

## **Fast Food is a Ruthless Business**

In the mature and saturated fast-food industry, competition for customers by hamburger chains has been intense. McDonald's, the industry leader, has been under intense pressure to maintain its profit margins, because as the price of fast food has fallen, price wars have periodically broken out. Taco Bell started the first price war in the industry when it introduced its \$.99 taco. Taken aback, McDonald's and other burger chains, such as Burger King and Wendy's, had to find ways to lower their cost and prices. As a result of price competition, all the burger chains were forced to learn how to lower their costs and prices. As a result of price competition, all the burger chains were forced to learn how to lower their cost structures to make a cheaper hamburger. Today, constant innovation in food preparation is the name of the game, and companies have been able to lower their prices.

With most fast-food restaurants now offering comparable prices, the focus of competition has shifted to other aspects of their products. First, the major chains competed by introducing bigger burger patties to increase market penetration. Burger King started the battle in an aggressive campaign to increase its market share at the expense of McDonald's. It added a full ounce of beef to its 1.5-ounce regular patty and followed this with an intense advertising campaign based on the slogan, "Get Your Burger's Worth," directed at McDonald's burger, which then was 40 percent lighter. The campaign worked for Burger King for a while, and its market share rose by 18 percent, but then in a non-price tit-for-tat, McDonald's announced that it would enlarge its regular patty by 25 percent to beat back the challenge from Burger King and from Wendy's, which has always offered a larger burger (and whose "where's the Beef?" slogan helped it gain market share).

Burger King and McDonald's have also pursued market penetration by opening up new kinds of restaurant to attract customers. Because all of the big chains have thousands of restaurants each, many analysts thought that the market was saturated, meaning that it would not be profitable to open more restaurants. However, McDonald's in particular has opened hundreds of restaurants in new locations, such as gas stations and large retail stores (for example, Wal-Mart), and new kinds of restaurants, such as small ones at airports and those that contain indoor playgrounds. These moves have helped it protect its market share and maintain its margins.

The main burger chains are also constantly experimenting with product development and introducing improved kinds of burgers to appeal to regular customers-burgers that add cheese, bacon, different kinds of vegetables, and exotic sauces, and new kinds of burgers, such as diet or low-fat burgers to attract new customers. They also all introduced whole-meal offerings, such as McDonald's "value meals," to provide a competitive package to attract customers. Individual restaurants are also allowed to customize their menus to suit the tastes of customers in the region in which they are located. For example, McDonald's restaurants in New England have lobster on the menu, and those in Japan serve sushi. Such product development is a major part of competitive strategy in the industry.

Recognizing the competition from other kinds of fast-food chains such as those specializing in chicken or Mexican food, the burger chains have also moved to broaden their menus. McDonald's, for example, offers chicken dishes, pizza, and salads and increasingly tries to be a one-stop shop for all kinds of foods. This is a form of product proliferation designed to keep customers coming back. It makes it more difficult for a competitor or potential entrant to find a new food niche to take advantage of and attract away customers.

In the mature fast-food industry, developing new competitive strategies to fend off attacks by other companies within the industry and to protect and enhance competitive advantage is a never-ending task for strategic managers. Indeed, recently a franchisee in Orlando announced a new gourmet McDonald's restaurant. In a restaurant featuring gilded décor and sophisticated game and media rooms, they will serve white pizza, barbecue pizza, crème brûlée cheesecake with raspberry sauce, and cappuccino. Can this really be McDonald's?