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A Historical Review of Five of the Top Fast Food Restaurant Chains to Determine the Secrets of Their Success

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April 23, 2012

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Abstract

The primary goal of this paper is to critically examine five of the top nine United States fast food chains to look at their history and to determine what factors have lead to their massive success. The companies that will be analyzed are McDonald's, Taco Bell, Kentucky Fried Chicken, Domino's Pizza, and Subway. Similarities and differences of these companies are compared and contrasted throughout the paper and clearly demonstrate how each company has managed to capture and maintain major market share in their respective food categories. Areas that are examined range from product quality to business models to consumer psychology. A review of these companies reveals that there are specific success factors for each, and one overarching factor for all. Specific factors include, but are not limited to marketing technique, organizational structure and overall business concept. The one factor that seems critical to all is entering the market with an innovative and unique concept.

Introduction

The existence of fast food establishments is not new. According to Parsa and Kahn, quick food service dates back to Constantinople in 1500 A.D., with the creation of the coffee shop (1991). However, in the past half century, there has been a surge in what we now think of as quick service restaurants (QSR), serving a growing number of people who are eating more and more of their meals outside of the home. Every day in the United States, 25% of the population will visit a fast food restaurant, and worldwide, McDonald's alone feeds over 46 million people a day, which is comparable to the population of Spain (supersizeme.com, 2009). The growing prevalence of fast food restaurants reflects a fundamental shift in societal mores, moving away from traditional home-based dining and toward a contemporary fast-food model.

According to Parsa and Kahn (1991) the evolution of the quick service restaurant industry can be categorized into four life cycle stages: Pre-introductory stage (pre-1950's), Introductory stage (1950's and early 1960's), Growth stage (early 1960's to early 1980's), and Maturity stage (early 1980's – late 1980's). An overview of the growth and development of QSRs provides needed background to understand this dynamic industry.

Pre-Introductory Stage (Before 1950's)

The prevalence of quick service restaurants is a phenomenon of the 20th century, when the restaurant industry became greatly divided and largely entrepreneurial in nature. The Prohibition Act of 1920 had a major affect on the restaurant industry. A government decree mandated many bar owners to convert their dispensers from alcohol to soft drinks.

This conversion to soft drinks was instantaneously followed by menu expansions and ultimately the conversion of bars into restaurants. The advent of national prohibition stripped away liquor profits, shifting owners to emphasize low-price, and high-volume food service. However, the restaurant boom was cut short by the stock market crash in 1929.

The severe economic impact of the Great Depression during the 1930's led to the creation of "self service" cafeterias. Self service cafeterias mushroomed in Southern California, offering simple menus like hamburgers, pork chops, pork and beans, and soups (Parsa & Kahn, 1991). Simplicity was popular. Accompanying this development was the introduction of many technological innovations, such as electrical kitchen appliances, including the refrigerator, and dishwasher among some others. The Great Depression brought commodity prices to rock bottom, as noted by the National Restaurant Association (NRA) President Emil Fried (Parsa & Kahn, 1991). Consequently, "All You Can Eat" specials were priced as low as $0.25, and became extremely popular. The financial hardships of the 1930's also led to the creation of diners and snack shops. By the mid 1930's restaurants were no longer conventional, but rather possessed a more casual coffee shop, sandwich shop, or grill-like model with a reduction in product choice and service interaction. It was at this point where the earliest indication of menu standardization (recipes, menus) in the foodservice industry took hold.

The New Deal policies of the U.S. government slowly replaced railways with national highways as major means of transportation, which encouraged the replacement of snack shops of the 30's with new drive-ins and carhops (Parsa & Kahn, 1991). By 1940, there were 150,000 eating-places serving 12 million meals a day (Parsa & Kahn,

1991). A few of the notable quick service restaurant chains of the period included Dairy Queen, White Castle, and A & W Root Beer.

The impact of World War II provoked several adjustments within the food service industry. The 1940's saw major challenges in product and labor shortages. As a result, dehydrated foods and portion-controlled packages, such as jams and jellies, were introduced to conquer product shortages and to moderate waste. Military personnel often preferred heavy breakfast and a smaller packed meal for lunch due to their busy traveling schedules. This wartime practice of emphasis on breakfast carried over to the development of new breakfast buffets. The NRA slogan for 1947 was "Eating Out is Fun… Take the Family Often" (Industry Report, 1979). The hamburger also became the most popular and most used single menu product of the 1940's. For example, McDonald's (known as the McDonald brothers) combined the hamburger with deep-fried frozen French fries and ice cream as the sole meal on their menu at their first restaurant in San Bernardino, California. A newly designed steel griddle cooked 40 hamburgers in 110 seconds. Similarly, later companies like Kentucky Fried Chicken and Chicken-in-the-Rough emerged with chicken as the major menu product (Parsa & Kahn, 1991).

Introductory Stage (1950's - Early 1960's)

According to Parsa and Kahn (1991), more fast food restaurants were introduced during this period than earlier decades. As stated in Industry Report, this growth was directly attributable to specific factors, such as increased population, more travel, a shorter workweek, more suburban restaurants, work patterns which were conducive to eating out, increased demand for take-home food, and eating out as a budgeted family habit (Rolmar, 1979). Higher consumption of meat, poultry and fish also contributed to

increased eating-out patterns, which was coupled with a major innovation in the development of foil wrap to keep food warm for take-out. Several QSRs: Mr. Donut; Kentucky Fried Chicken; Burger King; and Dog and Suds benefited immediately from these developments. During this period, most restaurant chains featured limited menus, core product specialization, low prices and limited service (Parsa and Kahn, 1991).

Growth Stage (Early 1960's - Early 1980's)

Convenience in service became a major trend during this time period, which was helped by the creation of kitchen modifications and new designs, such as larger deep fat fryers, steamers, and improved conventional ovens (Parsa and Kahn, 1991). An emerging trend of the 1970's was the inclination toward diet foods (Michaelides, 1973). Along with healthier menu options, there was a "truth in menu" legislation, which restricted some of the descriptive menus that tended to stretch the truth about menu products (Sherry, 1978). This legislation was beneficial in enhancing the foodservice industry's image by limiting shady practices and false claims.

Maturity Stage (Early 1980's - Late 1980's)

This stage saw a decline in the QSR industry due to a number of factors, such as bankruptcies, mergers, acquisitions, and basic economic failures. In addition, the consumer continued to be calorie conscious, which forced fast food chains to change their menus and include salads and other healthy alternatives (Parsa, 1989). The 1980's witnessed yet another trend in the foodservice industry: home delivery. Domino's Pizza experienced overwhelming success with this innovation, which made this trend popular. Though the 1980's witnessed a decrease in growth rate in quick service restaurants, they

still managed to steadily increase their market share 10% from 1980 to 1988 (Gallup, 1988).

Emerging Trends (Late 1980's - Present)

The growing number of women in the workplace created a larger demand for quick service food, menu adaptation, and family-friendly QSRs. In addition, delivery and take-out became even more popular since women did not have time to cook after a long day at work. Also, packaging innovations, ensuring that food could be kept hot, contributed to the increase in take-out foods and the expansion of drive-thru systems.

The 21st Century has brought its own demands to the fast food restaurant industry. With the advent of cell phones and computers, there has been an increase in take-out ordering using mobile devices. In addition, consumers have become increasingly interested in niche markets, which specialize in specific fast food, such as cupcakes, yogurt and sushi. Another emerging concern is the use of healthy and ethical food and packaging products. Also, customers have become more aware of health hazards related to trans fats, excessive salt, and artificial food coloring and have demanded greater monitoring of these products. Furthermore, there has been an increase in interest in organic, locally-grown food and this has had an additional impact on QSRs. Greater environmental awareness has motivated consumers to be more discerning regarding biodegradable and recyclable products, which puts more pressure on QSRs to provide these higher costs supplies. Moreover, there has been increased awareness about appropriate portion size of children and adults, and many restaurants now offer three sizes of food, depending on the request of the customer. Finally, innovative food choices

are increasingly more available at fast food restaurants, as well as nontraditional locations. It is not uncommon to find fast food located within airports, schools, and in other unexpected venues, which suggests that the convenience of location is a critical factor (Halo, 2010).

The food service industry has experienced major changes as a result of governmental regulations, socioeconomic changes, equipment innovations, shifts in social values, and demands of the consumer. Each of the major fast food restaurant chains has additionally taken into account what Fulton & Maddock refer to as the three basic dimensions of consumer motivation: the rational side, behavior modification, and the unconscious or emotional side. Some apply these principles more effectively than others, and their success demonstrates the power of these components. This paper will examine the history and success factors of five of the top nine fast food chains originated in the United States over the past 70 years to analyze the similarities and differences that have helped propel these unique companies to international success.

A HISTORICAL REVIEW OF FIVE OF THE TOP FAST FOOD RESTAURANT CHAINS TO DETERMINE THE SECRETS OF THEIR SUCCESS

Chapter 1: McDonald's

History

McDonald's is well established all over the world - an empire larger than Alexander the Great ever dreamed of (Gozzi, 1996). The chain currently operates over 31,000 stores worldwide, employing more than 1.5 million people (Siddiqui, 2011).

The McDonald's business began in 1940, when restaurant owners Richard and Maurice McDonald opened the first store in San Bernardino, California. At that time, hamburgers were priced at only ten cents each. In 1948, the McDonald brothers introduced the "Speedee Service System," which first established the principles of the modern fast food restaurant (McDonald's.com). For the first seven years, a carhop drive-in with a large menu, McDonald's reformatted their business concept creating a self-serve operation by establishing a streamlined system with a simple menu which offered only hamburgers, cheeseburgers, fries, shakes, drinks and apple pie. The kitchen was structured and built systematically for the use of an assembly line, to guarantee maximum efficiency.

Original owners Dick and Mac (Richard and Maurice) sold a McDonald's franchise in 1954 to Ray Kroc the distributor of multimixers for the McDonald's restaurant. Kroc had become intrigued by the McDonald's business and believed there was potential for expansion across the country. He opened his first McDonald's restaurant in Des Plaines, Illinois in 1955. By 1958, Kroc had opened 34 locations and by

1959 had expanded to 102. He eventually bought out the McDonald brothers in 1961 for a price of $2.7 million.

In the 1960's and 70's, McDonald's experienced phenomenal growth. Kroc believed that advertisement would be the best investment for his business, and this would soon be the fundamental stimulant for its overwhelming expansion and success. In 1961, the public witnessed the introduction of the famous Golden Arches logo. Soon after, the franchise familiarized Ronald McDonald to its customers, a particular appeal to children.

Factors of Success

Whether one travels from California to New York or even to Europe, the accents and languages may change, but the Big Mac remains the same. McDonald's is everywhere, and as the world's largest restaurant chain, it capitalizes on brand recognition. McDonald's isn't necessarily known for making the best burger in town, but it is triumphant in supplying consistent, simple and low-priced American food that the vast majority of people can appreciate. With more than 64 million customers served daily (mcdonalds.com), McDonald's has become one of - if not the most - recognizable brands in the world. However, McDonald's half-century history hasn't been completely categorized by smooth sailing. In fact, the corporation has been dampened by scandal and high-profile lawsuits. Also, as the paramount leader of the fast food industry, it has been center stage to attack as an influential contributor to America's obesity and unhealthy eating habits. Even so, McDonald's corporate heads have bounced back from every assault, and continue to respond in a positive manner to improve and strengthen their company's international image.

Simple, Friendly, and Clean

The business concept for the McDonald's Corporation originated with the McDonald brothers in San Bernardino, CA, but Ray Kroc took it to new levels. He created the motto "quality, service, cleanliness and value," and sensed that America was becoming a nation of people who enjoyed eating out as opposed to the Old World tradition of eating at home. Rather than a structured, ritualistic restaurant with codes and routines, Kroc provided a simple, casual and identifiable concept with friendly service and low prices. Cleanliness was of great importance in Kroc's plan, and included the overall appearance of the restaurant, the parking lot, the kitchen floor, the uniforms, and the bathrooms. Kroc famously stated: "If you have time to lean, you have time to clean" (Pepin, 1998). This approach was validated by market research conducted by Kotler in 1973, which claims that "atmospherics" act as a marketing tool to induce positive behaviors in situations where products or services are consumed. Similarly, Mehrabian and Russell introduced the atmospherics model (M-R model) into the environmental psychology literature. The M-R model is based on the Stimulus-Organism-Response paradigm, which suggests that "the effect of the environment (S) on approach-avoidance behaviors (R) is mediated by the individual's emotional response (O) to the environment" (Ha, Jang, 2010). This framework proposes that physical environment creates positive or negative emotions that influence customer impressions on the organization. Whether or not Mr. Kroc was familiar with this model at the time, his clean and appealing restaurant environments served his business well.

Real Estate

Ray Kroc was not the only mastermind behind the McDonald's empire. Kroc himself credited much of the company's fortune to a man named Harry Sonneborn. While the McDonald's corporation has found success on many fronts, one the most influential aspects of the company, particularly during the 50's and 60's, was its function in real estate. When Kroc struggled to fund the land and building for his restaurants, Sonneborn convinced him to begin leasing the land and building for each restaurant. The company would then sublease to the franchisee with 20 percent markups of the lease cost. Eventually, the markup increased to 40 percent or 5 percent of sales, whichever was higher. Sonneborn further initiated a plan to take out mortgages to own both the land and the building (Love, 1987). This capital would fund the opening of many more restaurants and helped create the empire it is today.

The most important element of real estate however is location. Kroc was known to have flown around in planes or helicopters looking for the best sections of the city to set up shop. He specifically looked for land near schools and churches (Kroc, 1987). To this day, there still exists a method for McDonald's locations. Although it might seem as if there is a McDonald's on every corner, the corporation looks for locations that are most convenient for people, including malls, near colleges and in airports. More specifically, McDonald's looks for intersections with traffic signals, typically on corners of two well-trafficked streets (McDonald's Corp.).

By 1965 McDonald's went public, selling its shares for $22.50. Now its stock trades around $90 a share (Spears, 2011). In 1967, Kroc expanded McDonald's outside of the US to Canada. Twenty years after going public, McDonald's was included in the 30-

company Dow Jones Industrial average. As of 2011, McDonald's remains the number one fast food chain with sales of $34.2 billion. Brands that follow relatively close behind are Wendy's and Burger King. The big three make up 75% of US burger sales (Dougherty, 2011).

QuickTime™ and a
decompressor
are needed to see this picture.

Figure 1: fast food hamburger restaurants by market share

Marketing

McDonald's staggering success relies on its unique ability to attract and influence the consumer psyche by virtue of creative and innovative marketing strategies. In a sense, the McDonald's Corporation has mastered the science of social psychology and in particular consumer psychology and the motivational systems that predict consumer behavior. Whether at home or abroad, the McDonalds brand has a magical capacity to enchant, captivate and charm, no matter the geographical, cultural, racial or religious differences of the region. Not only has McDonald's been efficacious in its ability to successfully market in a large number of areas around the globe, but the business also

bears a keen talent in creating frequent new advertising campaigns and strategies to fit the trends and popularities of the current time.

For decades, McDonald's has maintained an extensive advertising campaign. They have been able to do so with significant use of signage, billboards, sponsoring sporting events ranging from the Olympics to Little League, along with, of course, the more common media platforms of television, radio and newspapers. In 1957, McDonald's became well known for the motto "QSC" for Quality, Service and Cleanliness. This is the first time we see the beginning formation of a brand identity. By 1959, McDonald's began billboard advertising, and by 1960 it kick-started its first advertising campaign by promoting the "All American Meal" (a hamburger, fries, and milkshake). Similarly, 1961 witnessed another even larger scale advertising theme with, "Look for the Golden Arches." (McDonald's.com*)* This was put into place when the commonly known "M" replaced the "Speedee" company logo. While local ads and signage were receiving good response, McDonald's prevalence skyrocketed in 1967 with its first $3 million national TV campaign. McDonald's would go on to create many new advertising themes including: *Go for Goodness at McDonald's, You Deserve a Break Today, Nobody Can Do It Like McDonald's Can and We Love to See You Smile,* along with many others.

To date, McDonald's has employed approximately 23 different slogans in US advertising in addition to a few other slogans for select countries. The organization is one of the most dominant fast food advertisers in the industry. McDonald's Corporate website states that its commercial campaigns have always focused on the "overall McDonald's

experience," rather than just the product. Its advertising campaigns and operations are undoubtedly allied with its brand image and marketing strategy. McDonald's isn't just a place where people go to eat. People also enjoy spending time with their families and friends at its locations, which make such gatherings easy, affordable and entertaining. In fact, a study showed that children ages 5-15 are the fastest growing segments of the American population (Cetron, De Micco, & Williams, 1996). McDonald's has undoubtedly used this realization in manufacturing their marketing strategy and concept. They have accomplished this by using and targeting young children in its commercials, as well as building playgrounds inside the restaurant. McDonald's, unlike Burger King, Wendy's, or other fast food companies, does not simply sell fast food. It sells family values, standards, and togetherness (Caputo, 1998).

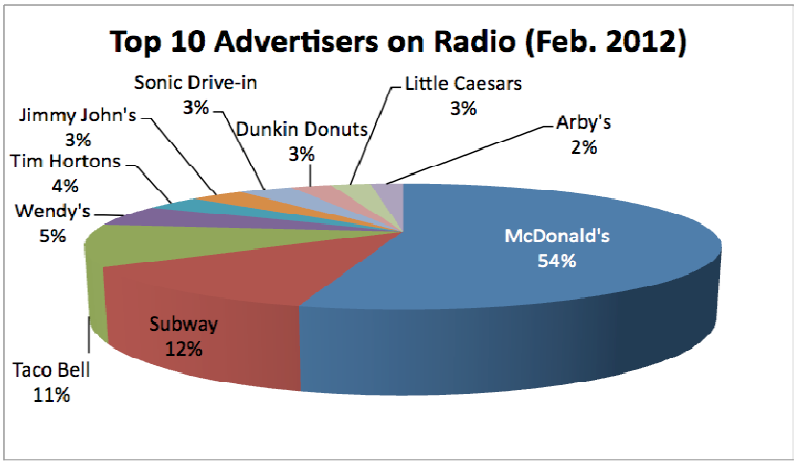

Figure 2: top radio advertisers

McDonald's marketing strategy also includes a heavy concentration on appealing to minority groups, such as African Americans, Hispanics and Asians. Neil Golden, McDonald's US chief marketing officer, states: "The ethnic consumer tends to set trends,

so they help set the tone for how we enter the marketplace and preferences learned from minority consumers shape McDonald's menu and ad choices, which are then marketed to all customers" (Siddiqui, 2011). For example, an interesting and thriving practice that McDonald's operates is choosing specific fruit combinations for its smoothies that reflect the taste preferences of the minority communities in which the restaurant is located. This attention to consumer detail is another factor that has led McDonald's to the top of its industry.

In analyzing McDonald's marketing strategy and success, a psychological understanding of consumer appeal seems appropriate. What do consumers want? What do they like? And more importantly, why? How has McDonald's been so successful in tapping into the consumer's brain? According to Fulton & Maddock, the answers to these questions are found in the three basic dimensions of consumer motivation: the rational side, behavior modification, and the unconscious or emotional side.

The rational side of the consumer is the dimension that is most often targeted. Rational decisions include decisions that are made on the basis of habit, value, price, immediacy, speed and product features such as user friendliness that eliminate hard work, anxiety and other negative emotions. The rational side of the consumer can also be referred to as left-brain advertising (Fulton & Maddock, 1996) because the left side of the brain is in charge of more rational, logical and sensible thought. Decisions reached here are made on the basis of facts, not emotion. However, most products and services are not analyzed on the basis of reason and logic. Many are made on the grounds of emotion and passion.

The second approach to consumer motivation is behavior modification. This approach deals with both logical and emotional aspects of the brain and decision processing. Examples of behavior modification are frequent-flyer rewards, and loyalty programs that act as incentives or rewards that are contingent upon using the product. Behavior modification techniques may therefore keep customers loyal and increases its repeat costumers, but is not the best approach for attracting new costumers.

The third and last approach is the unconscious or cognitive side, which encompasses the emotional thoughts of the mind. Most consumer decisions are based on emotion, rather than reason, therefore if an advertisement can find a way to tap into this part of the brain, it will be more likely to attract the consumer to use the product or service. It is indeed the right side of the brain that holds the keys to powerful emotional wants that ultimately influence and control consumer decisions (Fulton & Maddock, 1996).

As well as being able to penetrate the three dimensions of consumer behavior and motivation, McDonald's marketing scheme also capitalizes on the manipulation of semiotics on its consumers. Semiotics is the study of how signs and advertisements are used to create meaning (Caputo, 1998). But meaning is not simply located in the text itself, the images or its aesthetics. Meaning, in fact is produced by the interactions between the information presented and its audience. The intention of a McDonald's commercial is not to define its food product or the quality of its food to the audience. Its intention is to create a meaning that is influenced by a particular set of dominant values specific to its viewer. The viewer hence creates a narrative that pertains to his or her interests and liking.

Take, for example, a commercial where a family of four: father, mother, daughter and son are shown leaving their home in a car, arriving at a McDonald's drive through, and then proceeding to a zoo. The general mood of the commercial is relaxed, and implies togetherness and fun. There is minimal dialogue and very little written material. The McDonald's logo is repeatedly shown on the bags of food, the beverage cups, and the superimposed logo in the last frame. The commercial does not focus on presenting information about the food. It does intentionally, however, portray a lifestyle and an emotion. The emotions of joy deduced from the ideas of family and togetherness is at the core if the commercials selling product (Caputo, 1998). McDonald's specializes in advertising the enjoyment its products create, not the actual quality of the product, and this is one reason the company has received so much success.

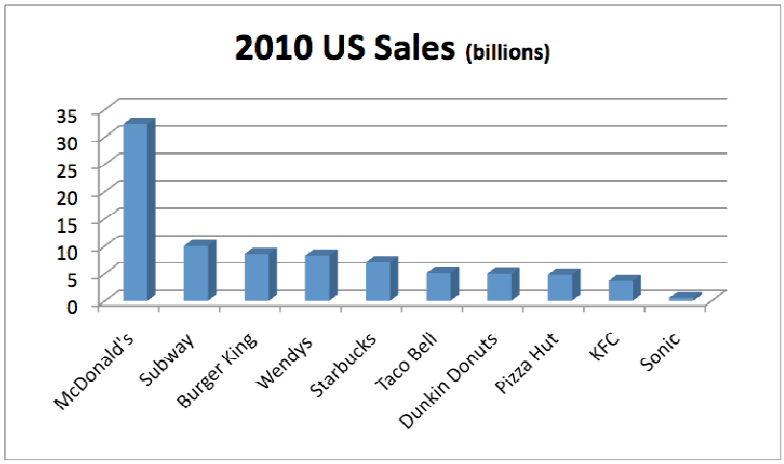

Figure 3: top QSR by US sales

Chapter 2: Taco Bell

History

Serving more than 36.8 million consumers each week in nearly 5,600 US restaurants, Taco Bell is the nation's leading Mexican- style quick service restaurant chain (TacoBell.com). Now a subsidiary of Yum! Brands, Inc., Taco Bell was founded by California born Glen Bell in 1962. Although the Taco Bell brand wasn't established until this date, the eventual success of the corporation is a testament to Bell's first hot dog stand in 1946.

The stand originally sold hamburgers and hot dogs, but being an avid Mexican food consumer, Bell experimented with making the perfect taco. Aware that tacos were extremely popular in the region but only available in full-service restaurants, Bell realized a business opportunity. He began selling 19-cent tacos out of a separate window at his little hot dog stand. Glen recalled: "I'll never forget the first taco customer because naturally, I was really concerned about his reaction. He was dressed in a suit, and as he bit into the taco the juice ran down his sleeve and dripped on his tie. I thought 'we've lost this one,' but he came back, amazingly enough, and said 'That was good, I'll take another one!'" (TacoBell.com). Six years after the opening of Bell's Drive-In in San Bernardino, California, he opened Taco Tia, supplying only tacos. Realizing that tacos were his biggest seller at his first hot dog stand, a taco-only restaurant seemed appropriate.

Glen eventually built the first Taco Bell in Downey, California in 1962. Enjoying great success, he began selling franchises. His first franchisee was Kermit Becky, a former Los Angeles policeman, who bought the rights in 1964. Taco Bell would eventually go public in 1970 with 325 restaurants and was later purchased by PepsiCo in

1978 with about 900 stores in its repertoire. Sales were at about $108 million next to cross town rivals McDonald's $3.7 billion. Actually, Taco Bell was not worried about McDonald's. Taco Bell had done a good job of differentiating themselves from McDonald's along with other burger shops with their unique adobe style architecture, sombreros and Mexican style menu.

But by 1984, Taco Bell had become so successful that they decided to expand outside of the Mexican fast food sector and into the mainstream, taking on the likes of McDonald's and Burger King, along with many other colossal corporations. In order to do so, the company remodeled its stores, made their uniforms less ethnic looking, included more items on their menu and added the drive-thru (Brott & Zyman, 2002). This decision caused the uniqueness of Taco Bell, which had originally differentiated itself from its competitors, to mostly disappear. Although it got rid of many of its original aspects, Taco Bell was nonetheless successful in creating new differences. The franchise prided itself on making every meal made to order, unlike any other fast food restaurant of the time. That practice continues today.

Factors of Success

Taco Bell's reengineering program implemented during the 1980's is primarily responsible for its present day success.

Reengineering

Taco Bell can be characterized by its sporadic up and down growth within the realm of the fast food industry. However, Taco Bell's ultimate success is in large part due to its ability to bounce back from its downgrades, quickly and efficiently. The organization's reengineering maneuver in 1983, with the addition of CEO, John Martin,

exemplifies the company's distinct genius for reconstructing a struggling business with complacent business practices into a thriving enterprise. The old system of operations at the company was grounded on traditional operational practices, which were exceedingly outdated and insufficient for the business climate of the twenty-first century. Taco Bell's radical top-down approach to redesigning its business focused on eliminating work that was not necessary, eliminating practices that were not producing good outcomes, and creating a more effective way to do business by creating a valued experience for the customer at a low cost and at a higher quality (Baldwin, 1999). Here are the factors that contributed to Taco Bell's failure up until 1983:

1. High operating costs
2. Inefficient restaurant floor plans
3. Slow cooking and preparation of food
4. Low employee moral and quality of life
5. Inefficient organizational structure and management system
6. Poor and slow service
7. Assuming what their customers wanted rather than knowing

How Taco Bell conquered these malpractices in its Reengineering program:

1. <u>High operating costs</u>

Taco Bell's number one focus in its reengineering agenda was customer value. To this day, Taco Bell is best known for being the first fast food chain to focus on the overall value of the customer's experience. Steps obtained to increase customer value which in turn profited the company, included the rise of food cost from 27% to 30%, improving sales volume by revamping its whole operational system at both the corporate and

restaurant levels, remodeling the store appearance, and adding new menu items that were in demand but previously ignored. The companies 3% rise in food cost was in pursuit of providing a healthier and higher quality product. The reformation of its operational system created a much more efficient, dependable, and quicker service. Its store appearance was modernized, making it appear cleaner, and overall more appealing.

2. Inefficient restaurant floor plans

With the addition of the K-minus (see below) the kitchen area was reduced to 30% of the overall restaurant space while the customer service are increased to 70%. Not only did this expand the customer seating capacity, but it also provided extra space for the addition and expansion of drive thru's.

3. Slow cooking and preparation of food

Taco Bell reformatted their kitchens to increase service time. First, the parallel food line was converted to a double assembly line perpendicular to the customer service area. Second, and most important, Taco Bell created the "Kitchen minus" (K-minus) concept. (see figure 4) Rather than having the kitchen be the place of cooking and preparation, the kitchen would simply heat and assemble the food. Food processing and cooking would now be handled by the corporate level and delivered to individual restaurants. A much quicker service was created, which was well received by its customers (Hallowell, 1994).

4. Low employee moral and quality of life

An original lack of trust and understanding between employees throughout the various levels of the organization was curbed. With the implementation of a new management structure and role changes, communication channels became more fluid where employees' concerns and questions were better passed on and addressed. New training programs focused on leadership and operating management skills were added for

its managers, which greatly influenced the drop in employee turnover. The reengineering program also developed team management units in pursuit of creating an interdependent and information sharing culture among the employees and management.

5. Inefficient organizational structure and management system

The management structure and process was dramatically reengineered. John Martin eliminated many middle management layers within the organization including the District Manager position. Every job was redefined and layers were combined to make fewer layers, creating a much larger span of control. For example, the market manager span of control changed from six to twenty restaurants by 1991. Managers who could not leverage such responsibilities were moved down in the hierarchy or let go. The overall number of managers in each level was dramatically reduced therefore creating more responsibility and decision-making ability within each manager role (Hallowell, 1994). Here is the organizational structure before and after reengineering:

Before Reengineering	**After Reengineering**
Vice President-General Manager	National Vice President-Operations
Vice President-Operations	Zone Vice President-Operations
Zone Director-Operations	Market Manager
Area Managers	Restaurant General Manager
District Managers	Assistant Restaurant General Manager
Restaurant Managers	
Assistant Restaurant Managers	

6. Poor and slow service

Up to this point, the company had been using low levels of technology at the counter and in the kitchen, which produced a slow service for the customer. Orders were placed on manual plexi-glass boards that were erased after every order. There was no way to

track sales or keep inventory. This outdated method was therefore replaced by electronic POS system computers that established the track of sales, product mix and inventory. This was all part of the Total Automation of Company Operations system (TACO). The TACO system provided management with ample amounts of information about its store operations. Not only did it track sales minute by minute, but it also eliminated unpleasant paper work, which allowed the employees more time spent with customers (Hallowell, 1994).

7. Assuming what their customers wanted rather than knowing

Taco Bell focused more on the customers' wants and needs rather than providing customers with cheap food, fancier décor, outside playgrounds, and broader menus. The organization implemented a survey, which concluded that customers desire a fast, consistent, accurate and clean service, and appropriate temperature in the restaurant. Taco Bell therefore established the "Speed of Service" (SOS) program, which increased peak hour service transactions by 54% and reduced customer waiting times by 71%. They gathered this information through three customer service initiatives including a toll free number for customer comments, a mystery shopping service rating restaurants, and informal, in-person marketing surveys conducted by employees. They also learned that customers were willing to try more food items rather than tacos. Therefore, Taco Bell increased its menu by offering new items such as Taco Salad, Double Beef Burrito Supreme, Nachos, and even Mexican Pizza (Hallowell, 1994).

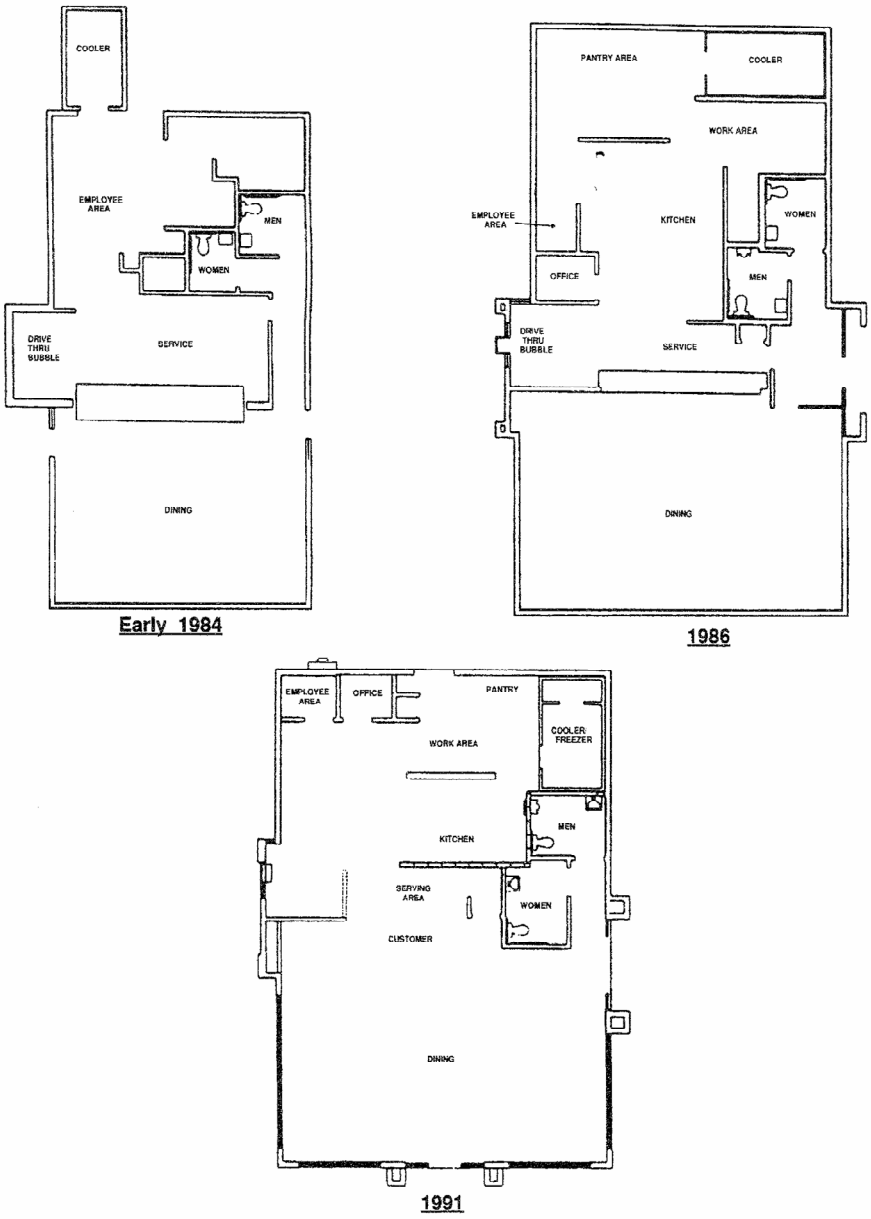

Figure 4: Taco Bell K- Minus & floor plan evolution

Chapter 3: Kentucky Fried Chicken (KFC)

History

Kentucky Fried Chicken was founded by Harland Sanders in Corbin, Kentucky in 1955. During the 1930's, the demand for the Colonel's unique recipe of spices and pressure- fried chicken was rising as he began cooking at his own Harland Sanders Court and Cafe. In 1952, Sanders signed on his first franchise to Pete Harman, a hamburger restaurant operator in Salt Lake City, Utah. For the next four years, Sanders convinced several other restaurant owners to add his fried chicken to their menus, and word began to spread. By 1955, the Colonel moved the business to Kentucky, where he incorporated it and made it better possible to ship his spices, pressure cookers, advertising material, and carryout cartons. By 1963, the recipe was franchised to more than 600 outlets in the U.S. and Canada.

In July of 1971, KFC merged with Connecticut based company Heublein Inc., a specialty food and spirits corporation. KFC underwent large drops during the Heublein's reign until PepsiCo, Inc. purchased KFC for $840 million in 1986. Pepsi fostered many new changes including new product introduction. Although Pepsi showed KFC a stint of growth, it was short. Franchisees began to laud its parent company Pepsi, and relations within the company and its franchisees began falling apart. By 1977, the company announced plans to create an independent publicly traded company, Tricon Global Restaurants, Inc. (now Yum!Brands) which drew together Pizzza Hut, Taco Bell and KFC (KFC.com)

Similar to Taco Bell, Kentucky Fried Chicken's chronicle has been stamped by a constant personality crisis. Since its beginnings, KFC has been plagued by a lack of brand

identity, consistency and dependability, ultimately frustrating and disappointing its customers. But its customers have not been the only ones that continue to feel the calamity of a haphazard organization, as relations between franchisees and corporate struggle to supply a consistent formula. Although KFC has shown strengths in its more than half century existence making it one of the prominent fast food giants of the day, it has largely struggled to do so. While the company's focus has striven to remain strong and consistent throughout the decades, fewer new stores are reaching the market while more and more stores continue to retire. KFC's future as one of the leading fast food restaurant chains looks uncertain.

Yet despite all of its concerns and struggles, KFC remains one of the most well-known fast food restaurant chains. All large corporations have their fare share of challenges. Their ability to remain prominent within their industry, regardless of its faults, makes them successful. Nowadays, using the franchising model of doing business, KFC has restaurants in more than 110 countries, with an overall number of units at more than 16,000. While its primary focus is fried chicken, KFC also offers a line of grilled and roasted chicken products, side dishes and desserts. Outside the USA, KFC offers products made from beef such as hamburgers or kebabs, as well as pork-based products such as ribs and other regional fare.

Factors of Success

KFC's success comes from a recognition that product differentiation and advertising are critical to build consumer loyalty.

Product Differentiation

Arriving to the industry in 1955, Colonel Sanders' chicken was an automatic hit. The recipe of 11 herbs and spices in fact remains a trade secret. Yes, of course there were many great tasting southern style fried chicken recipes at the time, but only one man had the determination to share it with the masses. While many fast food chains were taking flight during the era, none offered a restaurant concept focused on chicken only. The company's early harbor as the first chicken restaurant chain in the industry set the precedent for its future success.

Although KFC prides itself on its original pressure-fried chicken, the company has found great success in offering a variety of different menu items. With the take-over by PepsiCo. in 1986, the company has offered grilled chicken, a line of hamburgers and sandwiches, salads and wraps, and variety of finger foods. "Sometimes consumers' tastes change or a brand becomes tired. A good brand should be flexible enough to adapt to evolving markets without losing equity. Kentucky Fried Chicken identified market trends away from fried foods, … and modified their menu to reflect the market dynamic" (MacDonald, 2011). Although, KFC is known for constantly changing its menu items, reflecting its personality crisis stated above, the general business concept of giving the customer more choice, regardless of the popularity of specific product, still remains beneficial. The wide range of dishes offered to its clients is a substantial advantage over its other competitors including Popeye's, Chick-Filet and Church's Chicken (Michman & Mazze, 1998).

Advertising

KFC holds a well-recognized brand due to the aggressive advertising campaign primarily based on the image of the founder, Colonel Sanders. Despite his death in 1980, Sanders remains a key symbol of the company in its advertising and branding. The company's advertising strategy usually promotes Colonel Sanders and his love and approach to cooking and making his customers happy. KFC often uses humor in their advertisements that combines well with its theme song- a modified version of Lynyrd Skynyrd's "Sweet Home Alabama." (USA Today, 2011). KFC also continues to promote new products and offerings via TV and Internet, which have generated great success.

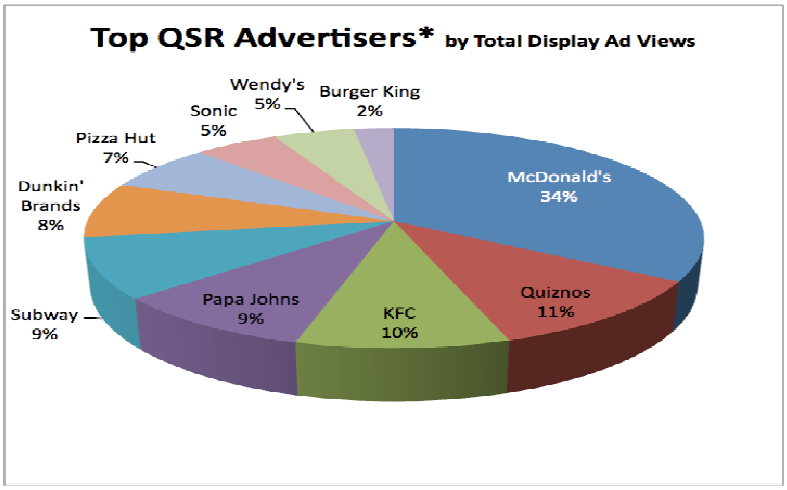

Figure 5: top QSR advertisers (2012)

Chapter 4: Domino's Pizza

History

The legend of Domino's Pizza dates back to December, 1960 with the purchase of a small pizza shop in Ypsilanti, Michigan by brothers Tom and Jim Monaghan. The brothers bought the restaurant from friend Dominick DeVarti for $500 cash and assuming the stores $8,000 debt (Dicke, 1992). Neither Tom nor Jim had the intention of making the restaurant business their career, but rather saw the opportunity as a part-time venture to help cover the cost of their studies at the nearby University of Michigan. By June the store was earning a profitable $400 a week but briskly fell off when students at the University went home for summer. Faced with the prospect of a slow phase, Jim sold Tom his half of the business in 1961 and changed the name from Dominick's to Domino's. The same year, Tom decided to quit school to devote more time to the business.

Aware of his lack of experience in pizza making and operations and management, Tom spent much of his time visiting many similar pizzerias around the state acquiring advice on operations and recipes. By the mid 60's, Tom had restructured the interior of the store, rearranged all areas and systems, ultimately improving the flow of work in all facets of the operation from order-taking to delivery. "Monaghan's system was reminiscent of those developed by the managers of White Castle Hamburger in the 20's and the McDonald brothers in the 40's" (Dicke, 1992). The implementation of this system formulized the production process as a unified whole, and included the standardization of materials, clever and thoughtful placement of equipment, and detailed division of labor; all geared to achieve the continuous production of its limited product

line. By 1967, Domino's emphasis on uniform quality and rapid delivery proved a successful system for operating a pizza shop and therefore provided opportunity for expansion through franchising.

Factor of Success

Recognized as the #1 pizza delivery chain (PR Newswire, 2011) controlling 20% of the market and the #2 in pizza chain in sales (DeVillartiss & Shrader, 2005), Domino's holds an array of success factors that are worth mentioning. These factors include: the company's innovative delivery concept, franchising methods and technological innovation.

Delivery

Domino's Pizza, Inc. is recognized as the world leader in pizza delivery. The company's fortune in the industry reflects their active arrival as the first chain to offer delivery to the consumer. Originally a sit down restaurant, Dominick's struggled to cover the expenses necessary for a larger restaurant. Intelligently, Tom realized a delivery business would cut down overhead and the cost of goods. With the elimination of eating space and the need for more square footage, rent, utilities, service, and labor were dramatically minimized. Tom was able to increase his sales by servicing many more people without having to increase overhead. Tom told CNN, "Delivery at the time was pretty minimal, so I decided to focus on that, and it was the best thing I've done" (Sloane, Monaghan, 2003). Since Domino's focused its business solely on delivery, they were also the driving force behind pizza delivery technology. After a long development process with a Detroit-based box company, Traid Containers, Monaghan finally achieved success in creating the pizza box that has become a standard for the pizza industry. Domino's

dominated the market with the delivery concept until its main competitor Pizza Hut began experimenting with delivery in 1999. Domino's is also commonly known for creating the "You got 30 minutes" for its pizza delivery. Starting in 1973, the company guaranteed all customers that they would receive their pizzas within 30 minutes of placing their order, and if they did not receive it within the allotted time, the pizza was free. In the 1980's, the guarantee was reduced to $3 dollars off. Now the slogan still exists, although the guarantee does not. This slogan helped the company attract customers.

Franchising and Store Managers

Many large retail chains battle with their franchisees due to a lack of regulation and proper compensation. It's very important for the organization to find the balance between giving their franchisees autonomy while also controlling them. Autonomy promotes valuable innovation, but too much independence must be properly controlled so that franchisees do not damage the company's consistency, core principles and practices. To ensure that franchisers were well versed in all of Domino's methods, by 1979, the company required they complete an employee selection and training program. The program included material in site location, lease negotiations and many others business practices. As for the store managers, the company had the right to approve all store managers as well as mandate their formal training at corporate. Once a store manager, Domino's mandated all managers to either own a part of the store they managed or receive a percentage of the stores profits (Dicke, 1992). This not only motivated store managers to perform well, but it also influenced their eventual yearning to become a future franchisee. The short and logical step from manager to franchisee was part of

Domino's plan to control its franchisees by recruiting from within the ranks of the company, who were already familiar with most aspects of the business.

The company's franchising model once again made a valuable change with a change in ownership in 1999. J. Patrick Doyle, president of Domino's USA ,realized that the company's future success lay in the hands of the company-owned stores and not necessarily the franchisees. These were the stores that would initiate change and be the model for all other franchisees, since they were basically run by corporate. But this was a difficult task since out of the 145,000 employees working for the organization, only 7% were under direct company control (Lief, 2008). Traditionally, the company stores were the most conservative and closely controlled, while the franchisees were the innovators. Doyle saw this as a great fault. He therefore transformed the company-owned stores, empowering an entrepreneurial spirit that began to influence the other franchise- owned stores. The franchise stores did not want to get outdone and therefore began developing their own innovations and creations (Lief, 2008). This all led to the growth and gain of the Domino's corporation.

Technology

In striving to attract more customers in an easier and more efficient manner, Domino's placed great importance on sales via its technology platform. Domino's has witnessed an ongoing trend of pizza orders coming in electronically, rather than over the phone. Domino's chief executive, Don Meij, expects half of the company's revenue to come from online sales within the next six months (The Morning Bulletin, 2012). In contrast to telephone orders being placed to the stores, the online system requires less labor, and causes fewer mistakes. In addition, Domino's online sales system has the

ability to track customers' preferences and past orders. Recent statistics show that one third of the company's sales have been made through mobile phone apps.

Another technological advancement for Domino's is their social media strategy. As of February 2012, Domino's Australian Facebook page has more than 410,000 fans, making it the biggest Australian quick-service restaurant using the social media platform to connect with its customers on a daily basis. Domino's continues to drive its growth through product innovation, and investment in online platforms.

Chapter 5: Subway

History

With over 36, 000 restaurants in 100 countries as of 2012, Subway is the largest submarine sandwich chain in operation and the second most successful fast food restaurant, second to McDonald's (subway.com) Actually, Subway operates more restaurants than McDonalds.

The chain's humble beginnings date back to 1965. At seventeen years old, Fred DeLuca looked for an idea that would help him finance his college education with the hope of becoming a medical doctor. After approaching his longtime family friend, Dr. Peter Buck, Buck suggested DeLuca open a submarine sandwich shop. Buck offered to invest in the business. As partners, the friends formed Doctor's Associates Inc., derived from the fact the Dr. Buck held a Ph. D and the hope that DeLuca would eventually become a doctor as well. The first store located in Bridgeport, Connecticut was initially called "Pete's Submarines," but they eventually renamed the business Subway in 1968 (subway.com).

After their initial success, Fred and Pete expected to open thirty-two stores in ten years, but by 1974, only sixteen shops were in operation throughout Connecticut. The duo then decided to franchise to speed up expansion. The first franchise was bought by Brian Dixon in 1974 and became a success by mimicking Fred's business methods of providing fast food that was customized to each customer's tastes while using fresh ingredients (subway.com). Now, the organization prides itself on having one store for every 200,000 people worldwide (Smith, 2012).

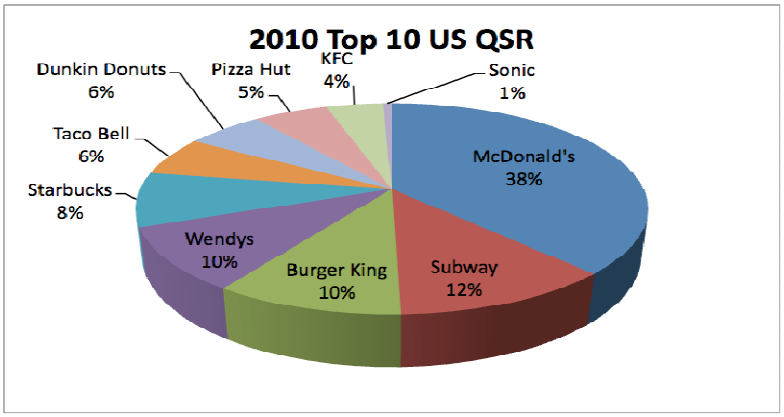

Figure 6: top 10 QSR by US market share

Factors of Success

Subway credits its exponential growth, which has resulted in the highest number of quick service restaurant outlets worldwide, to three critical factors: product quality, a build-your own customization concept, and flexibility to reach non-traditional marketplaces.

Product Quality "Eat Fresh"

Whether or not Subway's ingredients are as fresh as they are said to be is a question one might not be able to accurately answer unless they step foot into the back kitchen of a Subway outlet. Nonetheless, Subway does an exceptional job of promoting and selling its "fresh, tasty, and healthier alternatives to traditionally fatty fast foods" (Public Relations Coordinator Rob Wilson) (Schaefer, 2006). Unlike its QSR competitors, at least up until most recently, Subway's unique concept strives to provide customers with a large array of vegetables, low-fat sandwich meats and baked breads. Subway spokesman Wes Winograd explained: "… The idea of Subway as a healthy alternative came from the fact that we don't fry anything…" (Thill, 2009). Other than a

couple of sandwich competitors like Quiznos, Subway stands alone as a provider of fresh and healthy ingredients low in trans-fats and calories in the fast food sector. More recently, the company's ubiquity, even during a recession, seems to be a byproduct of a marketplace more in tune with health than ever before. While much of its success in the past was due to the simple fact that it was able to offer a different food with an innovative concept, it's most recent success is a result of changing consumer attitude and behavior.

How important is the quality of food for a consumer? The answer really depends on the business's target market. For example, the food consumed at a McDonald's, Burger King, KFC or other similar outlets is not known for its high quality. Despite this fact, such food corporations remain successful, primarily by appealing to a certain style of consumer. For new businesses that hold similar concepts in an already saturated market, prosperity is rare. More recently, the key to a profitable business resides on the creation of a new concept unknown to its industry. Whether this be accomplished by providing a better quality, lower cost, or an overall new restaurant concept, new businesses must discover a way to exceed their competitors. Subway was able to do this by entering the market at the right time, and continues to profit as consumer behavior and preferences transform. According to Bonnie Riggs, a restaurant industry analyst for NPD Group, the changing consumer market expects certain value from its food supplier, especially during a recession:

> "Specialty drinks, breakfast menu development, and snacks are a fruitful area for developing a growth strategy that courts both frugal and free spenders…To lure those on tight budgets, … quick serves must deliver on a customer's value expectations, offering more fresh ingredients and quality food that is reasonable and affordable. That's why fast casual has done so well, because they have delivered more on that (Fletcher, 2011).

Similarly, Marc Halperin, journalist of QSR Magazine reflects on the eating habits of the current youth or "Millenials," as he likes to put it. "They favor fitness and understand more about healthy foods and ingredients than their parents or grandparents did at the same age" (Halperin, 2012). He further explains that the current consumer is not afraid to wear their social conscience on their sleeves, as they go out of their way to buy organic, free range, cruelty-free, and even locally grown foods. Small steps, such as using locally grown vegetables, or replacing plain white buns with organic whole-grain varieties (which Subway does), will appeal a great deal more to the current consumer (Halperin, 2012).

Food quality is one of the most critical components of a dining experience (Namkung & Jang, 2007; Sulek & Hensley, 2004). Previous studies have empirically investigated the significance of food quality in restaurant settings. Clark & Wood, (1999) established that food quality is a primary factor influencing customer loyalty in regards to restaurant choice. Namkung & Jang (2007) tested the impact of food quality on customer satisfaction and behavioral intentions and found a positive relationship between food quality and satisfaction/ behavioral intentions. Kivela et al. (2000) measured food quality using a variety of determinates including tastiness, menu variety, and nutrition to examine the effect of exceptional food on customer satisfaction and return patronage.

Customization

Subway's unique sandwich customization concept separates them from their competitors. Whereas most fast food chains prepare their food in the back, Subway engages its customers in the food construction process. Customers are able to see what is put into their bodies, and they appreciate that. Not only do the customers get to

witness what is put into their sandwich, but they get to customize it. Subway offers many options in their menu offerings. This is not the case in other hamburger or other fast food restaurants.

Franke et al. (2009) conducted two studies measuring the benefits customers receive from customized products and the factors which best impact the degree of benefit achieved. Both studies concluded that products customized on the basis of expressed customer preferences greatly influence the customers' willingness to pay, purchase intention, and attitude toward the product. Three factors which influence such benefit include if customers have (1) better insight into their own preferences, (2) a better ability to express their preferences, and (3) high product involvement (Franke et al., 2009). Many other researchers and practitioners have paid mounting attention to marketing strategy of customization. Customers' demand for individualized products has increased over the years as customer preferences have become ever more heterogeneous in many markets (Gilmore & Pine, 1997; Smith 1956). With over two million sandwich varieties (Subway.com), Subway offers an exclusive consumer appeal that other QSR struggle to compete with.

Non-Traditional Locations

Contributing to the brand's growth is its ability to find new markets and adapt to unique and unconventional locations. This strategy has allowed Subway outlets to be found in spaces where its competitors simply could not fit or found impractical. Subway's public Relations Coordinator Rob Wilson said:

> "Needing minimal equipment and space requirements, the SUBWAY concept is flexible -- 'at home' in free-standing locations, food courts and strip malls, in more than 5,000 convenience stores, in airports, truck stops and casinos, hotels and department stores, in high schools, on college campuses, in amusement parks and hospitals (Schaefer, 2006).

Since there is no cooking involved, Subway has the benefit of building up shop in even the most small and non-traditional settings. One very interesting example was the Subway that was an important component to the construction of One World Trade Center in New York City. For the past two years, a Subway store has been located on top of a crane, rising alongside the construction of the World Trade Center and providing sandwiches for construction workers (QSRweb.com, 2010).

According to Smith, "Last July, in fact, the Connecticut-based sandwich giant opened its 8,000th nontraditional location, a milestone few could have foreseen two decades ago when Subway viewed such nontraditional units and locations as an experiment more than a realistic vehicle for growth" (2012). Because, so many Subway locations only necessitate small spaces, minimal building and start up cost are required. Also, its unnecessary requirement for grills, fryers and other cooking equipment not only allow for nontraditional locations but also alleviates franchisees of the cumbersome technicalities involved with the operation of traditional food stores. Subway formulates a simple, proven system, which creates opportunity for franchisees even without prior foodservice experience.

Conclusion

Each of these major companies has enjoyed massive success while experiencing some significant setbacks over the course of their history. However, one shared characteristic of all is an ability to look critically at their operations and recognize where change is necessary. Although all of these companies have much in common as fast food giants, each company's success has evolved differently. While McDonald's main focus is on creating a "family-friendly" environment and brand with less attention to food quality, Subway's emphasis is the polar opposite. Their major concern is the freshness and customization of their food product while placing little value on atmospherics. In fact, they pride themselves on the versatility of their locations, which operate out of small spaces and are often in unique locations. Taco Bell, on the other hand, has flourished due to the revamping of their business model to improve efficiency, while Domino's has benefited greatly from implementing the first truly effective home delivery system. Kentucky Fried Chicken has embraced product differentiation to capture the fried chicken market and has created an effective marketing brand using the persona of Colonel Sanders. But despite these differences, there is one overarching similarity, which all of these companies share – entering the market with an innovative concept.

All five of these companies have achieved success because they brought into the marketplace a new idea that appealed to a wide range of customers. McDonald's, although not the first hamburger joint, created the first assembly-line service for their food products, thus establishing consistency and efficiency for their customer. Taco Bell was the first to bring Mexican food to the mass market in the United States, breaking away from the traditional sit-down restaurant concept. Domino's took pizza making to a

new level by standardizing their product and introducing home delivery, while Kentucky Fried Chicken was the first to supply fried chicken from a unique recipe and aggressively expand through franchising. Subway's unique concept took into account the new "healthy" eating habits of the population and was the first to introduce customization to the consumer. Timing was also a critical factor for all of these companies since many are either the first or close the first in their market. However, future entrepreneurs should not be discouraged, there's always room for new ideas in this ever-changing world.

With a more enlightened consumer, challenges are everywhere in the fast food industry. Current and future businesses must take into account how to deal with increased expectations from their customers in regards to food quality and safety, health benefits, environmental concerns, and service aspects, such as efficiency, cleanliness, and convenience. The primary challenge, which also is the most exciting, is bringing an innovative concept to the world of fast food. Who would have ever thought that a business could be created around the concept of fast food sushi in the United States? This demonstrates that there are many new opportunities to explore and develop in the quick service food industry. Just as these past innovators started small, but had vision and big dreams, there are no doubt many enterprising people right now who have the capabilities to create the next generation of fast food giants.

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