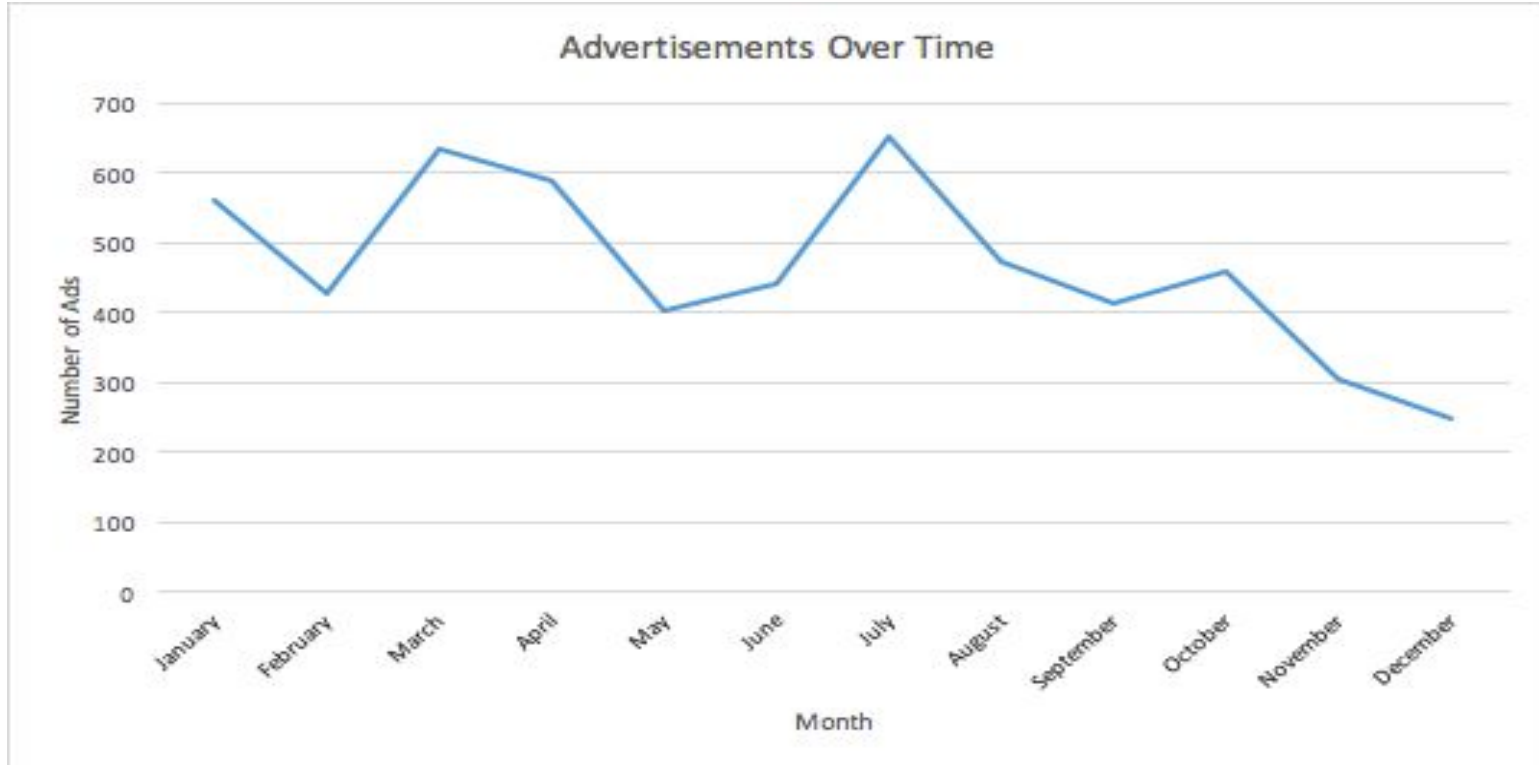
More value ads around the new year and start of school

Happy Meal ads were played on a wide variety of television shows, not just children/animation shows

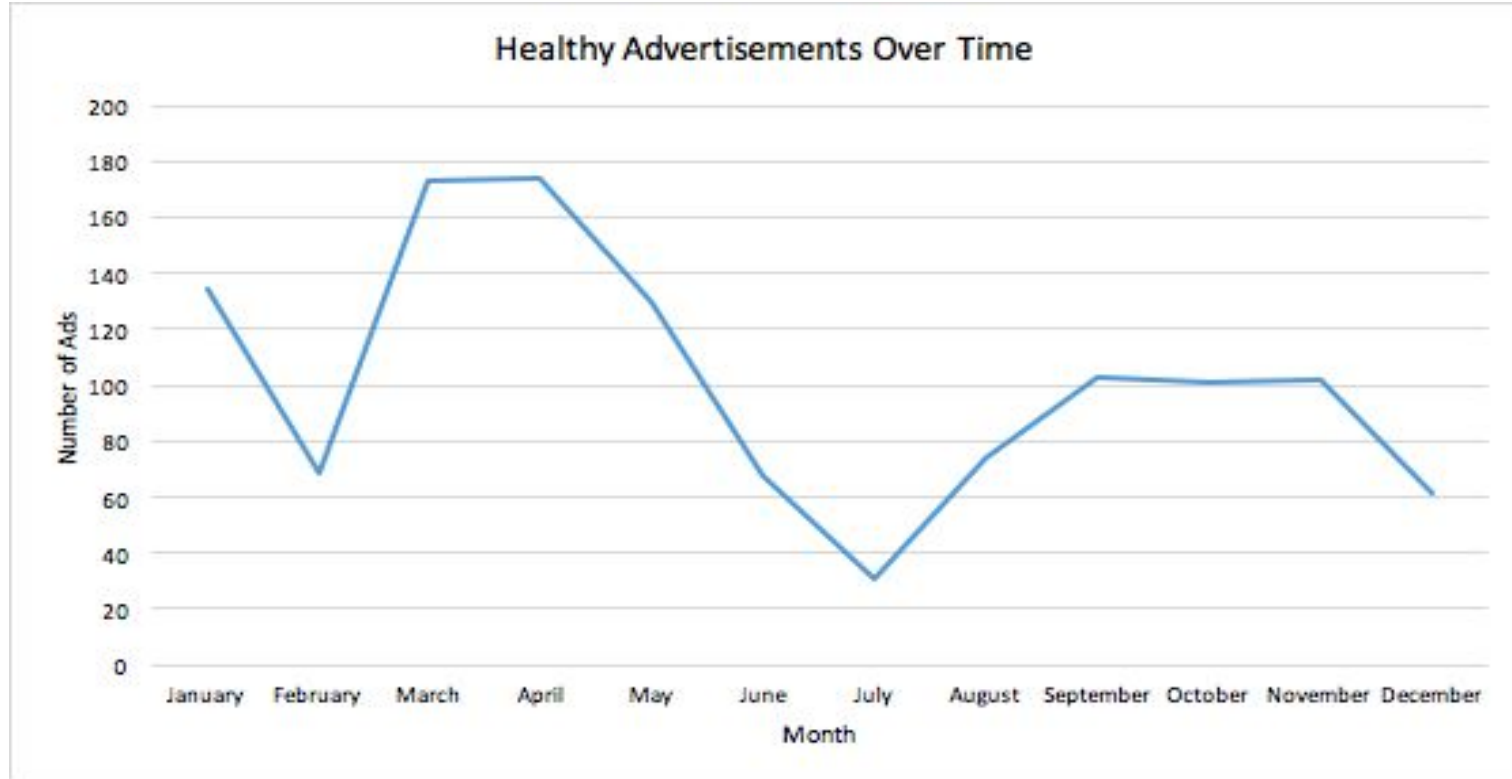
13.2% of ads are played at a sporting game, only .4% of ads played on kids tv



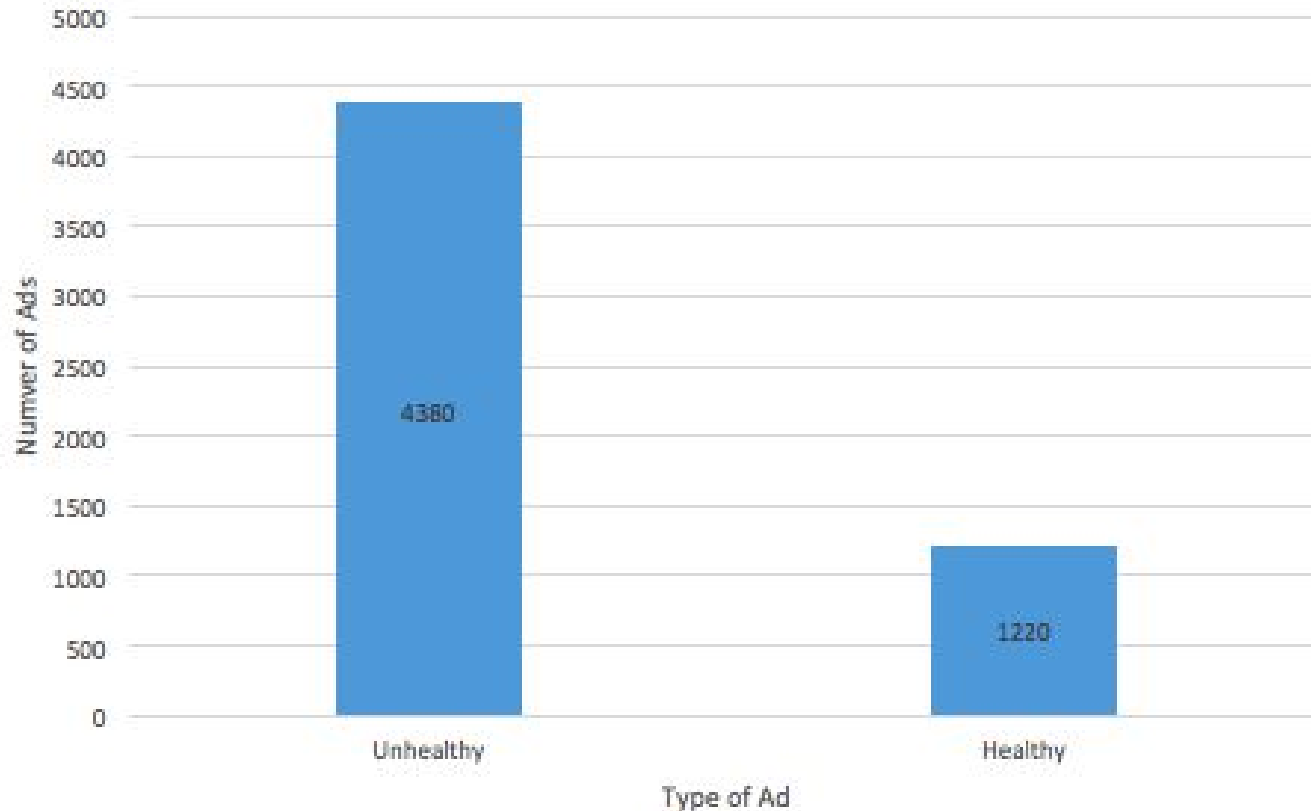
SEASONAL TRENDS IN ADVERTISEMENTS



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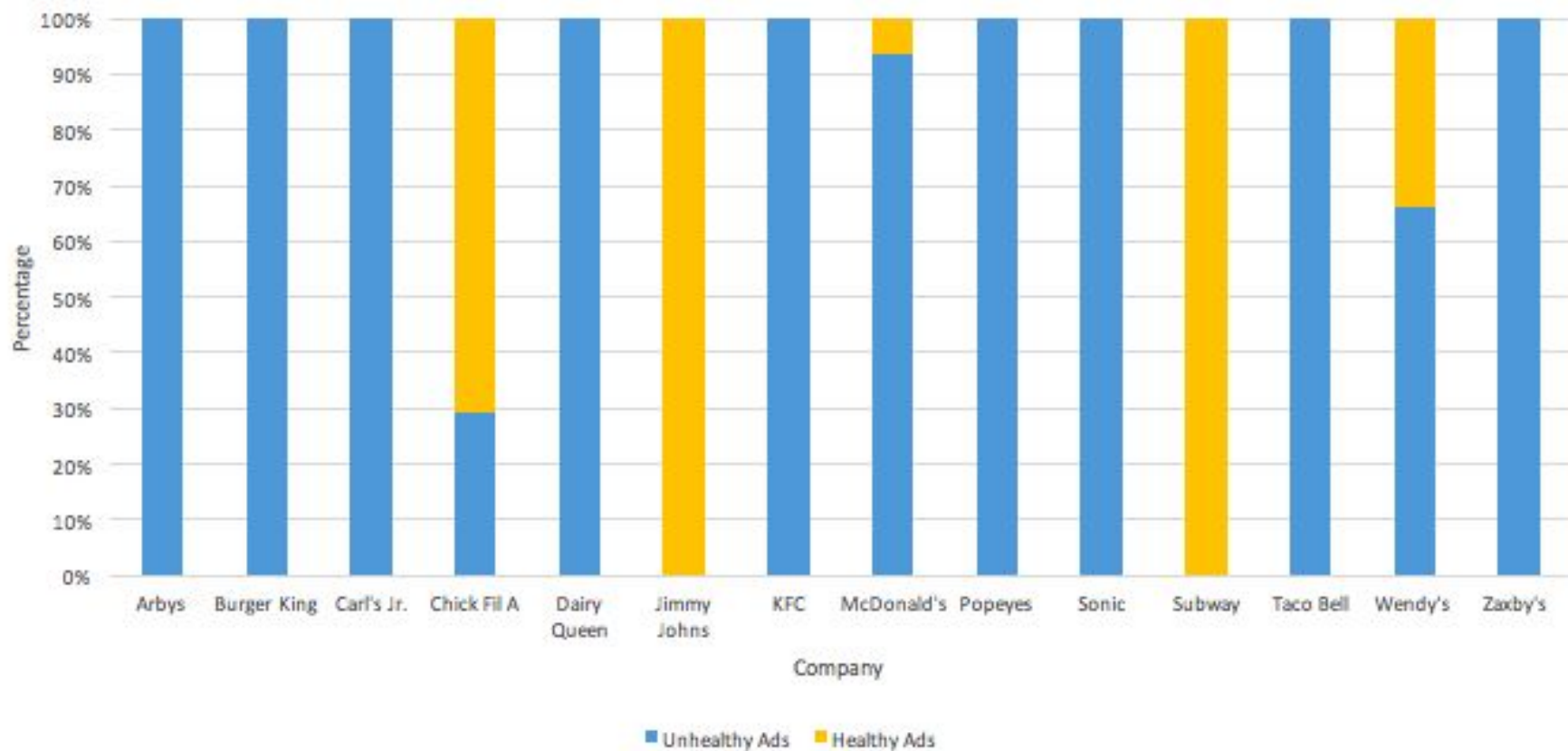
Unhealthy vs Healthy Advertisements



For the entire industry, unhealthy advertisements make up 78.2% of the data

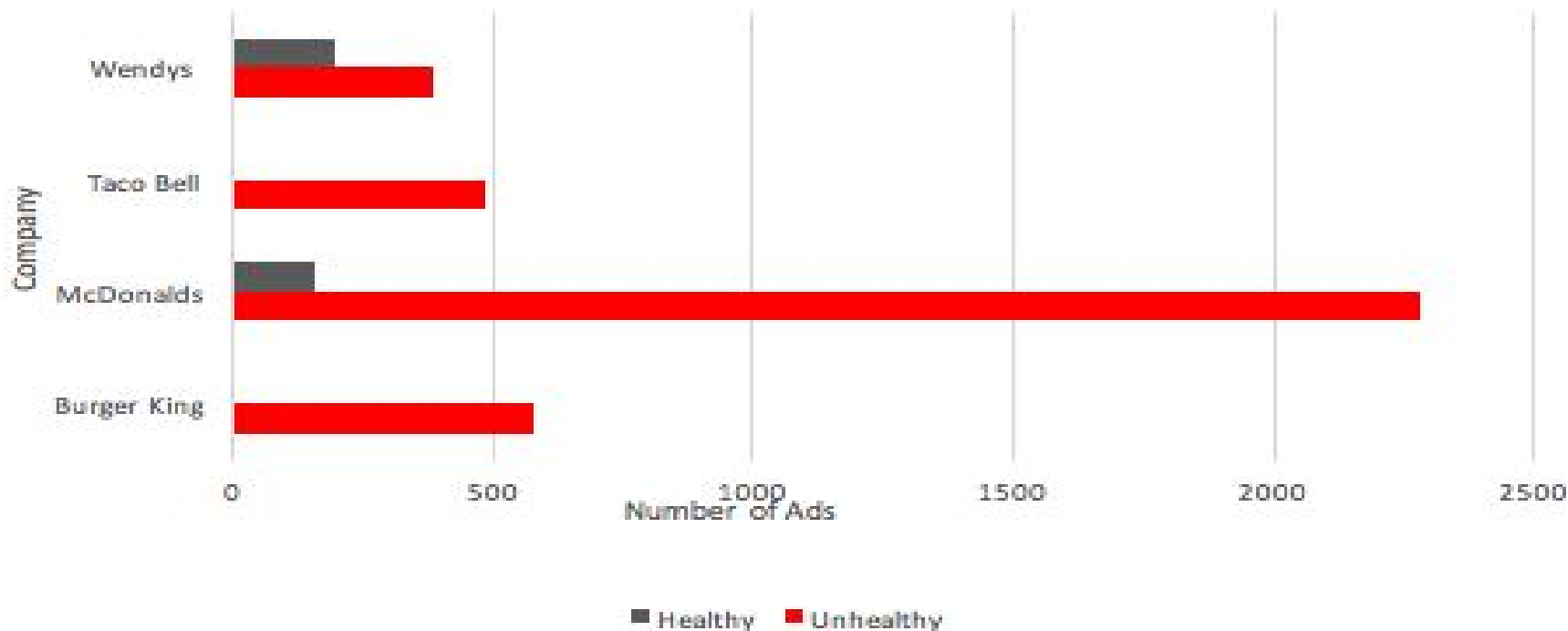


Unhealthy vs Healthy Ads by Company



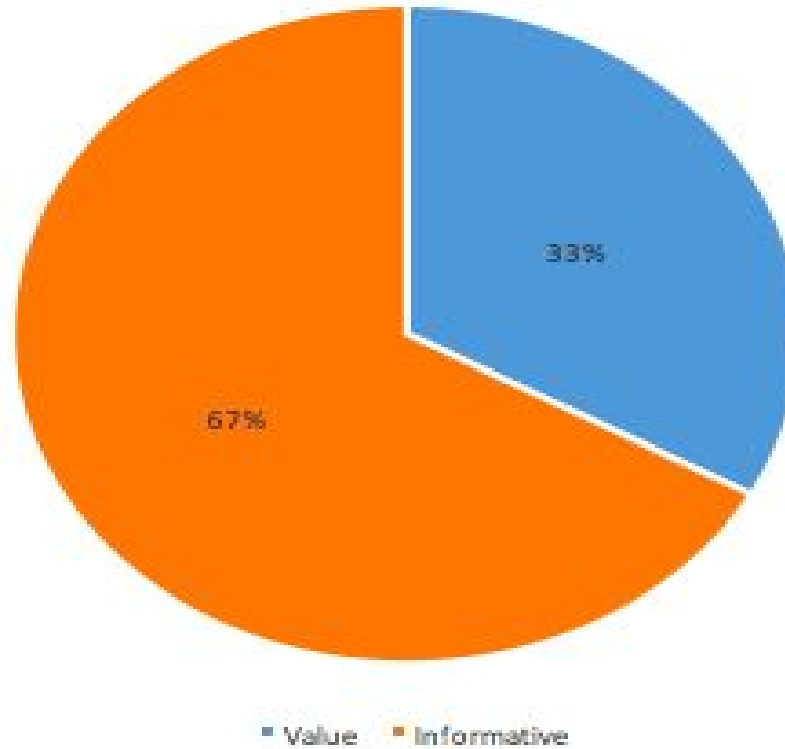
ADVERTISING HEALTH TRENDS

Healthy vs Unhealthy Advertisements

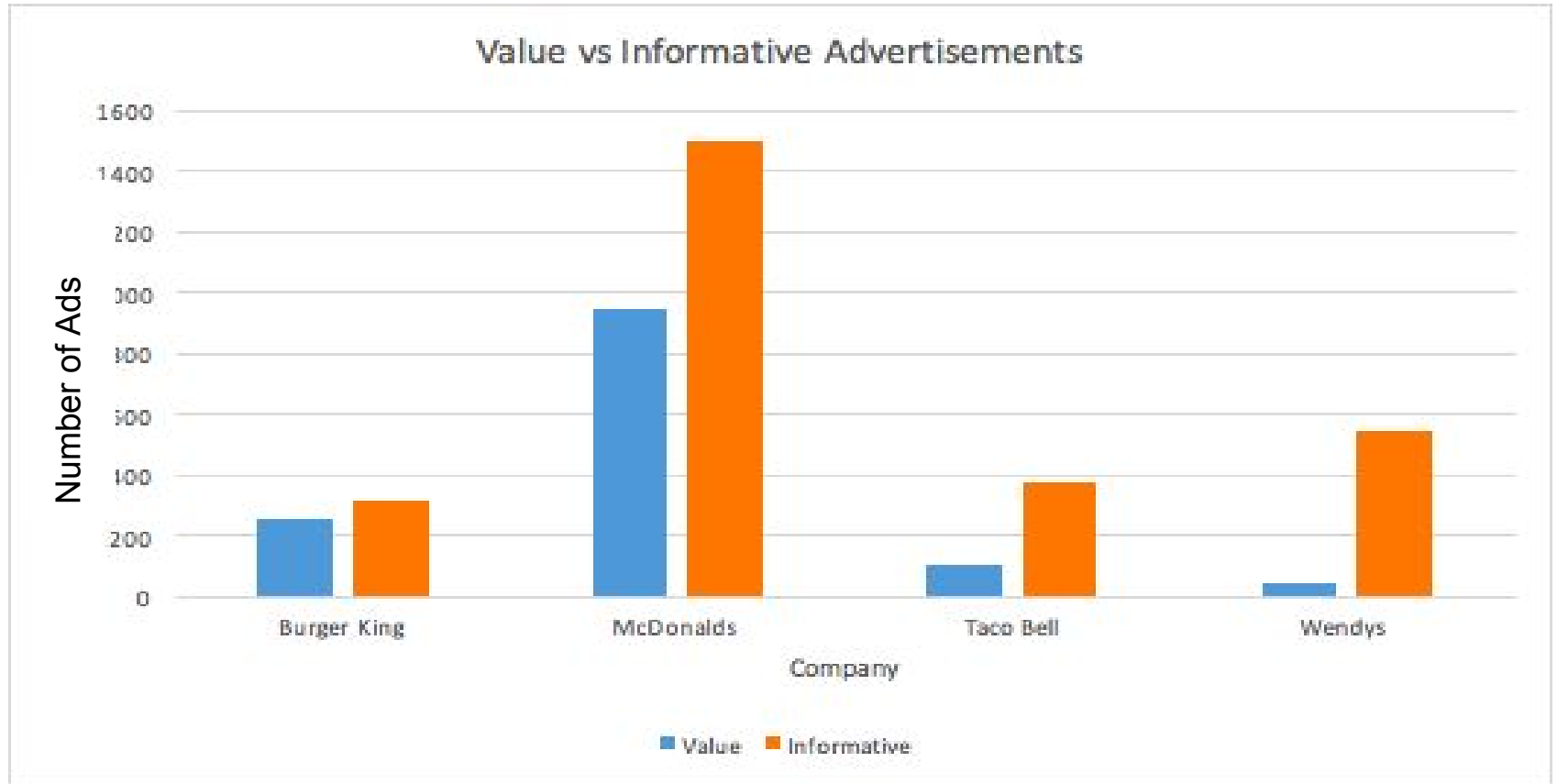


TYPES OF ADVERTISEMENTS (INDUSTRY)

Industry Wide Dispersion of Ad Type

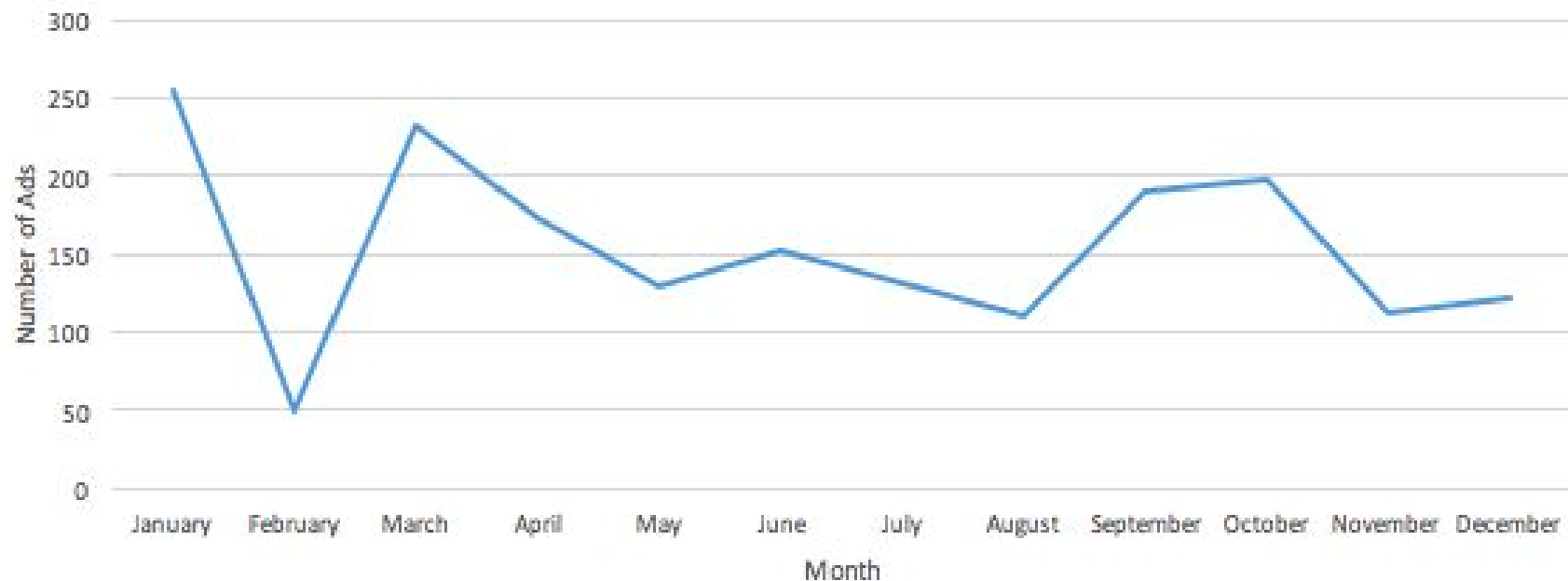


TYPES OF ADVERTISEMENTS

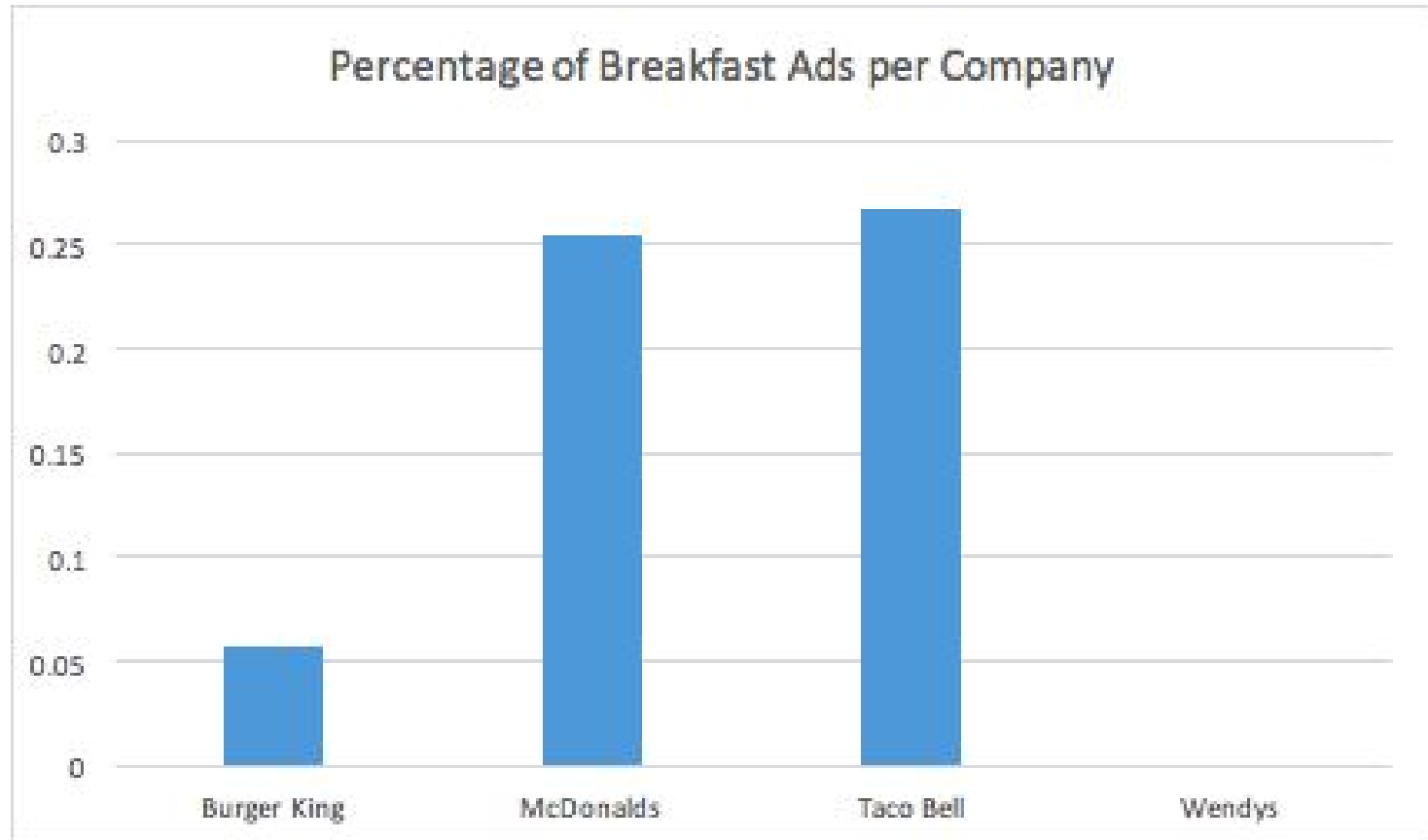


VALUE ADVERTISEMENTS

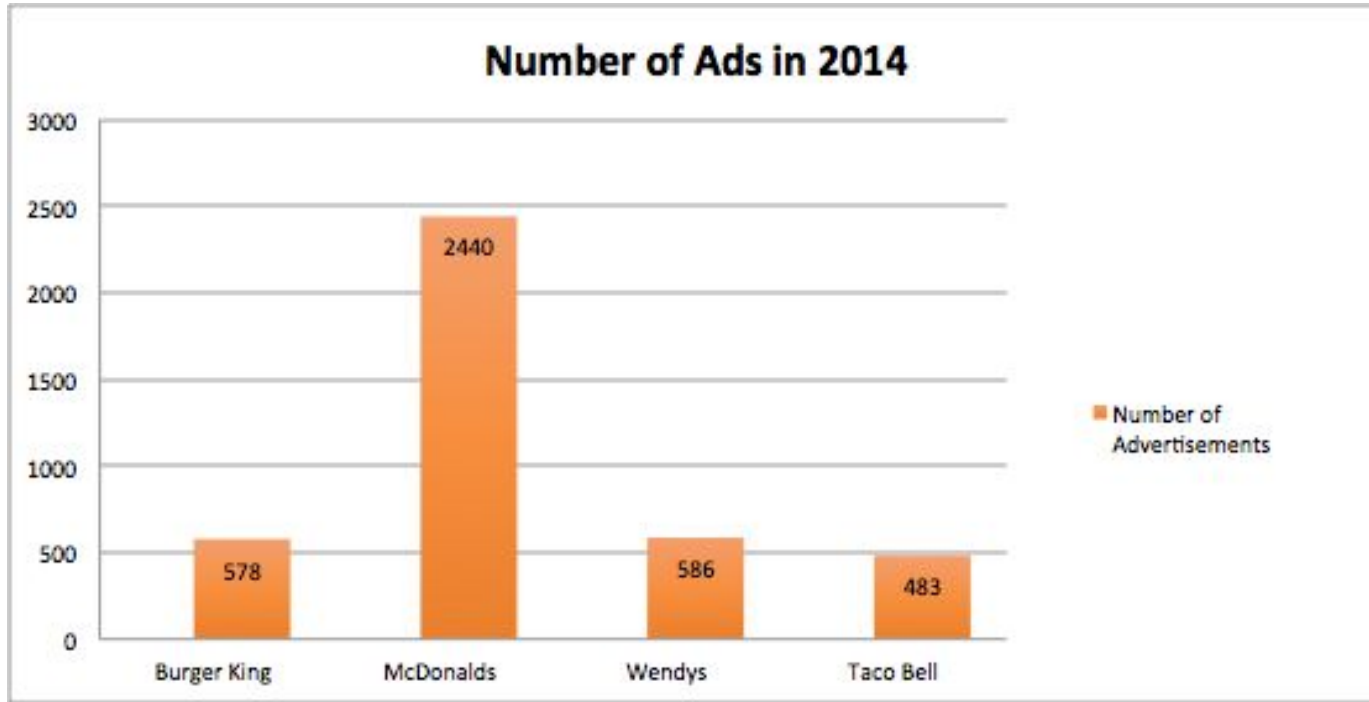
Value Advertisements Over Time



BREAKFAST ADS



TOTAL ADVERTISEMENTS (2014)



McDonald's leads with over **4x** the amount of ads as its closest competitor, **Wendy's**

McDonald's spent \$5,992,005,200 on advertisements in 2014.



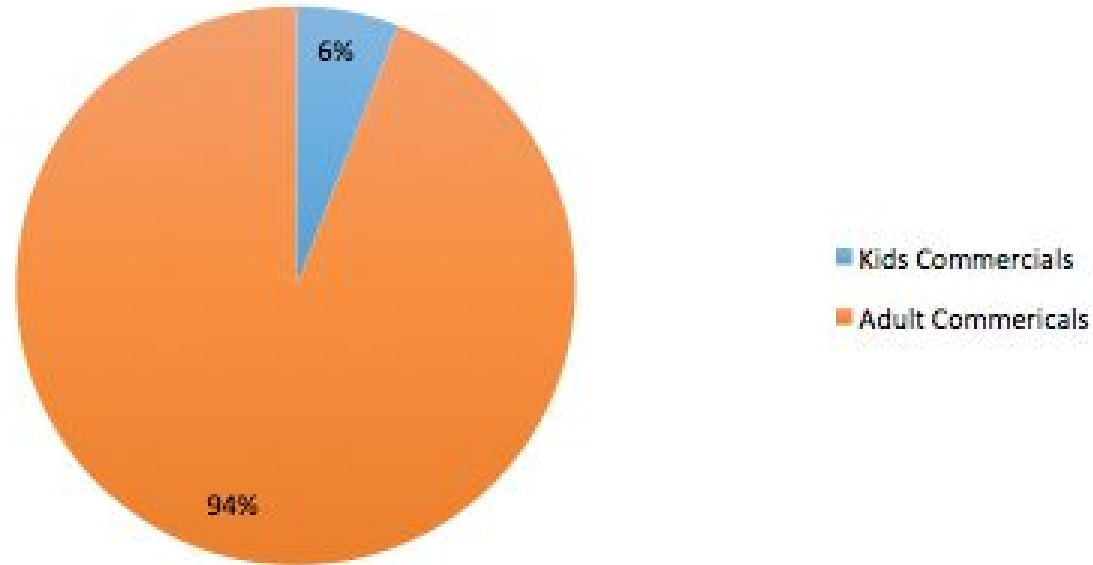
TOP PROGRAMS (2014)

1. Simpsons - FOX
2. American Idol - FOX
3. Big Brother 16 - CBS
4. Family Guy - FOX
5. Winter Olympics - NBC



TARGET AUDIENCE OF MCDONALD'S ADS

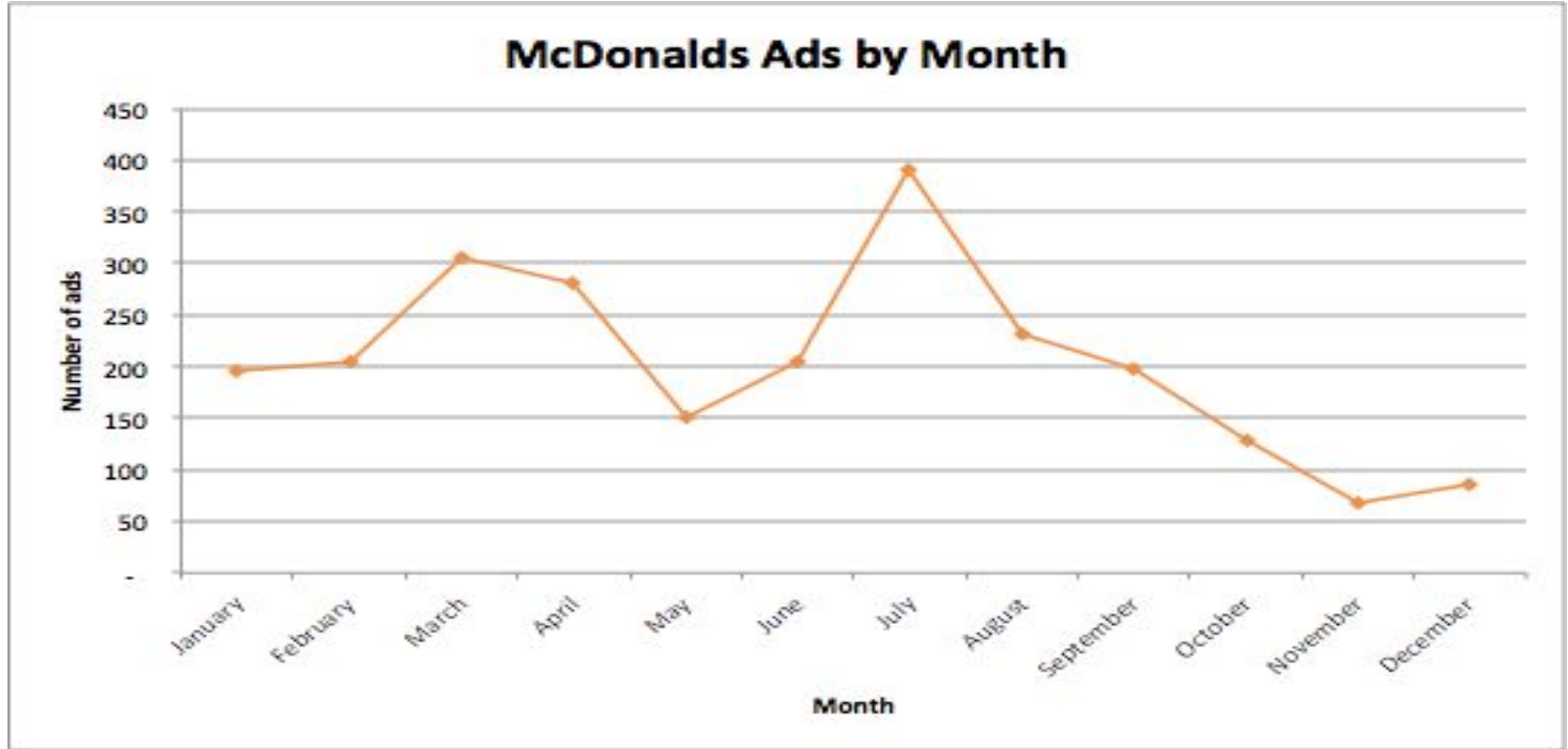
Target Audience of McDonalds Ads



**146 kid
ads
versus
2,294
adult ads**



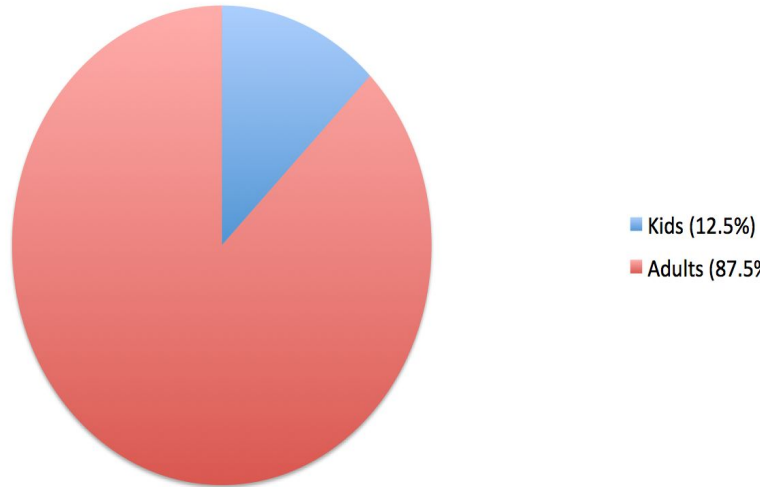
SEASONAL TRENDS (2014)



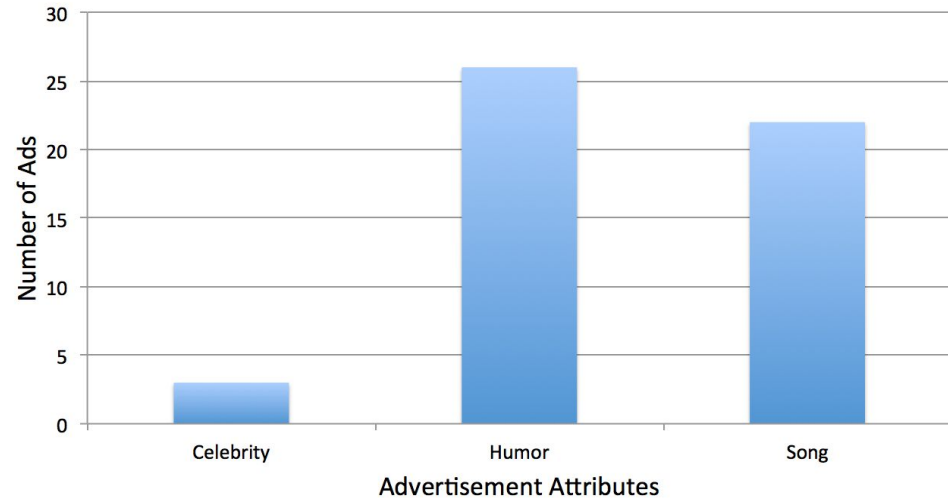
CONTENT ANALYSIS



Target Audience



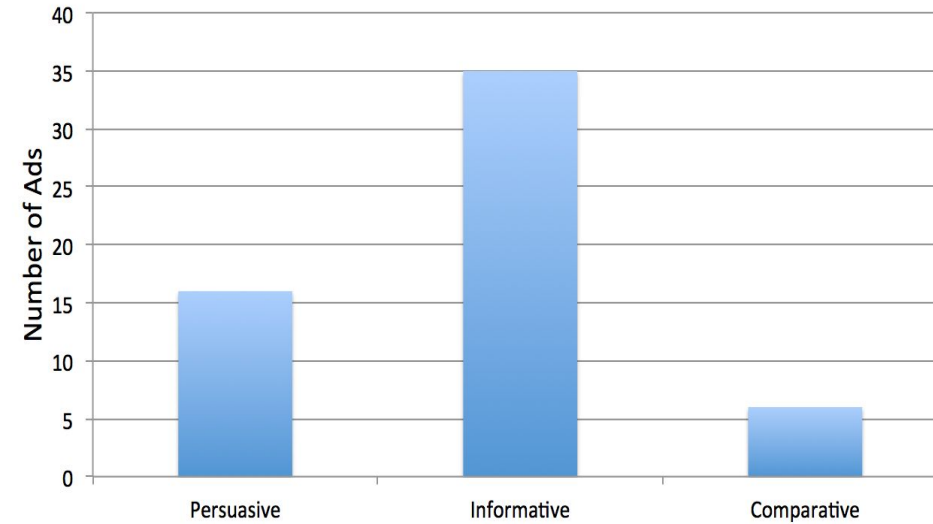
Ad Components



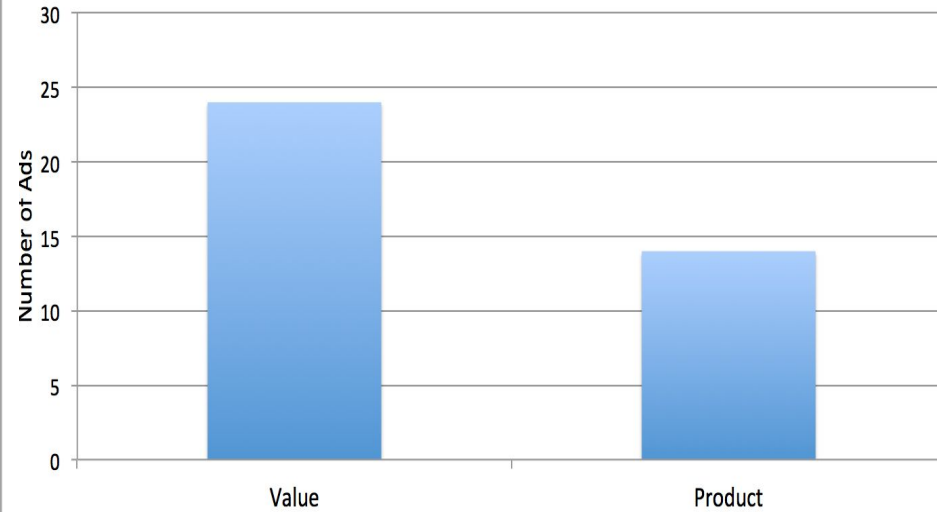
CONTENT ANALYSIS



Types of Ads



Value-Based vs. Product-Based



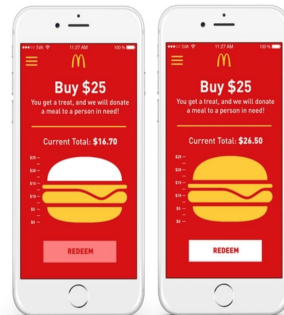


Recommendations

HOW TO ESCAPE THE PRISONER'S DILEMMA?

Loyalty programs to generate a consistent consumer base for an elastic good

- ✓ personalized recommendations
- ✓ targeted e-mail and mail promotions
- ✓ assess what products, services and price points customers prefer



INVESTMENT STRATEGIES

- ✓ Identify how other firms are capitalizing on changing preferences
→ Example: healthy menu options that consumers can eat on the go
- ✓ Technological innovation
→ Example: mobile ordering apps

ADVERTISING STRATEGIES

- ✓ Adapt to consumer shifts in preferences
- ✓ Focus on quality of food and experience
- ✓ Continue to leverage impulse buying & low prices



THANK YOU!



LAUREN BROCKHURST

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