

Turning around a Burger King past its prime

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Compared to McDonald's strong sales performance and Subway's vigorous expansion drive, Burger King's crown has lost its shine. New owner 3G Capital has a tough job ahead.



Old hat: Food marketing experts say the brand needs an identity that appeals to today's consumers

The figures don't lie. Burger King's sales have been falling steadily over recent quarters and were down 2.3% in the year to the end of June, while profits were flat compared to the same period a year earlier.

Meanwhile, rival McDonald's has just enjoyed a "better-than-expected" sales increase of 7% globally, with a 5.3% lift in Europe where the UK market proved a "big driver".

The new owner of Burger King, New York-based 3G Capital, has a job on its hands turning the business around. People will always want burgers and fast food, but this isn't perhaps the low-risk investment on which the little-known private equity outfit prides itself.

Perhaps the easiest option would be to copy its big rival: both companies are in the business of selling burgers, after all. But as McDonald's has proven in the past few years, the fast-food market has moved on, and has in fact become slower.

The strategy of creating a more relaxed ambience in its restaurants has been key to McDonald's success, and a revamp on a similar scale should be high on the to-do list for 3G, say experts.

At McDonald's, gone are the hard, plastic seating areas in unappetising colours, almost encouraging customers to come in, eat up and ship out; in are comfortable, spacious sections catering for a range of demographics.

Jeffrey Young, managing director at consultancy Allegra Strategies, says McDonald's has made its restaurants "more attractive places to be".

He foresees an expensive outlay on the cards for 3G, with a redesign costing about £150,000 per store.

Max Jenvey, managing director of strategic marketing consultancy Oxygen Marketing Partnership and former McDonald's marketer, agrees.

"Burger King is ten years behind, at least," he says, and suggests it has even got to keep an eye on the likes of Subway.

Indeed, the sandwich bar has been a thorn in Burger King's side, snatching customers with its prolific drive on new stores, which peaked last year with 200 openings.

Burger King, like Subway, is a heavily franchised business, which makes it a “classic private-equity play” according to some analysts. In other words: borrow heavily to buy a chain with a large franchise base and pay down the debt over time with cash from franchisee royalty payments and other fees. That allows the investors to ride any improvement in the economy.

Tougher times ahead

While the economy might be showing signs of recovery, Young says this is a risky ploy and could result in tougher times for Burger King, especially with McDonald’s in such rude health.

Some say 3G should look at reinventing Burger King. For Don Williams, chief executive officer at branding consultancy Pi Global, the brand’s name won’t make this easy.

“Linking a brand name to a product is a recipe for long-term problems,” he says. “It’s great while the product is in vogue, but it’s a millstone when it isn’t. Burger King needs to reinvent itself with a brand personality and new brand identity that is relevant to today’s consumer and clearly differentiated from the competition.”

With a 40-day go-shop period now in place to allow Burger King to solicit other offers, the new owner’s ideas are still some way off becoming reality. That makes the much hyped introduction of “The King” last week all the more intriguing.

The character is used by the chain in its US marketing, in a similar way to which McDonald’s used Ronald. Burger King UK marketing director Sarah Power says the popularity of The King in the US and other European markets means its introduction in the UK has “quite a lot to live up to”.



Café culture: McDonald’s has revamped its restaurants to offer a more relaxed ambience. A similar outlay for BK could cost up to £15k per outlet

The ad plays less on the American heritage than expected, but there are doubts whether the British public will be as receptive to the The King.

McDonald’s successful reconnection with the British consumer has relied not on a man in a costume but on pushing its policy on local sourcing and good, British food.

Olly Gosling, a project manager at communications agency The Hub, says this messaging is proving a hit with consumers. “McDonald’s has communicated well that provenance, quality and value for money are all available from the brand,” he adds.

Can a US character with a plastic face really compete with British farmers? It may never get a decent shot, if there is a change in direction with 3G at the helm.

Some recent comings and goings at the two fast-food chains add further intrigue. Burger King appointed ex-Coca-Cola marketer Natalia Franco as global chief marketing officer recently. However, weeks later it lost its most senior European marketer.

Meanwhile, McDonald’s move last week to promote its UK chief marketing officer, Jill McDonald, to chief executive is designed to ensure the chain retains its focus on customers.

There are plenty of other “quick wins” that McDonald’s has identified and exploited, which 3G would do well to bear in mind. An emphasis on coffee, for instance, has provided a real sales kick. Young says McDonald’s has understood what an important role coffee can play, both in terms of the breakfast trade and relieving afternoon lulls.

Breakfast club

In the US, Burger King is attacking the breakfast market, having just introduced nine new breakfast items to steal some breakfast business from rivals.

But the McCafe concept will be a hard act to follow. McCafe Real Fruit Smoothies have been a top contributor to the company’s recent sales lift, with suggestions that they could be rolled out in the UK in due course.

Burger King clearly has a lot of ground to make up in the UK, as well as globally. In Brazil it is currently losing out to McDonald’s, according to Planet Retail’s analyst Beth Miles. “The fact that 70% of Burger King’s revenues come from the US is a key reason for its recent struggles,” she adds, “so it’s probably good news that 3G includes three Brazilian billionaires.”

Of course, those billionaires will want a return on their £2.1bn investment. What’s more, they’re likely to want it fast.