Católica lisbon – School of Business and Economics

Burger King in Portugal

To lead or to follow?

Sara Saraiva Patrone | Number 152110048

Advisor: Professor Mário Valente

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Abstract

Title: Burger King in Portugal. To lead or to follow?

Author: Sara Saraiva Patrone

In 2001, the Burger King (BK) brand, managed by Ibersol group entered the growing fast food Portuguese market. Marginally higher prices along with the fact of having entered the market 10 years after its most direct competitor (McDonald´s), led BK to a sub leader position.

Although being recognized as offering superior quality products when compared to McDonald´s, BK´s growth margins in the Portuguese market have been decreasing since 2007. The company´s uncertainty situation, offers the possibility of discussing positioning alternatives and strategic choices in business strategy and marketing courses. Besides the case study, the dissertation includes a literature review of frameworks and concepts used to evaluate company´s internal and external environment. Finally, teaching notes proposes an approach to the case that might be used to guide class discussion or stimulate its preparation.

From the case analysis, the competition analysis and recent Portuguese economic situation, this dissertation proposes a set of concrete actions to reverse the current positioning and brand growth.

Resumo

Título: Burger King em Portugal. Líder ou seguidor?

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Em 2001, a marca Burger King (BK) detida pelo grupo Ibersol entrou no mercado português para um segmento que, à altura, apresentava um forte crescimento: o segmento da "comida rápida". O facto de praticar preços marginalmente mais elevados conjugado com o facto de ter entrado cerca de 10 anos depois do seu concorrente mais directo (McDonald´s) conduziram a marca BK a uma posição de sub-líder.

Apesar da marca gozar do reconhecimento generalizado de comercializar produtos que superam qualitativamente os da McDonald´s, as margens de crescimento no mercado português têm revelado uma tendência decrescente desde 2007. A situação de incerteza da empresa oferece a possibilidade de discussão das alternativas de posicionamento e escolhas estratégicas em cadeiras de marketing e estratégia. Para além do caso de estudo, a dissertação inclui uma revisão dos conceitos e ferramentas teóricas usadas para analisar o ambiente interno e externo da empresa. Por último, a nota de ensino propõe uma abordagem para o caso em estudo que poderá servir de guia para uma discussão em aula ou estimular a preparação da mesma.

Através da análise do caso, da análise da concorrência e da situação actual da economia portuguesa, esta dissertação sugere um conjunto de acções concretas conducentes a inverter a actual tendência de posicionamento e de crescimento da marca.

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I also must thank Mário Valente, the seminar advisor, for his feedback and advice that helped me throughout the completion of the dissertation.

Ultimately, I must thank Ibersol collaboration which provided the exceptional possibility of interviewing Drª. Ana Miranda, Ibersol´s marketing director, about BK activity details that served as background for the case study.

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I.INTRODUCTION

For more than 10 years, BK has been competing in the Portuguese market but never turned around from its sub-leader position.

By the end of 2007, the *king´s crown* was selling its core products in 28 outlets spread throughout the main Portuguese shopping centers. By this time, BK started experiencing decreasing growth rates, in part reflecting the unprecedented international financial crisis which was the main cause for the current Portuguese recession. By 2010, 10 additional outlets were opened and the brand had a total of 24 M€ in sales.

By this time, BK was experiencing increasing competition pressure. The market leader (McDonald´s) had 291 M€ in sales (about 12 times more) and was present in more than 130 outlets (a network 3.4 times larger). A local competitor, H3, that started its Portuguese operations 6 years later, was closing on BK´s sales numbers (22 M€) with a distribution network of 33 outlets.

The central theme of this dissertation is the analysis of BK´s position in the market contrasting the later with the generalized perception of the brand´s higher quality products.

The dissertation analyzes BK´s operational plan, strategy, business model and competition landscape. The Case Study (II) offers the basis for students to analyze and discuss three main issues: strategic choices that lead BK to its present situation, problems that exist inside the organization and remedying actions. Simultaneously, the case study analyzes the survey made to 150 Lisbon consumers and McDonald´s success in the Portuguese market. As the result of the students´ analysis, the following key challenging question is supposed to be answered: *What are the main reasons for BK´s sub leader position?*

This dissertation contains a literature review (III) describing the frameworks needed to analyze the case study. Finally, it includes teaching notes (IV) with suggested assignment questions and theoretical contents.

Only time will tell whether BK remains a market sub-leader or not. Meanwhile, students may analyze and suggest what the company should change in its strategic plan.

II.CASE STUDY

1.Survey

The survey (appendix 1) constitutes the starting point for a generic analysis of the aspects connected to the fast-food market as well as the specifics related to the BK brand.

The survey tries to understand what fast-food consumers' value most, which features makes them prefer BK over its main competitor, McDonalds, and how they perceive both. Additionally it makes clear to what extent BK is fulfilling consumers' needs.

2.BK history

The international fast food restaurant chain BK was founded in 1953 in Jacksonville, Florida, under the name of Insta-Burger King. Inspired by the McDonald´s brothers, Keith J. Kramer and Matthew Burns decided to open the first restaurant. Later, in 1959, James McLamore and David R. Edgerton purchased the original company and initiated a corporate restructuring starting by changing its name to *Burger King*. The following eight years the company was run as an independent entity.

In 1967, the company was sold to Pillsbury Company and started its expansion process. Between the 70s and 80s, and still during Pillsbury´s management, BK was the focus of several restructuring attempts, the most important being in 1978 when BK hired a McDonald´s executive (Donald N.Smith). This restructuring consisted in updating franchising agreements, revamping menus and standardizing outlets. In spite of all these efforts, BK was still not having a good financial performance and ended up falling into a financial crisis.

In 2002, BK started its recovering process after being purchased by an investment group lead by TPG Capital for $US 1.5 billion. This process culminated in 2006 with an highly successful IPO that generated $US 425 million in revenue and allowed a new orientation to BK.

Between 2007 and 2010 and contrary to its main competitor McDonald´s, BK suffered the financial crisis´ effects and the falling value of the company eventually lead to its sale to 3G Capital of Brazil (Wikipedia, 2012).

In summary, looking back over the past ten years, BK had three different owners, including two private equity groups, and it still failed to meet the challenge of fulfilling consumer tastes.

McDonald´s faced similar problems in mid-2000´s. But it overcame its shortcomings by offering fresher and lighter menu options, gourmet coffees and even upgrading its outlets. When the financial crisis started affecting consumers, McDonald´s made better choices and overtook Starbucks by offering low-priced menus.

In 2011, Wendy´s replaced BK´s position as the second most popular hamburger chain in US (Vinjamuri, 2012).

The possibility of BK becoming public again on the New York Stock Exchange was recently considered. Thus happen after 3G Justice Holdings bough of 29% of the company (Walker, 2012).

Martin E. Franklin, Justice Holdings co-founder, considers “the BK brand is still in a early stage of its true potential” and believes that “over the next three to five years, the US turnaround and the international growth of the franchise model can lead to significant margin expansion” (Farzad, 2012).

The brand started its Portuguese operations in 2001. Ibersol became its local partner and started building a network distribution in a consolidated way (Ibersol, 2004).

3.Ibersol history

Ibersol is a multi-concept Portuguese group dedicated to the food service business. It is considered a leader in the national fast-food market, covering the most profitable segments with powerful brands[1] (Ibersol, 2004).

Ibersol began its activity as part of Sonae group in 1989. In 1995 the company became independent and started extending its business portfolio, by exploring the Pans & Company brand, by creating the Pasta Caffé brand, by developing Ò Kilo concept [2] and by acquiring Iberusa (Ibersol, 2002). One year after, Ibersol started being quoted on the Euronext Lisbon Stock Exchange and in 2003 Ibersol was included in the PSI20 index.

Ibersol´s multi-brand distribution outlets are primarily located in shopping centers. Whether intentional or not, this location strategy probably derives from the cultural roots of its founders since Sonae it’s the largest developer of this kind of establishments.

During its evolution, Ibersol had not always held the same brands, buying and selling them according to perceived business opportunities. Among the brands still held by the company, it is important to emphasize Pizza Hut, Pans/Bocatta and BK which have been, over the years, the largest source of company´s sales (exhibit 1).

3.1 Ibersol´s mission and strategy

Ibersol acts in the Iberian Peninsula. The company defines its mission as “respect for the values of Quality, Food Safety and Environment concerns based on qualified and motivated Human Resources who are engaged in satisfying consumer needs and ensure return on the investments to its shareholders”.

[1] It manages segments such as pizza, chicken, sandwich, Brazilian and Italian food, traditional Food, burgers and coffee.
[2] Brazilian restaurant

Ibersol´s strategy is formulated in a global way, and applied to all brands (Ibersol, 2007):

- Iberian strategy consolidation

  To be the Iberian leader in the business food sector and to reach in the long term a relevant position amongst the most important peer European companies.

- From single brand to multi-brand

  An increasing demand customer base drove the strategy "to select what we considered to be the most important segments of the market. For each of these segments, we selected the important brands in order to obtain a relevant market share".

  From the company´s point of view, this strategy brought several advantages: it contained the competition growth capability, it eliminated the single market inherent risks, it leveraged the company´s negotiating power with suppliers and right-sized Ibersol in a low margin business. Thanks to that, Ibersol was able to consolidate its presence in Portugal and started it expansion in the Spanish market. This expansion was pursued to the extent where the Iberian market is now considered its "Home Base".

- From the Portuguese to the Iberian Market

  Ibersol started its activity in Spain in 1996 through the implementation of the Pasta Caffé brand and, later in 2002, with the acquisition of Vidisco. In 2006 it acquired Lurca, a Spanish company controlling BK´s outlets, the majority of them located in Madrid. In 2007, the Spanish business represented around 30% of Ibersol´s total annual sales (BK being the most profitable brand). With this significant market share, Ibersol started detaining a platform which allowed expansion to other Spanish geographies.

In order to support its strategy, Ibersol gave special emphasizes the operating processes in the following areas (Ibersol, 2004):

Human Resources

Facing an increasingly demanding consumer, the group´s growth strategy required a constant investment in employee training, development and motivation. For example a new product promotion or an operational change is followed by an employees´ training process.

In order to understand employees´ performance and identify improvement areas, Ibersol uses sound survey techniques such as "Mystery Client" program. Each Ibersol outlet receives at least one "Mystery Client" visit per month whereby the company is able to evaluate cleanliness, hospitality, accuracy, product quality, maintenance and service quickness.

Customers´ satisfaction also plays a central role in the organization. As the company recognizes the importance of communicating, listening and providing good experiences to customers, it has created a strong *complaints management system*.

Through the analysis of complaints´ type and the results of the "Mystery Client" program, the company was able to conclude that the two most important improvement opportunities were, in 2006 and 2007, hospitality and the service quickness (exhibit 2 and 3).

Information systems

Information technology is one of the most developed areas of Ibersol. Each brand operates in a highly decentralized manner. This carries the obligation of developing highly performant procedures and systems in order to guarantee proper financial control, HR planning and supply chain management.

Ibersol uses IT as the basis for achieving an active role in B2B[3] and a B2C[4]. As far as B2B is concerned, the objective is to allow an online interaction with business partners and suppliers in a paperless environment. In the B2C area, some investments have been made to ease customer's interactions and pave the way to the electronic sales channel.

The centralized management of company´s processes in a single database allows greater flexibility in managing products and prices.

Finally, the national call center which supports Delivery and take away Pizza Hut services was also improved.

Quality

Ibersol´s quality management system follows the ISO 22000 standard, certified by APCER. There is a great effort to improve business processes in areas such as production, food safety and conservation. One such process is the "Food Safety Process" which includes:

- Supplier certification (e.g. Ibersol´s main supplier GCT group was certified in 2006 according to the standard EFSIS with the "Higher Level Certificate of Conformity");
- HACCP compliance;
- External audits of hygiene and food safety conditions;
- Product and service internal audits;
- Product tracking system.

Purchasing & Logistics

Purchasing streamlining and logistics management have a huge impact on operational efficiency and cost savings.

[3] Business to Business
[4] Business to Consumer

Purchasing is currently managed in a centralized manner by two specialized companies of Ibersol: Iberusa ACE in Portugal and Vidisco in Spain. Using a centralized database and logistics platform both companies managed to shorten the product list and widen the number of national supplier references, allowing efficiency and productivity gains.

In Portugal, Ibersol´s policy includes having a unique facility in each relevant shopping center[5] responsible for forecasting, warehousing and inventory control of all products necessary for Ibersol´s outlets.

Substantial reductions in logistics costs have been achieved through a partnership established with the GCT logistics operator currently responsible for delivering 55% of Ibersol´s products (twice per week). This partnership is controlled by a "Supplier Relationship Management" system and a helpdesk service that allows control over stocks management and minimizes potential problems stemming from product shortages.

4.BK in Portugal and Spain

BK defines itself has a "brand with worldwide recognition and higher quality products". This orientation allows it to set higher prices compared to its main competitor, McDonald´s. However the higher price strategy allied to its late entrance in the market (about 10 years later than McDonald´s) led the company to a sub-leader position.

Corporate Culture

BK´s operations are based on its own 4 vectors: quality, service, cleanliness and speed. These vectors are translated in several corporate programs namely: continuous employee training, the "Open Kitchen" and "the Customer´s Day" programs.

Believing it was the easiest way to improve their HR *quality* and consequently offer a *better service* to the clients, BK promotes a career management system.

Since 2003, BK kept their kitchens open to the public through the "Open Kitchen" program so that customers could verify the *cleanliness* of the cooking processes. With that, they proved its level of confidence in operational procedures and food safety.

James McLamore, the brand co-founder stated that "Our customers have two things, *time* and money, and they do not like giving them out easily". Based on that, BK implemented in 2004, the "Customer´s Day" program. This consists in an interactive game between customers and employees that aims at fulfilling the promise of closing any transaction in less than one minute. Failing to do so, BK offers a free "whopper" voucher. According to the company, this challenge resulted in "gaining popularity and increasing the number of clients".

[5] In the end of 2006 the brand had a total of 11 such facilities

Distribution Network

Ibersol manages the BK brand in Portugal in a franchising mode, although currently being the sole franchisee for the Portuguese market. The outlet network increased from 5 to 38 units (exhibit 4) and with the exception of the ones located in gas stations, the majority of them are located in shopping centers next to other Ibersol´s brands. In Spain the purchase of the Lurca brought 33 outlets into Ibersol control. This represents 7.23%[6] of the entire Spanish BK distribution network (Tormo, 2012).

Sales

BK started experiencing decreasing growth rates from 2007 to 2011. From that point onwards, negative growth rates were experienced namely 5.3 % in 2011 and 17.1%[7] in 2012 (exhibit 5).

Exhibit 6 compares Ibersol´s Spanish volume sales per outlet to the Portuguese counterparts. Drª. Ana Miranda, Ibersol´s marketing director, explains this discrepancy by stating that "each country as its own price policy promotional campaigns and raw materials in Portugal are more expensive".

Marketing mix

1. Product

"*There is nothing easier than selling to the public, nor is there anything harder than to satisfy them"* (Ibersol, 2002).

BK´s core business is to sell hamburgers. Its 100% beef grilled hamburgers are the distinguishing factors from the competition. Moreover, XXL sized hamburgers are unquestionably very appreciated by consumers.

Product innovation started in 2002 with a vegetarian burger offering (*Beanburger)*, and the 100% grilled chicken breast (*Chicken Whopper*). This trend was followed in 2003 with *wraps and salads*.

Product customization efforts started in 2008 with the "Have it your way" slogan that allow customers to create their own burgers. This concept also proved to be a great success.

Innovative service offerings have been introduced in some outlets: the Auto-King drive-thru and a free wi-fi service.

Efforts to adapt to the Portuguese culture started more recently (in 2011) when BK launched the Portuguese version of the mythic Whooper (exhibit 7). This product was launched in a campaign entitled "I love Portuguese Whopper" emphasizing national symbols[8] and typical Portuguese ingredients.

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[6] In a total of 456 Spanish establishments (42 of them fully owned and 414 franchisees)

[7] Annual projected value from quarterly results

[8] Galo de Barcelos

2. Price

BK´s most recognized products are the "Whopper" and the "Steakhouse". Considering these core product and bearing in mind the most sold hamburgers, BK´s average menu price is estimated to be 5.78€ (exhibit 8).

3. Place

BK´s distribution network includes restaurants (exhibit 9) and counters (exhibit 10).

Place design and environment was never a brand´s strength. The usage of dark colors, the lack of specialized sitting areas, the absence of digital entertainment devices and the contrast with other neighboring brands are contributing factors for low traffic numbers in their outlets.

4. Promotion

Marketing started being relevant in Ibersol´s strategy after 2004. But only in 2010 BK started adopting a comprehensive communication strategy placing emphasis on value, product and price and investing in advertising on an unprecedented level. This effort was implemented through media campaigns (Cable TV channels, radio, billboards), by boosting communication with customers at the point of sale and by sponsoring the Rock in Rio (R&R) event.

In 2011 customers started getting used to BK´s image in TV ads and social networks such as "Facebook" (FB). The later is used for customers´ interaction with other brand lovers and access to promotions and novelties. Clients can also communicate with BK employees that are ready to answer any question or explain any doubt almost in real time. A brief analysis of customer comments in the FB page shows negative feedback regarding outlets proximity, absence of *Whopper* and *Steakhouse* promotions or the price gap between Portuguese and Spanish campaigns (exhibit 11).

Exhibit 12 provides a visual comparison of some of the brands´ websites revealing the outdated status of the Portuguese one.

5.Competition

This chapter provides a brief explanation of BK competitor's strategies and their most important marketing actions. The fast-food segment is mainly constituted by "price-sensitive consumers" who usually value the speed of service and consider pricing to be more important than quality.

5.1 McDonald´s

McDonald´s started operating in Portugal in 1991. Their business has been growing since through a combination of fully owned stores and franchised outlets.

Profiting from its early entrance in Portuguese market, it quickly assumed a leadership role characterized by a quick service, low pricing strategy and tasteful food offerings. Its capacity for products and services differentiation and for improving their outlets´ image have been the big contributors for their leadership consolidation.

Corporate Culture

McDonald´s bases its operations on quality, service, cleanliness and value.
These vectors translate into corporate programs such as: quality certifications, opinion surveys, employees´ training courses and the "Open Kitchen" initiative. These vectors are very similar to BK´s and the only one worth mentioning is quality. McDonald´s was the first hamburger chain to obtain a food safety and service certification (ERS3002 assigned by APCER) and the hamburgers best quality award by the APPLUS +100% lab. (exhibit 13 and 14).
Moreover, McDonald´s complies with HACCP critical control points and have very strict rules regarding food safety and hygienic control.

Distribution Network

In 2011, McDonald´s Portugal had 135 outlets. McDonald´s has been capable of positioning itself to be attractive in several market segments. As McDonald´s general director, says "to prove that, you just have to go to a restaurant and observe the consumers that visit us individually or in group, in different occasions and with distinct motivations". (Barbosa, 2011)

McDonald´s was considered in 2011 and for the fourth consecutive time the best Portuguese franchising brand of "Franchising awards". McDonald´s had, in 2011, a network of 47 franchisees responsible for managing more than 80% of the 135 outlets. The importance of the partnership is recognized by Mário Barbosa: "They allow an organic rapid growth of the brand that would not have been possible if McDonald´s had to exclusively invest in fully owned restaurants". (Barbosa, 2011).
He concludes stating that the exclusive dedication to the business, the acquired experience, and the availability for brand investment would not have been possible without the franchisees, "who cannot be forgotten because they were the inventors of some of the most successful brand products: the Big Mac and the McFlurry."

Sales

McDonald´s sales figures have increased from 152.5M€ in 2003 to 295M€ in 2011 (exhibit 15). Since 2005 the brand as been able to sell at higher rates than the European average (LPM, 2009) and (Tormo, 2010).

For 2012, Mário Barbosa predicts growing the number of outlets and employees and maintaining the 2011 sales numbers (Cavaleiro, 2012).

Marketing Mix

1. Product

"*Think globally, act locally*"

McDonald´s started innovating menu products with offerings such as "Salads Plus", "Wraps" and "Sopíssima" together with a variety of fresh fruits, vegetables and yogurt. (AgroNotícias, 2005)

McDonald´s intensively uses technology to enhance its service offerings. Examples include the introduction of the Via-Verde payment system in its drive thru service, the introduction of self service kiosks in the ordering and payment processes (exhibit 16: easy order machines-) and a free wi-fi customer service.

McDonald´s efforts to adapt to the Portuguese culture started with the McCafé[9] introduction. It was such a success that in 2008 the brand invested 450.000€ in the opening of 5 new spaces (exhibit 17) (Lusa, 2008). The investment was described by Mário Barbosa, as a brand´s "strategic plan" in the coffee market "that offers a differentiated set of products and drinks, in a contemporary and cozy environment".

Further examples of adaptation to the Portuguese culture includes the introduction of McLusitano (exhibit 18), served on rustic bread with local ingredients, a different type of fried potatoes[10] and a traditional Portuguese topping[11] for the sundae ice-cream offering (Marques, 2012).

2. Price

In a low-margin industry, pricing has a huge impact in the bottom-line. In spite of product diversification McDonald´s kept its low-cost strategy in wraps, salads, soups, desserts and in the coffee segment. The average menu price in McDonalds is 5.15€ (exhibit 19).

3. Place

Aware of the physical space importance as a factor for differentiating from competitors, the brand started in 2007 a store´s remodeling process. This process represented a big investment that changed the brand image creating cozy, pleasant and more sophisticated restaurants (exhibit 20).

[9] Including some very typical portuguse items: the bica and pastel de nata (Mantas, 2005).
[10] Batatas à rodelas
[11] Doce de ovos

4. Promotion

McDonald´s shows a consistent concern with an effective communication with consumers as a way to follow their preferences evolution. This was the reason why they were able to reinvent and surprise their clients while keeping loyal to their values.

A "consumption experience" in its advertising strategy is easily identifiable. McDonald ´s tries to sell products as an experience of happiness, a friends and family sharing message, always in a very creative way. Examples include "Europoupança" and "Tanto para partilhar" campaigns.
McDonald´s was also the official sponsor of sport events such as the 2004 and 2012 European UEFA and 2010 World football championships. In the last one, the Portuguese football player Simão Sabrosa image was used to promote the brand with the "BigMacMacLocoBigMac" campaign (Youtube, 2010).

5.2 H3

H3 does not "play" in the fast-food segment. However, this new business concept can potentially steal premium consumers from the traditional fast food chains. That is to say, non-price sensitive customers who value quality, taste and service quickness. Created in 2007, H3 currently operates in 38 Portuguese restaurants.

The brand presents a simple menu base (exhibit 21): 200 grams of fresh meat grilled with salt, grilled to the point the client wants, served in hot dishes (not slices of bread), with customized side orders and freshly made drinks (H3, 2007).

Menus prices vary from 6.75€ to 10.5€ (exhibit 22). The only really comparable product is the "H3 super bread" that sells for 6.3€.

H3 stores are mainly located in food courts. Aware of the image´s importance, its design was thought to attract clients´ attention. The brand chose a very uncommon and attractive color for its logo (light blue). They also took the uncommon approach of decorating the outlet walls with the product portfolio and lighting the counter´s front wall with light-blue panels (exhibit 23).

6. Survey analysis

The survey was divided into three sections regarding consumer profile, consumption habits and consumer preferences and motivations. The results ate illustrated in appendix 2.

6.1 Consumer profile

From a gender perspective the sample was composed of 58% of male´s answers and of 42% female´s answers (table 1). From a demographic perspective the majority of them (70%) belongs to the age range between 15 -35 years (table 2).

6.2 Consumption habits

Consumption habits were analyzed according to the following criteria:

1. *Consumption frequency*
2. *Outlet location*
3. *Day-of-the-week preferences*
4. *Preferred consumption hours*
5. *Interpersonal relationships*
6. *Travelling time spent*

Regarding *consumption frequency* 102 out of 150 respondents consume fast food between 5 and 8 times per month which means that, in their peak consumption, they consume fast-food products twice a week (table 3). Although this represents a high percentage of people going to a fast-food chain (68%), this percentage encompasses all types of consumptions (not necessarily hamburgers).

When asked about *outlets´ location* preference, around 38% chose "next to their home", followed by "next to an entertainment place" including adults and children entertainment places. (table 4).

Friday was the preferred *day-of-the-week* (28%), followed by Saturday (22%). However a significant number answers - 30 out of 150 - said that they had no special preference (table 5).

Concerning the *preferred consumption hours* there is a clear trend towards the main meals: dinner (38%) and lunch (30%). It is also important to highlight that 26% of people selected the evening meal (table 6). This probably includes a younger age group and represents potential growth provided that fast-food chains extend their opening hours.

When asking consumers with whom they use to go the majority answered "friends" (48%), followed by "family" (28%). (table 7).

As far as *travelling time spent*, almost the majority of people (48%) said that they spend "< 10 minutes" to get to the fast food outlet. The following category "10-20 minutes" is really significant – around 34%.

Between "21-30 minutes" the percentage falls to 14%, which it is still considered to be high and may suggest a lack of proximity to consumers (table 8).

As a summary of the consumption habits questions the typical fast-food costumer consumes an average of 6 times per month, in a outlet next to home having a Friday dinner with friends, spending less than 10 minutes to get there.

6.3 Consumers´ motivations and preferences

Motivations and preferences were analyzed according to the following criteria:

1. *Motivational factors*
2. *Preferred fast-food chain*
3. *Most visited fast-food chain*
4. *Most visited outlets*
5. *Most consumed products*
6. *Consumer brands´ perception*

As far as *motivational factors* were concerned, the majority preferred "convenience/proximity", followed by "price" and "quality". This reveals several problems in BK´s strategy: their shopping center outlets location does not comply with the convenience/proximity factor and the same happen with the price.
In fourth, fifth, and sixth places came the "flavor", "opening hours" and "drive-thru service" (table 9).

As far as *preferred fast-food* chain is concerned, the majority (64%) gave preference to McDonald´s over BK (table 10). The results were even higher when the respondents were asked about the *most visited chain:* 94% gave preference to McDonald´s (table 11). Interviewers gave hints that explain this number discrepancy:

"Although I prefer BK, it is not close to my house and it is not open 24 hours a day"
*"There are more McDonald´s than Burger King´s and some are open 24*7."*
"No BK outlet operates 24 hours a day and the "Europoupança" promotion is very competitive."

Regarding *most visited outlets*, an interesting result surfaced from the survey. For McDonald´s the overwhelming preference was given to outlets outside shopping centers namely BP Padre Cruz, Colombo and Alvalade respectively (table 12). The top preferred location is easily explained by its drive-thru service or the 24*7 operations.
For BK, as most outlets are located inside shopping centers, the results were Colombo, Dolce Vita Tejo and Vasco da Gama (table13). This result suggests that BK´s outlet location strategy should probably be revised.

The *most consumed products* are the typical menus containing "hamburger, French fries and drink", followed by the "hamburger only" and "ice-cream". The result is not surprising since these are the fast-food chains´ core products.

Finally and as an attempt to understand *consumer brands´ perception* the consumers were asked to mention symbols, ideas or experiences they associate to both brands.

This was an open question and the results were categorized in 5 categories (table 15 and 16):

1. *Product* - Consumers considered both chains fast-foods´ products tasty. In BK´s case, good quality and good hamburgers were mentioned as positive and "bad french-fries" as negative aspects;
2. *Price* - McDonald´s is perceived as a cheap chain and BK as an expensive one;
3. *Service* - Both are perceived as being quick but McDonald´s is also considered efficient and dynamic;
4. *Physical space* - McDonald´s is mentioned as magical, colorful and happy, with a good environment and with a good accessibility. BK´s references are made in respect to its shopping centers outlet location, for being simple, and a "bad McDonald´s imitation";
5. *Promotion* - McDonalds is associated to promotion campaigns and a good communication strategy; BK is associated to few promotions and advertising.

III.LITERATURE REVIEW

This chapter describes the theoretical frameworks that serve as a basis to the Case Study (III) and Teaching Notes (IV). Four main topics are analyzed: strategy (1), strategy positioning (2), strategy choices (3) and marketing (4).

1. Strategy

1.1. Strategy and Strategic Management

According to Porter (1996), *Strategy* is about competitive positioning, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities. *Competitive strategy* is the combination of goals that the firm is striving for and the means through which it seeks to get there.

According Mintzberg (1987), *Strategy* can be looked in five different dimensions:

1. *Strategy* as a “plan”: a conscious and planned process containing a set of guidelines that should be followed in a specific situation;
2. *Strategy* as a ploy: specific maneuvers intended to outwit the competition;
3. *Strategy* as a pattern: strategy emerging from company´s behavior;
4. *Strategy* as a position: the combination of organizational and environmental factors. That drives company´s positioning in the market;
5. *Strategy* as a perspective: strategy as the ingrained way of perceiving the world.

According to Johnson and Scholes (1998), *Strategy* defines where the business is trying to get in the long-term, which markets it should compete in and what activities are involved in such markets. It allows the organization to understand how the business can perform better vis-à-vis the competition, what kind of resources are required[12], what external factors[13] affect the business competitiveness and the reasonable stakeholders expectations.

1.2. Strategic Planning

Strategic planning should start with a *mission statement* that guides the definition of measurable corporate goals. This is a statement of organization´s reason of being. When clearly defined, it acts as an “invisible hand” that guides people in the organization.

[12] Human, financial, etc.
[13] Demographics, economics , legal, political, socio-cultural, technological.

According to Kotler et al. (1992), a *mission statement* should be market-oriented and provide answers to questions like:

1. What business are we in?
2. Who are our customers?
3. What are we in business for?
4. What sort of business are we?

Kotller also states that a well defined mission statement should be realistic, specific, based on distinctive competences and motivating. It should also provide a *direction* for the company in the medium term.

2.Strategy Positioning

2.1. Macro - Environmental analysis

Wheelen and Hunger (2006) created the PESTEL framework to analyze the environmental factors that are the main contributors for the performance of a company. These factors can be distinguished according to the following criteria:

- *Political*: to what extent a government intervenes in the economy in areas such as tax policy, labor law, trade restrictions, tariffs and political stability;
- *Economic*: factors such as interest rates, taxation changes, economic growth, inflation affecting economic situation;
- *Social*: social values, education level or even changes in social trends that can impact the product demand and the and willingness of individuals to buy;
- *Technological*: factors such as R&D and technological changes affecting costs, quality and innovation;
- *Environmental*: factors related to the involvement and commitment with the environment and social responsibility;
- *Legal*: factors such as discrimination law, consumer law, antitrust law that can affect how a company operates, its costs and the demand for its products.

Despite the usefulness of the PESTEL framework, it presents some limitations since macro-environmental factors cannot be analyzed independently from each other. In order to have an effective environmental scan, it is important to see how variables interact with each other as all factors affect company´s strategy and management decisions Burt et al. (2006).

PESTEL analysis is also prone to over-simplification. Most of the time, input data is based in questionable assumptions, especially when one takes into consideration the drastic changes that environmental factors may have on business performance.

According to Schoemaker (1995), a more solid alternative to account for macro-external environmental changes is the *Scenario Planning*. Although suffering from some limitations due to inherent subjectivity in scenario design, this technique recognizes all weak signals leading to the environmental changes in a *"eight steps methodology*" summarized in appendix 3.1.

In order to improve the ability to face macro-environmental changes, companies should combine both techniques.

2.2 Company analysis

Proposed by Albert Humphrey in 1960s, SWOT analyzes internal factors (*strengths* and *weaknesses*) and external factors (*opportunities* and *threats*) that influence the company´s performance.

Constraints associated to this framework include the absence of criteria priorization and not having a direct link to implementation Johnson et al (2005). Another constraint mentioned by Mintzberg (1994) is that the assessment of strengths and weaknesses may be unreliable and tied with aspirations and biases. So it is important for them to be contextualized in the company´s structure and operations in order to create a sustainable competitive advantage.

An important approach to identify competitive advantages is through value chain analysis. *Value chain* is defined as the products or services´ path through which value is added, before it reaches the final consumer. Suggested by Porter (1985), this framework helps identifying the firm´s core competences and the activities that lead to competitive advantages. A *value chain* analysis is conducted in three steps:

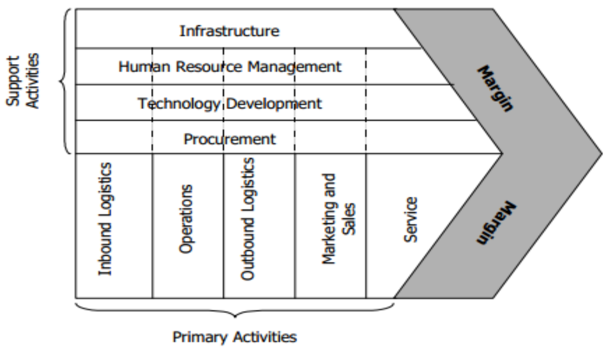

Figure 1 Value chain

- Separation of the organization's operations into primary and support activities (appendix 3.2);
- Cost allocation for each activity. This provides management with valuable insight about the internal capabilities of an organization;
- Identification of activities that are crucial to customer's satisfaction and market success.

The profit margin created by the firm´s strategic capabilities is then defined as the difference between the value of the product delivered to the customer and the production cost. Through the analysis of its activities, a company can determine the way each activity contributes to the relative cost structure and product differentiation. (Porter M. , 1985)

3.Strategy Choices

The process of choosing a strategy starts by identifying the available options concerning products and markets.

Porter´s *"Generic Strategies"* (1985) distinguishes two opposite options*: Cost leadership* versus *product differentiation.* The first happens when the company puts all its efforts on efficiency and cost minimization addressing the most important factor from the customer perspective: the price. The inherent vulnerability is the threat of new competitors entering the same market through the usage of new technologies that allow product replication at a lower price or alternative products.

Differentiation implies different criteria for costumers to recognize the products´ added value. It requires the company to invest more in areas such as advertising, distribution or R&D (depending on the company´s core business).

Faulkner and Bowman (1995) suggested an enhancement to *Porter´s "Generic Strategies"* with the *Strategy Clock* framework that refines the former with eight main positions (appendix 3.3).

According to Ansoff (1957), diversification is about changing the market and the product either by delivering a modified product or creating a completely new one.

Reasons to pursue diversification include economies of scale and synergies between businesses. *Related* diversification takes place when businesses expand into similar competences either by selling complementary activities or products (*horizontal*) or moving into new business (*vertical). Unrelated* diversification means moving into a totally different business, beyond the scope of the current company´s capabilities.

Hill et al. (1990) defines six markets entry modes of which *franchising* and *wholly owned subsidiaries* apply to the foodservice industry.

Zimmerer and Scarbouough (2008) defines *franchising* as a "system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system." A wholly owned subsidiary happens when the company owns 100% of the operations either through organic growth or acquisitions.

Hill at al. (1990) highlight the impact of market´s entry mode in the company: the level of resources committed to foreign operations, the involved risks and the degree of control the company can exercise over new market operations. The advantages and disadvantages of each entry mode are carefully considered in appendix 3.4.

4.Marketing

A proper marketing support is crucial for the success of a new product. The more frequent consumers are exposed to advertisement campaigns evoking appropriate associations, the stronger the linkages they establish and the more favorably they evaluate the same brand (Lane, 2000).

4.1 Marketing mix

Marketing mix is a fundamental tool to achieve targets in terms of sales, profit and consumer satisfaction. James Culliton, who is thought to be its "inventor", describes *Marketing Mix* has a combination of four independent variables ("ingredients"): product, price, place and promotion.

Figure 2 Marketing mix

- *Product* is the most powerful instrument of the marketing mix. If it does not sound attractive, no action will help convincing the customer. If development decisions are well conceived, they will translate into a quality, utility-oriented, convenient and well designed product.
- *Price* is a key factor to reach the targeted market share or sales volumes. Its definition must be high enough to give adequate profit but low enough to motivate product purchase.
- *Place* mostly refer to point-of-sales.
- *Promotion* means informing and persuading consumers through advertising, personal selling techniques and sales promotions[14].

4.2 Creativity, innovation and new products´ launch

Mumford and Gustafson (1988) state that every company operates in an environment characterized by increasingly fast technology changes, shorter product life cycles in a global market. Therefore, it is essential for companies to be increasingly more creative and innovative if they want to grow and lead the market.

According to Amabile et al. (1996) the widely accepted definition of *creativity* is the production of novel and useful ideas while *innovation* is the successful implementation of creative ideas within an organization. And Kotler (2003) adds that *innovation* is not limited to new products or services. It includes thinking about new businesses and business processes.

[14] Event exhibitions, discount coupons, small gifts, free samples, attractive package and consumer contests

Successful product launching is extremely important to the long - term company growth (Kotler & Keller, 2006). They can produce higher stock returns when their introduction is supported by substantial advertising investments Srinivasan et al. (2009) . In other words, it is extremely important to communicate the product value added by innovation.

IV. TEACHING NOTES

This chapter enumerates and analyzes the assignment questions by providing a detailed explanation of how each one should be addressed taking into consideration both the Case Study (III) and the Literature Review (IV).The pedagogical proposal (appendix 4) suggests each question´s theoretical contents.

1. Assignment Question 1

Ibersol´s mission emphasizes values such as *"quality, food Safety and environment"* as well as *"qualified and motivated HR".* Ibersol´s strategy emphasizes three main ideas: market leader, multi-brand business and focus on the Iberian market.

a) Analyze Ibersol´s strategy and mission and contrast them with BK´s. Detect possible misalignments.

A mission statement sets corporate goals and is a pre-requisite for strategy planning. The BK brand has not defined a specific mission statement for its Portuguese operation. Being the sole franchisee for the Portuguese market, Ibersol´s mission statement will be adopted in this analysis.

A mission statement is the organization´s reason for being, what the company strives to be in the long term. When defining its mission, BK must answer the following questions:

- *What business are we in?* A market-oriented mission definition is always better than a product-oriented definition (e.g.: "we manufacture furniture") as the later can easily became outdated. A market-oriented mission defines the business based on customer needs. BK´s business is not only to produce hamburgers, but rather to provide customers with the *best* burgers;
- *Who are our customers?* A mission statement should allow the identification of target customers (e.g. in BK´s case, hamburgers lovers);
- *What are we in business for?* That is to say, the main reason for BK´s existence. Do they exist only to provide food or do they also want to create a customer experience ("to be the customer´s favorite place")? ;
- *What sort of business are we?* This question guides strategy definition goals. Its answer determines whether the company is aiming at cost leadership or product differentiation.

BK´s *mission statement* compiles a number of flaws.

It is a broad definition. Although sounding good, it is too general, unfocused and does not help formulating a strategy plan.

It does not show the company´s distinctive competences. "*Qualified and motivated human resources committed to the full satisfaction of consumer needs"* does not highlight BK´s "worldwide recognition" and "high quality" products.

"Ensuring shareholders a proper return on their investment" does not motivate employees who need to feel their work as meaningful and contributing to improving people lives.

Ibersol strategy is translated in three main ideas: 1) to be a leader in the fast-food sector of the Iberian Peninsula, 2) to be a multi-brand business operating in the most important segments with the most competitive brands and 3) to consider the Iberian market as its "Home Base".

These ideas have no bearing with BK´s current status in the Portuguese market. BK does not hold a *relevant market share* and it did not manage to contain *the competition growth capability.* Quite the opposite: BK is considered a *sub-leader company*, facing its main rival growth and it is far from reaching a relevant position in the national market as their outlets are expanding at a much slower pace.

Therefore we can conclude that BK should formulate a specific strategy for the Portuguese market taking into consideration where the business is trying to get in the long-term.

b) Suggest what should be done to set a proper strategy to BK in Portugal.

Strategy is a concept requiring a long-term direction. It defines which markets a company wants to compete in, how the company can perform better and what kind of resources it needs.

Using SWOT analysis we can identify BK´s strengths, weaknesses, opportunities and threats relevant for a proper strategy formulation. A non - exhaustive list of key points follows:

Strengths

1. Worldwide recognition of the brand;
2. Second largest fast food hamburger restaurant (FFHR) in Portugal;
3. Consumer´s perceived hamburger product quality;
4. Product differentiation (larger burgers, flame broiled burgers)
5. Operational vectors: Quality, Service, Cleanliness, Speed
6. Integration into a stable group with know-how and experience in the fast food industry;
7. Safety and hygiene concerns;
8. Powerful slogan "Have it your way" since 2008

Weaknesses

1. Pricing policy
2. Outlet distribution network;
3. Limited opening hours;
4. Consumers complaints: quality (french fries), pricing and service quickness;
5. Insufficient adaptation to local culture;

6. Lack of healthy choices (salads, fruits, vegetables, yoghurts);
7. Lack of complementary services: wifi, self-ordering, drive-thru with auto payment;
8. Confusing hamburger product portfolio;
9. Unattractive stores´ design;
10. Weak advertising campaigns

Opportunities

1. Reduction of prices to better fit the present economic environment (in crisis periods people look for more accessible prices especially in the fast food market);
2. Expansion of outlets;
3. Opening hours extension (when in conjunction with an alternative location strategy
4. Address customers complaints about product quality, pricing and service quickness;
5. Better adaptation to Portuguese culture and tastes;
6. Creation of healthier menus in order to expand into other customer segments;
7. Complementary services (self-service machines, wifi, drive-thru with auto payments);
8. Consolidation of hamburger product portfolio;
9. Improvement of outlets´ design/image and environment;
10. Leverage perceived product quality through advertising, promotions and event sponsorships;
11. Product diversification (breakfast menus, coffee & pastries);

Threats

1. Changing consumer habits towards healthier food choices;
2. Intense competition from McDonald´s and other chains;
3. Increasing labor costs and inputs;
4. High menu pricing which makes people choose more economical solutions;
5. Location strategy limits business opportunities. Travelling time added to low brand switching costs makes clients choose other options;
6. Weak promotional strategy;
7. Indirect price-competition: H3 gourmet hamburger segment;
8. Location strategy in shopping centers that offers alternative foodservice options.

Having all this aspects in mind, BK should try to act upon its weaknesses. Starting from those requiring less implementation time and resource investment and progressing to the ones more difficult and expensive to implement, BK should:

1. In the short-term:
    - Improve french fries quality and service quickness;
    - Adapt to local culture;
    - Consolidate hamburger product portfolio;
    - Offer more complementary services: wifi, self-ordering, drive-thru with Via-Verde payment.
2. In the medium-term:
    - Introduce healthier choices (salads, fruits, yogurts, …)
    - Product diversification (breakfast menus, coffee & pastries);
    - Increase advertising campaigns.
3. In the long-term:
    - Redesign outlet´s image and design;
    - Expand outlet´s distribution network outside shopping centers (and consequently expand opening-hours)

2. Assignment Question 2

According to an official statement from Ibersol, BK manages its distribution network in Portugal through a franchising policy. But Ibersol has been the sole Portuguese BK franchisee for a long time.

c) Highlight the main advantages and disadvantages of BK´s entry mode in Portugal for the brand and Ibersol. Compare it with McDonald´s.

Although following a franchising model, the BK brand has entitled Ibersol as the sole franchisee for the Portuguese market. BK´s strategic situation in Portugal is more akin to a wholly owned subsidiary where Ibersol has full control of all brands´ operations.

We can say that BK is integrated in the Ibersol group. This carries advantages derived from the high operation control and coordination that Ibersol exercises on all its brands. It also allows the BK brand to benefits from its know-how and experience in the fast food market.

But at the same time, it brings the inherent disadvantages of a wholly owned subsidiary: a slower expansion of the distribution network, the lack of outside knowledge and expertise that external partners can bring about the local market.

From the brand point of view, BK is not taking full advantage from the franchising model. The “status quo” does not allow a fast outlet expansion and does not allow the brand to benefit from other partner´s knowledge about the national market. Furthermore, Ibersol´s "de-facto" strategy of locating outlets in shopping centers has stagnated the expansion of BK´s distribution network. This is a clear case of a bad franchising model.

In my opinion, Ibersol has not been able to build a brand´s strong identity as they do not invest enough resources in marketing campaigns. As a multi-brand management company, Ibersol has to be concerned about the group´s performance as a whole. As a consequence, not enough focus is being provided to the BK brand, to their specific issues and to better understand the Portuguese consumer needs.

On the other hand, McDonald´s is the perfect example of a successful franchising operation. It allows the brand: 1) to avoid risks, 2) to diminish barriers associated to the expansion of outlets, 3) to take advantage from franchisee´s knowledge about the local market and 4) to create a homogeneous and strong brand identity.

McDonald´s Portugal is a great example of a successful culture adaptation and this is proved by the fourth consecutive award earned in the context of the best Portuguese franchisee. McDonald´s operation in Portugal includes 135 stores managed by a network of 47 franchisees. The brand investment in franchisee support and coordination is compensated by the partners´ dedication and their suggestions for new products.

Besides allowing a rapid outlet expansion, this franchising operation produces better sales numbers than the European average.

d) Analyzing Ibersol´s sales volume per outlet in the Portuguese and Spanish markets, highlight possible explanations for the corresponding discrepancies.

Ibersol currently manages 38 BK outlets in Portugal and 33 outlets in Spain. Spanish outlets consistently show a significant difference on sales volumes per outlet when compared to their Portuguese counterparts (exhibit 6).

Up to 2011, the numbers shown in the previous exhibit reveal a trend towards closing the sales volume gap between Portuguese and Spanish outlets. 2012 shows an anomalous trend only explainable by specific external environment changes introduced in that year. Most probably, the effects of the adjustment program that the Portuguese economy is going through.

Price comparisons should take into account the purchasing power difference between the two countries illustrated by the respective minimum wages (640€ in Spain, 485€ in Portugal[15]).

According to Ibersol, the price policy is separately defined for each country although bound to ranges set by the BK brand. Non-promotional Spanish prices are higher than the Portuguese ones (e.g. a double whopper

[15] In 2011

sells for 7.5€ in Spain while in Portugal sells for 6.5€). Promotional campaign prices reveal a reverse trend: lower prices in Spain when compared to Portugal (exhibit 11).

These price differences and the VAT gap (up to 2011, Portuguese VAT was 6% higher than in Spain) are insufficient to explain a sales volume per outlet in Spain that is 50% higher than in Portugal.

From the cost perspective, Ibersol arguments that Portuguese raw material prices are higher than in Spain. However Ibersol´s purchasing process is supposed to *allow the efficiency and productivity gains for both counters.*

In my opinion, the big issue is the inexistence of franchisees competition in Portugal. As far as the BK brand is concerned, Ibersol status could be compared to a monopoly which translates in less competition. Ibersol´s Spanish operation is more performant since in Spain they face the competition of more than 400 franchisees. This competition encourages the possibility of further outlet network expansion and the continuous rethinking of innovative ways of retaining and increasing the customer base.

The outlook for 2012 is impacted by the increasing VAT gap between the two countries (from 6% to 14%[16]) in conjunction to deteriorating Portuguese economic conditions. This deterioration translates in lower traffic in shopping centers and highways which represent the location of BK outlets.

3. Assignment question 3

In order to support its strategy, Ibersol gives special emphasis to their operational processes.

e) Analyze BK´s primary activities in comparison with McDonald´s.

Through BK´s *primary activities analysis* we want to determine whether the value chain entitles the company with a competitive advantage. Both companies have the same core product: hamburgers. More recently, products such as fruits, vegetables, coffees and soups have been introduced in product portfolio.

The analysis will be focused on the following four primary activities and specifically on the aspect that generate higher margins. This analysis is described in appendix 5.1.

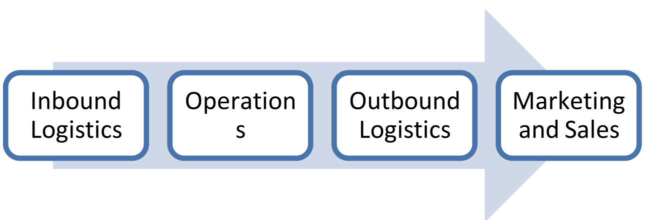

Figure 3 Primary activities

[16] From 2011 to 2012 VAT grew from 13% to 23% in Portugal and from 7% to 8% in Spain

From the analysis it is possible to conclude that BK integration in Ibersol brings advantages in what suppliers and scale economies are concerned. However this same integration inhibits the expansion of the outlets´ network since Ibersol links their location to shopping centers.

At a first sight, BK´s operational flexibility and personalization options seem to be a source of competitive advantage. But in fact they contribute to increasing customer waiting times. They also allow McDonald´s to benefit from their standardized operation and fast packaging process in order to provide customers with a faster service.

McDonalds´s have tackled the problem of increased customer traffic through the introduction of technology features:

- Easy - order machines: that handle the ordering and payment processes. Customers retrieve their orders on a specific counter.
- Advanced ordering: when queues start to build up, employees equipped with specialized tablets pre-order customer requests to the kitchen therefore shortening customer´s waiting time.
- Drive-thru auto payment: on drive-thru outlets, customers can pay for their consumption through the Via-Verde payment systems.

By speeding up the ordering process, the burden of providing a quick service is placed on the kitchen. A shorter hamburger product portfolio, stricter personalization options and a more organized sales process allow the kitchen to cope with the increased sales traffic.

Regarding Marketing & Sales, the problems that BK currently faces are: location strategy linked to shopping centers which inherently limit the number of outlets, geographic dispersion and their opening hours, the lack of promotions and advertising campaigns and (last but definitely not the least) the inadequate and outdated design of their outlets.

f) Analyze BK operational activities. Do you consider BK to have any sustainable competitive advantage?

To analyze BK´s key competences that can lead to competitive advantages, we will focus on the following operational areas.

Figure 4 BK´s operational areas

Before starting the analysis, it is important to emphasize that a key competence only creates a competitive advantage *if it creates value for the consumers.*

1. Human Resources Management (HRM): According to the case, continuous investment in employee training, development and motivation drive employees to better serve their customers and actively promote new products.

But the “Mystery Client” reveals increasing number of complaints regarding quality and speed of service (exhibit 2 and 3). The fast food industry is characterized by a inherently time and price-sensitive customer base and therefore these results represent a service issue for BK and not reflect the efforts made in HRM.

2. Information systems: A robust support from the IT department is essential in a low-margin business. Examples include sound procedures for material ordering and delivery, for warehousing and inventory control and for financial control and reporting.

Besides that, IT has a relevant support role for the implementation of a smooth coordination with suppliers (B2B) and customers (B2C).

B2B is essential for a sound coordination between the purchasing centers and its suppliers.

B2C although important is not showing a very positive performance. The Portuguese brand website (exhibit 12) is an outdated site, lacking useful information and not stressing the product´s quality. The brand page in facebook has been compensating the outdated website somehow but the need for remodeling still remains.

3. Quality: A characteristic consistently associated with BK brand is quality. BK follows ISO 22000 standard certified by APCER; follows HACCP standards and regularly submits to external audits. Counter to that, McDonald´s effort to communicate its commitment to quality is stronger. Besides having all the mentioned certifications, they constantly promote their quality commitment through website and advertising campaigns. Even though McDonald´s quality is not superior to BK´s, the massive communication effort levels any leverage that BK could have in this area.

4. Marketing**:** The brand started a shy marketing effort in 2004, three years after the first outlet opened. This timing was judged appropriate because only by then BK started having some financial stability that allowed budget allocation to advertising campaigns.

Marketing started having a bigger impact onlt in 2010. This impact was reflected by its presence on billboards, TV channels, radio commercials and in major musical events such as Rock in Rio (“Rock in Rio has more flavor with Burger King”). That might explain the lack of advertising and promotions clients associate to the brand (table 15).

As far as the marketing mix is concerned, "place" was never considered an important characteristic in BK´s communication. The brand does not seem to understand how important is to persuade clients, by creating a pleasant place for them to enjoy their meals and to spend a good time.

Contrast the above with McDonald´s massive ongoing remodeling effort. The chain no longer wants their customers to rush in and out of their outlets. Rather they want their customers to stick around in specialized seating "zones": slow zones for coffee sippers enjoying their free wi-fi service, fast zones at high bar tables and family zones with booths for parents and children. This remodeling effort is a multi-billion dollar project financially shared between franchisor and franchisees.

Even though BK cannot afford a similar financial effort, it should try to refresh some elements or, at least, change the coloring pattern of their outlets that are not contemporary and are transmitting an outdated image.

In conclusion, BK does not have any sustainable competitive advantage.

4. Assignment question 4

BK defines itself has a *"brand with worldwide recognition and higher quality products".* This orientation allows it to set higher prices compared to its main competitor. However the higher price strategy allied to the later entrance in the market led the company to a sub-leader position.

g) Analyze BK strategy choice regarding its resources/capabilities and suggest potential changes.

As far as resources/capabilities are concerned, BK´s strategy is evaluated using Porter´s "Generic Strategies" framework.

BK´s strategy is characterized by focusing on a broad target, having a customer-perceived high quality product offering and practicing high prices. According to the mentioned framework, this means that they follow a "differentiation strategy" and that they should invest in advertising, distribution and R&D. But the reality is quite different.

Besides starting late, BK´s advertising efforts are not consistent. Technology is also not a distinguishing factor (the free wi-fi service is more prevalent in McDonald´s outlets).

According to Porter´s framework, McDonald´s follows a cost leadership strategy. But in spite of this positioning, McDonald´s is the company that most invests in advertising ("Europoupança campaign", "Tanto para partilhar" and "BigMacMacLocoBigMac") and R&D (Via-Verde payment, easy order machines, tablets and free wi-fi).

The question is then trying to understand whether the "higher quality" positioning translates into a real competitive advantage. In order to be a competitive advantage, it has to better fit consumers´ needs since it depends on consumers´ perceived value balanced to price.

According to Strategy Clock framework (appendix 3.3), BK fits into the sixth position which corresponds to an increased price and a standard product. This means that BK´s product offering does not overcome McDonald´s. This strategy has a very negative impact in profits since it is not sustainable in the long-term and may explain BK´s sub-leader position.

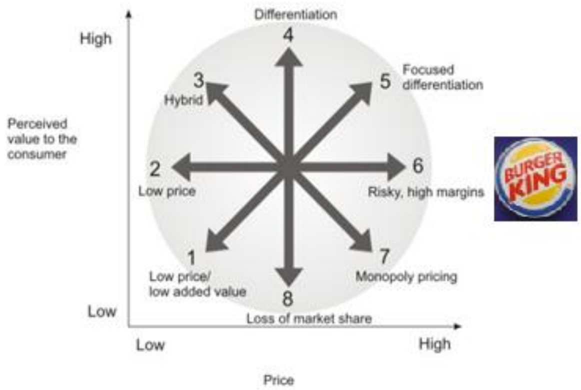

Figure 5 BK´s position in Strategy Clock framework

In order to change this situation the brand has three options:

- Move to the *fourth position*, corresponding to a more differentiated product and a slight price decrease;
- Move to the *second position*, corresponding to a price decrease ;
- Move to the *third position* corresponding to a simultaneous price decrease and higher differentiation.

The first option is hard to achieve if we take into consideration H3´s competition and the current economic environment. Not only are people less willing to pay for something they do not perceive as real quality, but also they cannot afford higher prices due to a declining purchasing power. The competition (H3) performs better at a "quality" level offering hamburgers at 6.3€ ("H3 superbread") .

The "price decrease" option seems to be more feasible and adapted to the Portuguese reality. Currently BK average menu price is 5.78€ which is 21% higher than the equivalent McDonald´s offering (Big Mac). Being a highly price-sensitive consumer segment, setting high prices for the hamburger market translates into consumer complaints and lower sales volumes.

The third positioning option can be followed simultaneously with the "price decrease" option which means delivering basic products at very low prices to specific market niches. In order not to erode profit margins, this option should be followed on targeted campaigns in order to win back price-sensitive consumers and increase sales volumes. This strategy is deemed appropriate in the current Portuguese economy.

h) Suggest scenarios for BK´s future in a five-year distance.

To craft possible scenarios for BK in a three year distance Peter Schwartz´s Scenario Planning (appendix 3.1) methodology was used.

Step 1 - identifying the focal issue

Will Burger King be able to grow their volume sales within the next three years? Or will it have to change its competitive strategy?

The following steps allow us to define what we consider to be the key macro environment uncertainties for the next three years. This is extremely important for setting the most probable scenarios. Steps 2 to 4 are summarized in appendix 5.2.

The key forces in the local environment (Step 2) were selected from PESTEL analysis. The most important key environmental uncertainties (economic, social and technological) are clustered in key driven forces groups (Step 3). The driving forces are then ranked based on uncertainty and impact on the focal issue – "BK ´s ability to grow sales volume in the next 3 years" (Step 4).

Having completed the ranking, we then select the driving forces that are most unpredictable and that have an higher impact on sales: the economy cycle and foodservice trends.

The economic cycle will have a direct impact in the purchasing power (price). The foodservice trends will impact consumers´ desire for new food solutions (possible product diversification). With these driving forces, we can then proceed to scenario selection (Step 5).

1. Maintain prices and products;
2. Maintain prices and diversify product range;
3. Decrease prices and maintain product range;
4. Decrease prices and diversify products range;

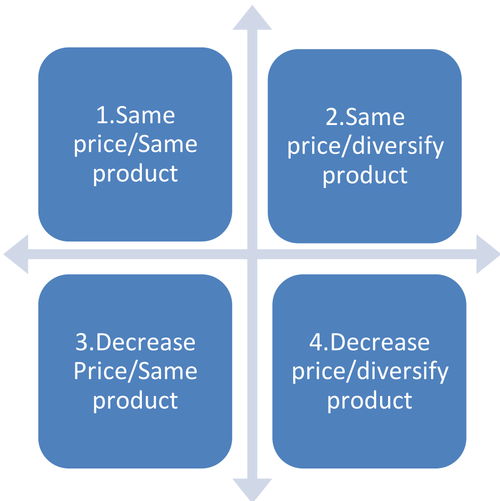

Figure 6 Scenarios

Finally in step 6 and 7, we flesh out the scenarios and evaluate its implications

1. Same price/ same product

This strategy implies that everything remains the same. It means decreasing sales volume and market share. The competition will keep outperforming BK in all indicators (sales volume, profits and number of outlet). This strategy is considered unfeasible.

2. Same price/diversify product

This option requires delivering modified or new products to consumers. This product diversification may be related or unrelated. *Related* diversification may be further developed as *horizontal (*selling complementary activities and/or products) or *vertical (*selling new products to consumers who expect new alternatives). *Unrelated* includes entering a different business, beyond company´s current capabilities.

Regarding related diversification, BK can:

- Offer complementary products such as coffee or cakes ;
- Offer complementary services (entertainment activities for children , technological services)
- Offer new products alternatives including healthier solutions (vegetarian burgers, salads, soups, natural juices, fruits);

Since BK is integrated in a multi-brand group, product diversification can profit from synergies and scale economies provided by the other group´s controlled brands. That is to say, BK could potentially create familiar menu combinations with pizzas (Pizza Hut) and sandwiches (Pans and Company).

Unrelated diversification is a negative scenario since it assumes that BK has no growth capability in its current core business. Since BK is an international brand, this option does not apply.

3. Lower price/ same product

This scenario has the goal of increasing market share by increasing the brand´s attractiveness on a price-sensitive market. Its implementation does not require big investments as the product portfolio remains the same. However its implementation should be carefully planned because it can potentially represent an impact on profits.

To ensure the success of this strategy, BK may implement seasonal promotional campaigns and novelties with very competitive prices. The "surprise effect" of promotional campaigns has a major role in this strategy.

4. Lower price /product diversification

The last option is the most ambitious one: combine new products with simultaneous price decreases. It may result very well on new product launching but in the medium term it will require the brand to raise prices.

In order to know which scenarios are closer to the future reality, it is important to evaluate the selected driving forces through key indicators (Step 8). Overall PIB per capita, unemployment and taxes are some indicators to allow assessing the economic cycle.

IMF[17] predicts that the Portuguese PIB per capita will be, in 2015, in the worst worldwide ranking position since 1986 (Notícias, 2010). Regarding the unemployment rate, the Portuguese government predicts a decrease to 14.1% in 2013, 13.2% to 2014 and 12.7% in 2015. (Sol, 2012)

According to an Eurostat study on European Union fiscal policy, Portugal charges income tax rates (IRS), added value (VAT) and corporate taxes (IRC) above the European average (Marques J. M., 2012). With the VAT tax increase in 2012 and the continuous economic adjustment, it is hard to predict the fiscal policy evolution, but we are not very optimistic about future improvements in this area.

The combination of these factors will, most likely, culminate in a growing market of price-sensitive customers with a decreasing purchasing power.

On the other hand, food service trends depicts a profile of the Portuguese consumer as an outgoing customer that enjoys restaurants meals (Destak, 2008) (although the economic situation does not allow them to do it so often). At the same time, the Portuguese consumer is increasingly more aware of healthier choices and less caloric meals.

Taking into consideration that price will be the most important factor for consumers, the most adequate strategy for BK to adopt in order to ensure increasing sales volumes in the next three years, will be "low price/same product" followed by "same price/product diversification".

[17] International Monetary Fund

V.CONCLUSION

BK entered the Portuguese market in 2001 by entitling the multi-brand group Ibersol as the sole franchisee for its operation. In spite of Ibersol's leadership position in the food service business, the BK brand never turned around from its sub-leader position.

On BK's outlet distribution network:

The number of BK outlets and its geographic distribution are considered to be major contributors to this problem. The expansion of the network is being inhibited by Ibersol's "de-facto" strategy of linking outlet locations to shopping centers.

BK should bring new partners to its Portuguese franchising operation.

BK should try to keep Ibersol in a "strategic partner" position due to the advantages the later brings as far as scale economies and business know-how are concerned. Potential exclusivity contractual clauses should be revised accordingly.

On franchisee sales volumes efficiency:

Considering the sales volumes comparison between Ibersol's Portuguese and Spanish outlets, opening the franchising operation to new partners will lead *to higher competition between them thereby improving their efficiency* and allowing a rapid growth for the brand's network.

On opening hours:

New outlets location should be carefully chosen. A niche worth exploring for new outlets is the "nightly entertainment for young age groups". Possible criteria for the location of outlets addressing this niche include: 1) high traffic locations mainly on Thursdays, Fridays and weekends 2) no existing alternatives for late evening meals and 3) proximity to entertainment areas to allow capturing the potential market that the survey reveals ("26% of respondents said to go to a fast-food restaurant for a late evening meal").

*Whenever appropriate, specific outlets should consider a 24*7 operation.*

Considering the Lisbon area, one such location is "Bairro Alto".

On competing advantages:

BK's key competences (often associated to product quality) do not represent a sustainable competitive advantage for the brand. BK's differentiation strategy translates into a consumer perception of a highly-priced brand with no distinguishing product. The current economic situation further drives the Portuguese consumer towards low-priced products. Therefore:

BK should focus on a low-priced and increased sales volumes strategy.

This strategy should be complemented with targeted promotional efforts such as when launching new products or on specific key dates.

On product diversification:

Product diversification should have a priority boost on BK's agenda. This is particularly relevant for healthy conscious customers that are being increasingly exposed to media campaigns that aim at fighting the alarming increase of obesity rates across all age groups.

BK should introduce healthier choices for new and current products.

Healthier product choices can be introduced on current items (e.g. grilling instead of frying) and on new products (soups, salads, fruit bowls).

On service innovation:

Whenever appropriate, BK should consider adopting service innovations, particularly when they have an impact on improving service quickness: automatic payments on drive-thrus, self-service kiosks and tablets enabling employees' direct interaction with customers for capturing their orders.

BK should also consider introducing an innovative service distribution mechanism as an alternative to enlarging the outlet network: *a home delivery service*.

Contrary to the popular perception that "burgers and fries" do not travel well, this home-delivery service is already in operation for hamburger chains in several geographies (mainly Middle East and Far East countries mainly) with very encouraging sales results. Food freshness is ensured by specialized motorbikes and electric scooters and is becoming increasingly popular in highly crowded areas as an alternative for fighting back the real estate costs involved in opening traditional outlets.

Since Ibersol already operates such a service in the context of their Pizza Hut operation, significant synergies and fixed-cost savings could be found in a home-delivery joint operation.

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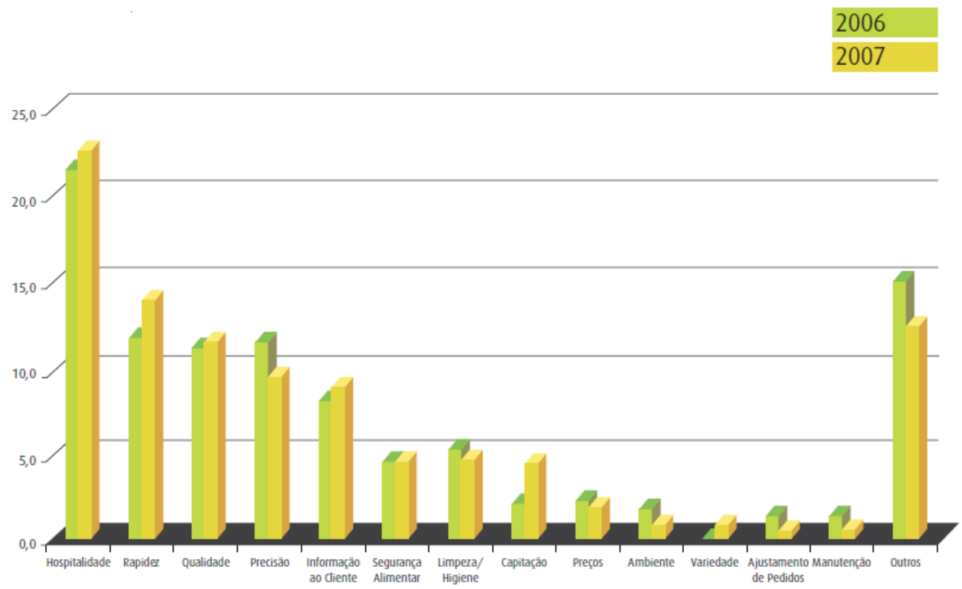
VII EXHIBITS

Exhibit 1 Ibersol´s brands sales distribution

	2002	2010
Pizza Hut	56%	48%
Pans/Bocatta	14%	16%
Burger King	4%	18%

Source: Ibersol´s report & accounts of 2002 and 2010

Exhibit 2 Ibersol complaints by category



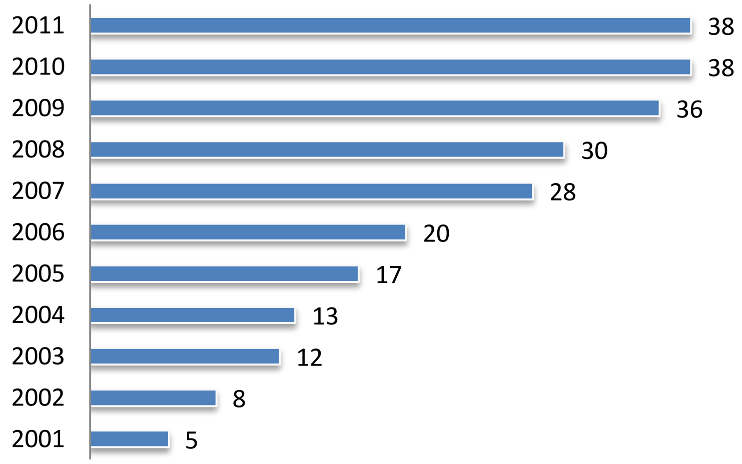
Source: Ibersol sustainability report 2007

Exhibit 3 Evaluation of service level – “Mystery Client”

	Limpeza	Hospitalidade	Precisão	Manutenção	Qualidade do Produto	Rapidez de Serviço	Satisfação Geral
2006	95%	92%	96%	97%	98%	91%	95%
2007	94%	92%	95%	93%	96%	84%	93%

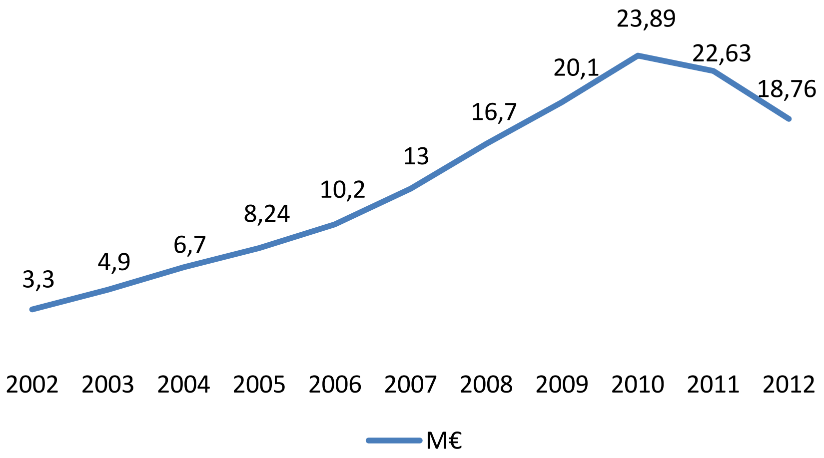
Source: Ibersol sustainability report 2007

Exhibit 4 BK outlets´ evolution



Source: BK´s management report 2001-2011

Exhibit 5 BK sales´ evolution and growth variation



Years	Sales Variation (%)
2002	-
2003	48,5%
2004	36,7%
2005	23,0%
2006	23,8%
2007	28,4%
2008	27,5%
2009	20,4%
2010	18,9%
2011	-5,3%
2012(projected)	-17,1%

Source: Ibersol report & accounts 2002- 2012

Exhibit 6 BK´s annual sales per outlet in Iberian Peninsula

	Annual sales per outlet (K€)		
Years	Portugal	Spain	Variation (%)
2008	560	1010	180%
2009	560	940	167%
2010	630	950	150%
2011	600	890	148%
1Q 2012	120	230	191%

Source: Ibersol´s report & accounts 2008-2011

Exhibit 7 I love Portuguese Whopper

Source: http://www.dinheirovivo.pt/Buzz/Artigo/cieco010860.html
https://www.facebook.com/photo.php?fbid=220876994615044&set=a.215778428458234.46945.214897081879702&type=3&theater

Exhibit 8 Whopper and Steakhouse hamburgers

Whopper	Image	Menu Price
Whooper Jr		4,75 €
Whopper		5,40 €
Double Whopper		6,50 €

Steakhouse	Image	Menu Price
Steakhouse		5,95 €
Steakhouse Caesar		6,30 €

Notes:
Menu prices include a side order (salad, french-fries or onion rings) and medium drink.
The most popular hamburgers were considered to calculate the average menu price ((4,75€+5,40€+6,50€+5,95€+6,30€)/5=5,78€)
Source: products´ description (http://www.bk.com); prices (CC Colombo outlet 2-5-2012);

Exhibit 9 BK´s restaurant

Source: CC Colombo outlet

Exhibit 10 BK´s counter

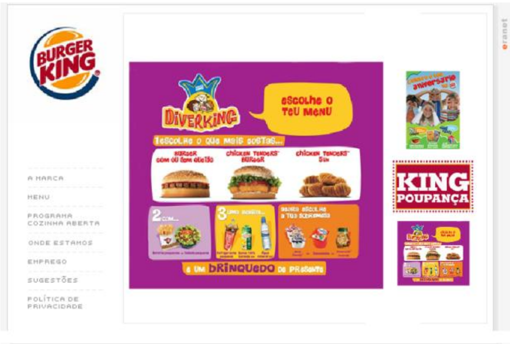
Source: Dolce Vita Tejo outlet

Exhibit 11 “King poupança” promotion in Portugal

Source:https://www.facebook.com/photo.php?fbid=241893259180084&set=a.215778428458234.46945.214897081879702&type=3&theater

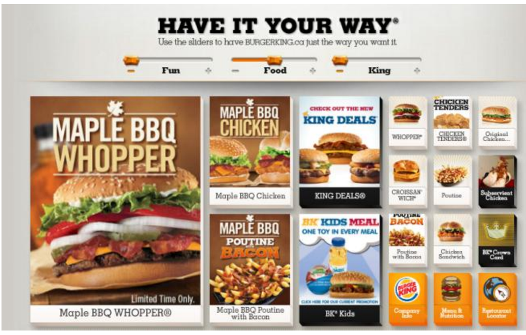
Exhibit 12 Different BK´s website pages

Portugal



United Kingdom

Canada



International

Source: Respective websites

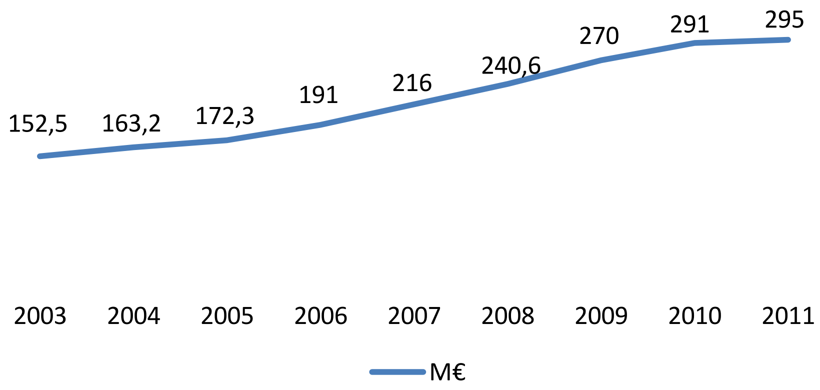
Exhibit 13 ERS3002 certification

Source: www.mcdonalds.pt

Exhibit 14 APPLUS +100%

Source: www.mcdonalds.pt

Exhibit 15 McDonald´s sales´ evolution and growth variation



Years	Sales growth variation (%)
2003	-
2004	7%
2005	6%
2006	11%
2007	13%
2008	11%
2009	12%
2010	8%
2011	1,4%

Source: http://www.lpmcom.pt/index.php/comunicados/1315-vendas-da-mcdonalds-portugal-crescem-114--em-2008-

http://www.tormo.pt/noticias/6855/Tormo&Asociados%20Portugal

Exhibit 16 McDonald´s easy orders

Source: CC Colombo

Exhibit 17 McCafé

Source: CC Colombo

Exhibit 18 McLusitano

Source: https://apps.facebook.com/mclusitano/

Exhibit 19 McDonald´s hamburgers

Hamburgers	Image	Menu Price
Double Cheese		4,75 €
Big Mac		4,95 €
McRoyal Bacon/Deluxe/ Cheese		5,10 €
Big Tasty		5,80 €

Notes:
Menu prices includes a side order (salad, French-fries or onion rings) and medium drink.
The most popular hamburgers were considered to calculate the average menu price ((4,75€+4,95€+5,10€+5,80€)/4= 5,15€)
Source : products´ description (www.mcdonalds.com); prices (CC Colombo outlet 2-5-2012);

Exhibit 20 McDonald´s restaurants

Source: CC Colombo outlet 2-5-2012

Exhibit 21 H3 key messages

Source: http://www.h3.com/pt.html

Exhibit 22 H3 hamburgers and menu prices

Hamburger	Regular Price	Menu Price
H3 super bread	6,30 €	-
H3 grilled	6,10 €	6,75 €
H3 w/ sauce	6,30 €	7,00 €
H3 Milano	7,10 €	7,55 €
H3 champignon	7,10 €	7,55 €
H3 Tuga	7,10 €	7,55 €
H3 cheese	7,60 €	7,95 €
H3 benedict	7,60 €	7,95 €
H3 French	9,90 €	10,50 €

Source: CC Colombo outlet 2-5-2012

Exhibit 23 H3 outlet

Source: CC Colombo outlet 2-5-2012

VIII APPENDIX

Appendix 1 – Survey

Part I - Consumer profile

1. Do you live in Lisbon? (if the answer is “no”, the survey ends)
    - Yes
    - No
2. What is your gender?
    - Male
    - Female
3. What is your age group?
    - < 15
    - 15 – 25
    - 26 – 35
    - 36 – 45
    - 46 – 55
    - >55

If you are more than 35 years old and you have young children, answer this survey on behalf of them.

Part II – Consumptions´ habits

1. How often do you consume any product from a hamburger Fast Food chain?
    - 1-4 monthly
    - 5-8 monthly
    - 9-12 monthly
    - < 12 monthly
2. When you go to a hamburger Fast Food chain, what do you consider to be the best location?
    - Next to your home
    - Next to your office
    - Next to entertainment places
    - Next to School/University
    - Other. Which?

3. When do you prefer to go there?

    - Monday
    - Tuesday
    - Wednesday
    - Thursday
    - Friday
    - Saturday
    - Sunday
    - It is indifferent

4. Which meals do you use to take?

    - Breakfast
    - Lunch
    - Snack
    - Dinner
    - Evening meal

5. With whom do you use to go?

    - Family
    - Friends
    - Boyfriend/ Girlfriend
    - Co-workers

6. How long do you take to get there?

    - < 10 min
    - 10-20
    - 21-30
    - < 30 min

III – Preferences and motivations

1. Which chain do you prefer?
    - McDonald´s
    - Burger King

2. Which chain do you use to go more often?
   - McDonald´s
   - Burger King
3. If your answer does not correspond in the question number 1 and 2 (Which chain do you prefer and which chain do you use to go more often), explain why (ex: although I prefer McDonald´s, Burger King is closer to my place.
4. What are the factors that motivate you to go to a hamburger chain Fast-Food? (Name only five factors in your preference order, 1 being the most important)
   - Accessibility
   - Attractive environment for children
   - Quality-price ratio
   - Convenience/Proximity
   - Environment
   - Hygiene
   - Opening hours
   - Strong contemporary brand
   - Price
   - Promotion
   - Speed
   - Flavour
   - Drive-thru Service
   - Assortment of products
   - Variety
5. If your answer was McDonald´s in the question number 2, name your favourite restaurants. (Name only 3 restaurants, in preference order).
   - Alvalade
   - Amoreiras
   - Belém
   - Birre Cascais
   - Carnaxide
   - Colombo
   - Chiado (armazéns do Chiado)
   - DV Tejo

- Forúm do Montijo
- Forúm Almada
- Odivelas Parque
- Oeiras Parque
- Loures Shopping
- Vasco da Gama
- BP Padre Cruz
- 2ºCircular
- Roma
- Rossio (Santa Justa)
- Saldanha
- Telheiras
- Outro

6. If your answer was McDonald´s in the question number 2, name your favourite restaurants. (Name only 3 restaurants, in preference order).

- Área de Serviço Areeiro
- Birre Cascais
- Campo Pequeno
- Colombo
- DV Tejo
- Forúm Montijo
- Forúm Almada
- Odivelas Parque
- LouresShopping
- Vasco da Gama - Parque das Nações

7. Which products do you use to consume? (Name only 3)
   - French Fries
   - Coffee
   - Ice-creams
   - Hamburgers
   - Nuggets
   - Menu (Hamburger + French Fries +Drink)

- Muffins
- Beverage
- Soup
- Salads
- Toasts
- Cakes

8. What are the symbols, ideas or experiences you associate to McDonald´s? And which do you associate to Burger King?

Appendix 2 – Survey results

2.1 Channels

The target audience was acquired through normal electronic channels such as e-mail and social networks (facebook). This audience was invited to answer the survey on a website. Two caveats are worth mentioning at this point: 1) The adopted online methodology has the inherent characteristic of only allowing people with Internet access, what probably reduces fast-food consumers´ universe 2) An online survey always allows respondents to quit answering in the middle of the questionnaire which, in this study, resulted in a 10% of unfinished questionnaires.

2.2 Sample

The number of respondents was 150. The questions were targeted to consumers of fast food hamburgers living in Lisbon and surrounding areas. Although the objective was to collect the most answers from the age group between 15 and 35 years old or families with young children, the survey allowed a wider age range.

Geography limitations were correlated with the concentration of BK´s outlets. The survey contained blocking filters for ruling out consumers´ residing outside Lisbon and non-regular consumers.

2.3 Results

Table 1 Gender composition

Male	Female
58%	42%

Table 2 Demographic composition

Age	
< 15	2%
15-25	42%
26-35	28%
36-45	18%
46-55	6%
> 55	4%

Table 3 Consumption frequency

How often do you consume any product from a hamburger fast - food?	
1-4 monthly	22%
5-8 monthly	68%
9-12 monthly	8%
>12 monthly	2%

Table 4 Outlets´ location preference

Where do you prefer hamburgers Fast-Food chains to be located?	
Next to Home	38%
Next to Office	18%
Next to entertainment places	28%
Next to School/University	14%
Other	2%

Table 5 Preferred consumption days

When do you prefer to go there?	
During the week	48%
Weekend	32%
Indifferent	20%

Table 6 Preferred consumption hours

Which meals do you use to take?	
Breakfast	2%
Lunch	30%
Snack	4%
Dinner	38%
Evening meal	26%

Table 7 Interpersonal relatioship

With whom do you use to go?	
Family	28%
Friends	48%
Colleagues/ Co-workers	22%
Other	2%

Table 8 Travelling time

How long do you take to get there?	
< 10 min	48%
10-20 min	34%
21- 30 min	14%
< 30 min	4%

Table 9 Motivational factors

What are the factors motivate you to go to a hamburger fast food chain?	
Convenience/Proximity	1º
Price	2º
Quality	3º
Flavor	4º
Opening hours	5º
Drive-thru Service	6º

Table 10 Preferred fast-food chain

Which Fast-Food chain do you prefer?	
McDonald´s	64%
Burger King	36%

Table 11 Most visited fast-food chain

Which Fast-Food chain do you go more often?	
McDonald´s	94%
Burger King	6%

Table 12 The most visited McDonald´s outlets

The most visited McDonald´s outlets	
BP Padre Cruz	1º
Colombo	2º
Alvalade	3º

Table 13 The most visited BK´s outlets

The most visited BK´s outlets by	
Colombo	1º
Dolce Vita Tejo	2º
Vasco da Gama	3º

Table 14 The most consumed products

Which products do you use to consume?	
Menu (Hamburger + French Fries + Drink)	1º
Hamburger	2º
Ice-cream	3º

Table 15 Consumer BK´s perception

Burger King

Product: Worst French Fries, Good meat Higher Food quality, more natural Better Flavour, Better hamburgers, less Fat, grilled	*Price*: Expensive *Service:* Quick
Place/Symbols/transmitted idea: Located in shopping centers Simplicity, crown Bad McDonalds´ imitation	*Promotion:* Few promotion Few advertisings.

Table 16 Consumer McDonald´s perception

McDonald´s

Product: Good Flavour Salads Big variety	*Price:* Cheap *Service:* Quick, Efficient, dynamic
Place/Symbols/Transmitted idea: Magical, colourfull, Hapiness I´m loving it! Good environment, Convenience Good smell,cleanliness, accessibility	*Promotion:* Lots of publicity campaigns Good communication

Appendix 3 – Framework Guide

3.1 The eight-step scenario planning

Step 1*:* Identify the focal issue or decision - define the issues or questions that need to be addressed, in order to ensure a purposeful analysis. Consider the external environmental in which the company is operating and its importance for the decision;

Step 2: Identify key forces in the local environment – identify key macro-environmental factors contributing to the business change context which can influence the success or failure of the company´s decision (PESTEL is a useful framework to the help in the brainstorming process);

Step 3*:* Assessing the driving forces – to group or cluster the driving forces;

Step 4: Ranking driving forces by importance and uncertainty – rank the selected key forces by impact on the focal issue and uncertainty they generate. Identify the two top forces;

Step 5: Select the scenarios – the results from the previous step are used for scenarios creation. The selected driving forces are used as the axis of a 2*2 scenario matrix.

Step 6: Fleshing out the scenarios – the four possible scenarios are used to create a story based on the driving forces and trends pointed out in step 3. PESTEL limitations are mitigated since distinct external factors are analyzed in such a way that we can see how variables interact with each other;

Step 7: Implications – returning to the focal issue selected step 1, we evaluate how each scenario influence it or what are the scenario vulnerabilities. If the strategy is not robust across all scenarios, it should be re-evaluated.

Step 8: Selecting Key indicators - Finally, the company will want to know which scenarios are closer to the future. In order to understand it some indicators may help.

Sources:

Burt, G., Wright, G., Bradfield, R., Cairns, G. and van der Heijden, K. (2006), “The role of scenario planning in exploring the environment in view of the limitations of PEST and its derivatives”, *International Studies of Management and Organization*, 36 (3), 50-76

Schwartz, P., (1996) “The Art of the Long View”, Doubleday Currency

3.2 Porter´s Value Chain

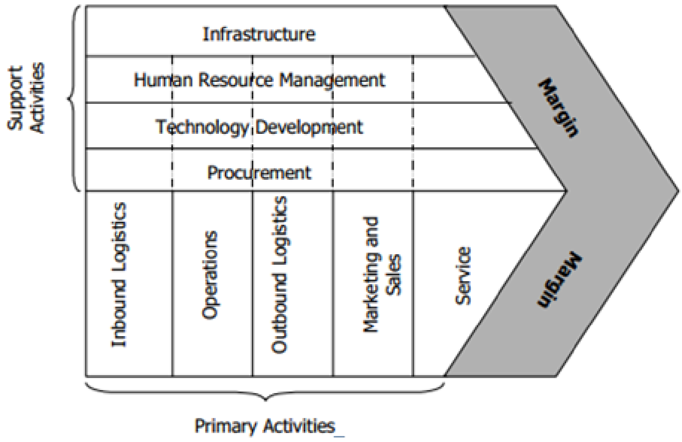


Figure 7 Porter´s value chain

Primary activities:
1. Inbound logistics: materials handling, warehousing, inventory control, transportation;
2. Operations: operating machinery, assembly, packaging, testing and maintenance;
3. Outbound logistics: order processing, warehousing, transportation and distribution;
4. Marketing and sales*:* advertising, promotion, selling, pricing and channel management;
5. Service*:* installation, servicing and spare part management;

Support activities:
1. Firm infrastructure*:* general management, planning, finance, legal and investor relations;
2. Human resource management*:* recruitment, education, promotion and reward systems;
3. Technology development: research & development, IT, product and process development;
4. Procurement*:* raw materials purchasing, properties lease and supplier contract negotiations

Source: Porter, M. (1985), "Competitive Advantage: Creating and Sustaining Superior Performance", New York: Free Pres

3.3 The Strategy Clock

Position 1: Low Price/Low Value

Focus on low price and low differentiation value. Company needs to be cost-effective, selling high volumes and attracting new customers. There is no customer loyalty.

Position 2: Low Price

Companies set lower prices for products with similarly perceived value than its competitor´s. If companies can drive prices down to bare minimums and still balance very low margins with high volumes, they become powerful forces in the market.

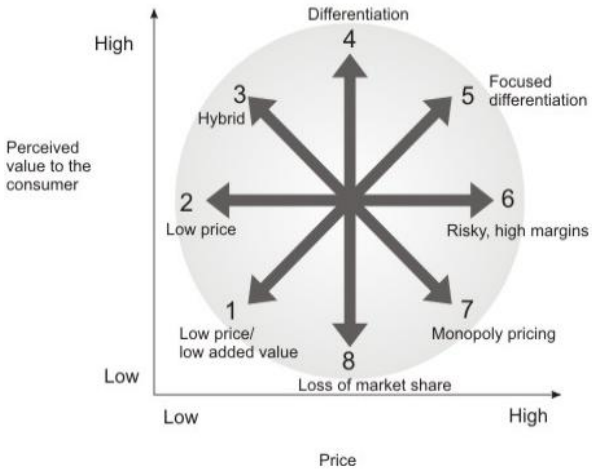


Figure 8 Strategy Clock

Position 3: Hybrid (moderate price/moderate differentiation)

Hybrid companies offer low prices for products with higher perceived value than its competitors. These companies build a reputation for offering fair prices for reasonable goods.

Position 4: Differentiation

Companies offer highly value perceived products to its customers. To achieve this, companies either increase their price and sustain themselves through higher margins, or keep their prices low and gain increasing market share. Branding strategies are very important and should differentiate the company in terms of quality. The success of the strategy lies on product replication difficulty.

Position 5: Focused Differentiation

Companies provide highly perceived value products at high prices. Usually aimed at specific niches that value differentiation. Customers buy products based on their perceived value. The perceived value (not necessarily real value) is enough to charge premium prices. These companies usually operate in highly targeted markets and with high margins.

Position 6: Increased Price/Standard Product

Companies increase prices but the product perceived value remains the same. If the price increase is accepted, companies increase profitability. If not, they have to adjust price or value to get to the previous market share. Competition does not allow this strategy to be sustainable in the long-term.

Position 7: High Price/Low Value

This is a monopoly pricing position. Monopolists do not have to be concerned about adding value to products since they are the only available option in that market.

Position 8: Low Value/Standard Price

Companies that offer standard prices for something that has no value will lose market share. Not having a valued product, the only way to survive is by lowering the price.

Source: Faulkner,D. and Bowman C. (1995), "The Essence of Competitive Advantage", London: Prentice Hall

3.4 Entry modes comparison

Table 17 Entry modes comparison

	Advantages	Disadvantages	When should be used:
Franchising (Franchisor)	Avoid risks, costs and barriers associated with the expansion; Easy way to build a homogeneous and strong identity; Fast growth	Lack of control over operations; Lack of global resources´ coordination; Demands high support to franchisee employees; Wrong franchisees´ choice may ruin company´s name and reputation	To potentiate healthy competition between franchisees; To allow rapid growth
Wholly owned subsidiary	High operations control; High coordination; Low risks of losing core competences and capabilities; Location advantages; “Learning economies” Avoids integration problems;	Slower growth; High exposure to risks due to costs and possible political and economic barriers; No partners involved to share knowledge and expertise on the local market ; Time to establish new operations, to create new distribution networks, and implement appropriate marketing strategies	In industries where close contact with consumers exist and high levels of professional skills, specialized know-how, and customization are required.

Source:

Foley, J. (1999),”The Global Entrepreneur: taking your business international” Age, Dearborn

Hill, C., Hwang, P. and Kim W.(1990) “An Eclectic Theory of the Choice of International Entry Mode”, Strategic Management Journal, Wiley, USA

Hitt, A. (2009), “Strategic Management Competitiveness and Globalization”, Nelson Education Ltd

Appendix 4 – Pedagogical Proposal

Teaching notes are living documents that should be changed and built according to the experiences resulted from the use if the case in class. Therefore, it is only a proposal pedagogical approach to instructors that can be adjusted or altered

4.1 Theoretical contents

This approach aims to adjust the case analysis as much as possible to the themes assessed in class and let the instructor use the analysis that suit their course the most allocating the respective time for each question.

Table 18 Topics´ theoretical content

Topic	Theoretical Contents	Literature Review
a)	Strategy and strategic management; Strategic planning;	1.1; 1.2 ; 1.3
b)	Strategy and strategic management Company analysis – SWOT	1.1; 2.2
c)	Strategy choices – market entry modes	3.
d)	Strategy choices- market entry modes Efficiency	3.
e)	Company analysis: Value Chain (primary activities) Creativity and innovation	2.2; 4.2
f)	Company analysis: Value chain (support activities); Marketing mix – Place and Promotion Creativity and innovation	2.2; 4.1; 4.2
g)	Strategy choices (Porter´s Generic Strategies and Strategy Clock framework)	3.
h)	Macro-environmental analysis: (PESTEL and Scenario Planning) Strategy choices-Diversification	2.1

Appendix 5 – Question´s analysis

5.1 BK and McDonald´s primary activities comparison

Table 19 BK and McDonald´s inbound logistics

Inbound logistics		
BK	McDonald´s	Core differences
GCT group is responsible for 55% of product transportation. This percentage encompasses all Ibersol brands; Central warehouse in shopping centers responsible for receiving, controlling, storing and distributing products to all units; Warehousing in FEFO logic; Food temperatures and expiration dates are strictly controlled; Delivering frequency (twice per week).	Around 25% of the purchases come from local suppliers, distributed amongst 30 companies (2011) Warehousing in FEFO logic; Food temperatures and expiration dates are strictly controlled; No information about delivery frequency.	Similar reception and storage processes; BK benefits from a central warehouse in shopping centers; Effect on BK margin: Ambiguous BK´s integration in a multi brand group brings costs savings and economies of scale. There is no data to perform an inbound logistics cost comparison.

Table 20 BK and McDonald´s operations

Operations		
BK	McDonald´s	Core differences
Focus on speed of assembly; Wider range of hamburger portfolio and personalization options ("Have it your way"); Reactive operations (employees behind the counter).	Focus on speed of assembly; Production and product Standardization in spite of higher product diversification; Proactive production (employees interacting directly with customers guiding them to kiosks and capturing their orders); Organized sales process (separate counter for different products).	BK offers a higher number of hamburgers and personalization options. McDonald´s operation is more organized and standardizes. Effect on BK´s margin: Negative McDonald´s standardized operations increase assembly speed allowing for a faster service of assembly and operations.

Table 21 BK and McDonald´s outbound logistics

Outbound logistics		
BK	McDonald´s	Core differences
Cash register operation handles order registration and delivery; One queue per cash register; Shorter queue length because of lower customer traffic; Some operation´s speed campaigns ("Customer´s Day" Program); "Mystery Clients" program show deficiencies in service speed.	Cash register operation handles order registration and delivery; One queue per cash register + additional queues for easy order machine and direct intervention with customers; Shorter queues length due to an higher number of queues; No quantitative information about service speed. This is a consumer perceived strength.	McDonald´s handles higher customer traffic through: - Easy order machines - Employees interacting directly with customers In spite of BK´s "Customer Day "Program surveys show some complains about service speed. McDonald´s is known for of its quick service. Effect on BK margins: Negative McDonald´s maintains faster service speed in spite of higher customer traffic

Table 22 BK and McDonald´s marketing sales

Marketing Sales		
BK	McDonald´s	Core differences
Located only in shopping centers; 38 points of sale; Less advertising; Less promotions; Outdated design; Limited opening hours; Higher prices.	Good outlets location in shopping centers; 135 points of sale; Massive advertising investment; Frequent promotions (e.g. "Europoupança"); Modern image, distinctive outlets; Some outlets operating 24*7.	BK has a smaller outlet network. Opening hours limited to shopping center; McDonald´s has a wider outlet network. It is located in almost the same places as BK + outside shopping centers. It results in an increased sales volumes and sales opportunities; McDonald´s massive investment in marketing and brand development increases its popularity and consumers willingness to buy; Effect on BK margin: Negative McDonald´s wider outlet network more flexible opening hours, more distinctive stores and better promotions results in higher sales volumes.

Appendix 5.2 - Scenario planning analysis (Step 2 to 4)

Step 2- Identify key forces in the local environment - PESTEL analysis was used to characterize the Portuguese macro-environment and its main trends. The factors that were considered more important were economic and social. The description included below was based on the case study, Ibersol predictions, daily news and my own perception regarding economic and social Portuguese situation.

Table 23 Economic factor analysis

Macro-environmental factors: Economic	
Current Situation (2012)	Main Trends
High raw materials and gas prices[18]; Increase of unemployment rates (15,3%[19] in March 2012), decrease of domestic demand (7,3%[20] during 2012) VAT Increase from 13% to 23% in 2012[21]; Income taxes increase (IRS) increase; High number of shopping centers; Fast-food market mainly constituted by "price-sensitive" consumers;	Forecast predicts increasing number of unemployed people and decreasing domestic demand; Economic crisis affecting consumers´ disposable income which decrease purchasing power; Less people take meals outside home, because it is more expensive[22]; Demand for low price products; In-house meal consumption; Higher adherence to promotional campaigns[23]

[18] http://web3.cmvm.pt/sdi2004/emitentes/docs/PCT39817.pdf
[19] http://noticias.portugalmail.pt/artigo/20120402/taxa-de-desemprego-atinge-os-15
[20] http://www.eutimes.net/2012/04/will-portugal-pull-out-from-eurozone/
[21] http://www.tmf-vat.com/tmf-in-the-media/2012-european-and-international-vat-rate-increases.html
[22] http://web3.cmvm.pt/sdi2004/emitentes/docs/PCT39817.pdf

Table 24 Social factor analysis

Macro-environmental factors: social	
Current Situation (2012)	Main Trends
According to survey´s interviews: ➢ 68% of respondents consume 6 times per month any product from a fast-food chain(table 3); ➢ The most preferred meals in the fast-food chains are lunch (30%) and dinner (38%).(table 6); Modern way of life reduces the available time to cook; Healthier food habits, more quality concerns.	Increasing demand for "healthier solution"- salads, wraps, fruits, vegetables; Increasing time sensitive consumers; Customer base becoming increasingly conscious about food quality and nutritional value of food

Considering the most topics identified in PESTEL analysis the most important uncertainties to be considered are:

- Is the Portuguese economy going to recover or will it still be in recession in 2015?
- Will the consumers´ purchasing power decrease until 2015?
- Will the unemployment rate keep rising until 2015? And what about the domestic demand?
- Will competitors suffer from the VAT increase and be forced to increase prices or reduce margins?
- Is the expansion of shopping centers going to increase fast-food industry competitiveness?
- Will consumers be satisfied with fast-food chains speed? Or will they demand a faster service?
- What will be the percentage of consumers eating at home, in fast food chains or in restaurants?
- Will consumers demand a higher level of quality or prices decrease?
- Will consumers look for healthier food solutions?

Step 3: Assessing the driving forces - in this step we cluster the key environmental uncertainties identified in the previous step into groups of key forces driving change. There is no theoretical reason for reducing the scenarios number, only a practical one.

- Economy cycle – in which cycle will the economy be in the future? Will it grow? How will the purchasing power evolve?
- Consumer Demands – are consumers more time sensitive and demand a faster service? Do they demand a better quality?
- Foodservice trends – Do customers still consume in food courts? Do they prefer hamburgers or healthier/alternative choices?

- Competition landscape – Did competitors reduced margins or increased prices? Are shopping centers increasing competition between fast-food chains? Did the competition expand its number of outlets?

Step 4: Ranking driving forces by importance and uncertainty – In order to choose the most important and unpredictable driving forces, it will analyzed the four driving forces in terms of impact on the focal point – "the BK ability grow their volume sales within three - year distance".

Table 25 Uncertainty and sales impact evaluation

Driving Forces	Driving Force Unpredictability	Impact on BK grow
Economy cycle	Experts predict the Portuguese economy to be recovering in 2015. However it is not certain consumers will increase their purchasing power and if the consumption will increase or decrease, namely in foodservice sector. The uncertainty regarding unemployment rates may also affect consumption.	Economy cycle represents a big impact on BK´s sales and revenues since consumers are "price-sensitive".
Consumer demands	It is highly predictable as consumers already demand a fast service and quality products.	It has a big impact on BK´s revenues. Consumers are time sensitive and easily change to the competition if BK does not fulfill this requirement.
Foodservice trends	It is not very predictable whether consumers will change their consumption habits or whether they prefer healthier or alternative choices.	It has a big impact because it may reduce the number of consumers and consequently reduce BK´s margins.
Competitive landscape	Competition strategies are easily predictable since they already address new market segments offering new range of products or creating new initiatives. Competition inside food courts will increase.	Competition may have a big impact in BK´s sales, mainly if they keep offering better menus at lower prices. If consumers easily adhere to new products and initiatives, BK can lose a high number of clients.