Wendy's International Inc.

Submitted by:

Group 1

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Page 1 of 60
# Table of Contents

EXECUTIVE SUMMARY .............................................................................................................................. 5

HISTORY OF WENDY’S INTERNATIONAL ................................................................................................. 5

ENVIRONMENTAL ANALYSIS .......................................................................................................................... 7

**INDUSTRY DESCRIPTION** ................................................................................................................ 7

*Key Success Factors* ............................................................................................................................... 9

*Competitive Environment* ....................................................................................................................... 9

- **Key Competitors** ................................................................................................................................. 9
- **Five Forces Analysis** ......................................................................................................................... 10

**FACTORS THAT CREATE AND INFLUENCE DEMAND** ........................................................................ 15

*Economic Conditions* ............................................................................................................................ 15

*Role of Technology* ................................................................................................................................ 15

**FACTORS THAT CREATE AND INFLUENCE COST STRUCTURES** .......................................................... 16

*Economic Conditions* ............................................................................................................................ 16

*Technology and Economies of Scale* .................................................................................................... 16

**MAJOR STRATEGIC ISSUES FROM EXTERNAL ANALYSIS** ............................................................... 17

*Driving Forces* .......................................................................................................................................... 17

- **Social Culture** .................................................................................................................................. 17
- **Competition** ..................................................................................................................................... 17
- **Economic, Market and Other Condition:** ...................................................................................... 18
- **Government Regulation** .................................................................................................................. 18

INTERNAL ANALYSIS ............................................................................................................................... 19

**ORGANIZATIONAL DESCRIPTION** .................................................................................................. 19

*CORPORATE MISSION STATEMENT* ................................................................................................... 19

*VISION STATEMENT* ............................................................................................................................ 19

*CORE VALUES* ......................................................................................................................................... 19

*Marketing Mix* ....................................................................................................................................... 20
EXECUTIVE SUMMARY

The purpose of this case analysis is to analyze Wendy’s International, Inc.’s internal and external environments as well as SWOT and strategic fit analysis. By compiling this information, we will provide recommendations that will play an important role in helping Wendy’s achieve the objectives it is seeking and clear the pathway for new strategic moves that will increase the company’s standing as a major competitor in the fast food industry.

HISTORY OF WENDY’S INTERNATIONAL

Wendy’s International, Inc. is one of the world’s largest restaurant operating and franchising companies with $9.4 billion in 2002 system-wide sales and more than 8,800 total restaurants. Wendy’s Old Fashioned Hamburgers® and Tim Horton’s® businesses continued to grow as the Company executed its growth strategy, added to its portfolio of quality brands by acquiring Baja Fresh Mexican Grill™, and invested in fast-casual restaurant chains Cafe Express™ and Pasta Pomodoro® in 2002” (Wendy’s.com Investors Relations, 2003).

Wendy’s began as the dream of Dave Thomas. He wanted to build a better hamburger. His dream became a reality in Columbus, Ohio, in 1969 when Thomas opened the first Wendy’s Old Fashioned Hamburgers restaurant, named after one of his daughters, Melinda Lou, nicknamed “Wendy” by her brother and sisters. (www.wenohio.com).
Growing from that one unit in Columbus (Ohio) to 8811 units worldwide in 2002, Wendy’s has shown a very high growth in the midst of huge competitors like McDonald’s and Burger King (2002 Annual Report). In December 1995, Wendy’s merged with Tim Horton’s, the second largest restaurant chain in Canada. Tim Horton’s operates as a subsidiary of Wendy’s, and continues to independently operate their coffee and fresh baked goods restaurants. In addition, Wendy’s and Tim Horton’s developed an innovative “combo” restaurant unit that provides a unique approach to food service convenience and consumer appeal. The combo buildings are freestanding with a shared dining room and separate food preparation, storage areas and staffs. The merger with Tim Horton’s expanded Wendy’s market presence in Canada.

(www.wenohio.com)

More than 150,000 Wendy’s employees worldwide live by the creed that “Quality is Our Recipe.” Wendy’s goal is to be better than the rest, with high-quality, great-tasting food, clean, comfortable surroundings and fast, friendly service. Delivering Total Quality is the focus of every aspect of Wendy’s operations and the philosophy of every employee. It is this dedication to quality that makes Wendy’s a leader in the food service industry and a favorite of American consumers. Wendy’s menu offers customers a variety of great tasting and nutritious choices, and of course, hamburgers remain one of Wendy’s most popular items. Wendy’s hamburgers are 100% pure domestic ground beef, cooked to order and served hot-off-the-grill with the customer’s choice of toppings. Wendy’s Chili -- a closely guarded secret recipe -- is made from scratch everyday in each Wendy’s restaurant. Wendy’s was first in the quick service restaurant industry to utilize the Pick-Up Window, and first to offer baked potatoes and the salad bar nationwide. (www.wenohio.com)
As lifestyles have changed over the years, Wendy’s has adjusted its menu to reflect the changing tastes of its customers. Wendy’s offers both a Chicken Fillet Sandwich and a Grilled Chicken sandwich, as well as Fresh Salads to Go: Grilled Chicken, Deluxe Garden, Taco, Caesar and Side Salads with a variety of fat-free and reduced fat, reduced calorie salad dressings. New to the Wendy’s menu are Fresh Stuffed Pitas, freshly prepared and tasty salads wrapped in pita bread. The innovative pitas are available in four varieties: Chicken Caesar, Garden Ranch Chicken, Garden Veggie and Classic Greek. (www.wenohio.com)

ENVIRONMENTAL ANALYSIS

Industry Description

The industry description for Wendy’s includes, establishments primarily engaged in the retail sale of prepared foods and drinks for on-premise or immediate consumption. Caterers, industrial and institutional food service establishments are also included in this industry. (Infotrac Database Definition, 2003.) “This U.S. industry comprises establishments primarily engaged in providing food services (except snack and nonalcoholic beverage bars) where patrons generally order or select items and pay before eating. Food and drink may be consumed on premises, taken out, or delivered to customers’ location. Some establishments in this industry may provide these food services in combination with selling alcoholic beverages. The data published with NAICS code 722211 are comprised of this part of the following SIC industry: 5812 (pt) Limited-service restaurants (Limited-service restaurants at census.gov website 2003)

The structure of the industry includes:
<table>
<thead>
<tr>
<th>Automats</th>
<th>Beaneries</th>
<th>Box lunch stands</th>
<th>Buffets</th>
<th>Cafes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cafeterias</td>
<td>Carry-outs</td>
<td>Caterers</td>
<td>Coffee shops</td>
<td>Commissary restaurants</td>
</tr>
<tr>
<td>Concession stands</td>
<td>Contract feeding</td>
<td>Dairy bars</td>
<td>Diners</td>
<td>Dining rooms</td>
</tr>
<tr>
<td>Dinner theaters</td>
<td>Drive-in restaurants</td>
<td>Fast food restaurants</td>
<td>Food bars</td>
<td>Food service, institutional</td>
</tr>
<tr>
<td>Frozen custard stands</td>
<td>Grills</td>
<td>Hamburger stands</td>
<td>Hot dog stands</td>
<td>Ice cream stands</td>
</tr>
<tr>
<td>Industrial feeding</td>
<td>Lunch bars</td>
<td>Lunch counters</td>
<td>Luncheonettes</td>
<td>Lunchrooms</td>
</tr>
<tr>
<td>Oyster bars</td>
<td>Pizza parlors</td>
<td>Pizzerias</td>
<td>Refreshment stands</td>
<td>Restaurants</td>
</tr>
<tr>
<td>Restaurants, carry-out</td>
<td>Restaurants, fast food</td>
<td>Sandwich bars or shops</td>
<td>Snack shops</td>
<td>Soda fountains</td>
</tr>
<tr>
<td>Soft drink stands</td>
<td>Submarine sandwich shops</td>
<td>Tea rooms</td>
<td>Theaters, dinner</td>
<td></td>
</tr>
</tbody>
</table>

(Infotrac Database Definition, 2003.)
Key Success Factors

The key success factors are several things that have evolved over the years. In the fast-paced American society, time is of the essence. With diminishing available free times, the “time for cooking” has taken a backseat. That has been one of driving reasons for the proliferation and success of the fast-food industry. They are also quick, cheap and could even satisfy the taste buds (Horn, Ledet, Rauch, 2002).

Competitive Environment

Key Competitors


The table below captures the key competitors and some of their salient characteristics.

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDONALD’S</td>
<td>▪ The largest restaurant company in the world.</td>
</tr>
<tr>
<td></td>
<td>▪ Has produced the world’s most dominant restaurant brand and has created significant and lasting strategic advantages.</td>
</tr>
<tr>
<td></td>
<td>▪ Prepare, assemble, package, and sell a limited menu of value-priced foods. $35.9 billion in sales in 1998.</td>
</tr>
<tr>
<td>Competitor</td>
<td>Key Points</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>BURGER KING</td>
<td>• The second largest fast food, hamburger restaurant in U.S.</td>
</tr>
<tr>
<td></td>
<td>• Similar strategy and target market as McDonald’s, focusing on the family. $10.3 billion in sales in 1998. Served 1.6 billion whoppers a year, 14 million customers daily.</td>
</tr>
<tr>
<td></td>
<td>• Owned by Tricon Global Restaurants, Inc.</td>
</tr>
<tr>
<td>KENTUCKY FRIED CHICKEN</td>
<td>• The world’s most popular chicken restaurant.</td>
</tr>
<tr>
<td></td>
<td>• Offers a distinct menu that provides a home meal replacement for busy families. Owned by Tricon Global Restaurants, Inc.</td>
</tr>
<tr>
<td>TACO BELL</td>
<td>• 72% of Mexican quick serve market.</td>
</tr>
<tr>
<td></td>
<td>• Subsidiary of Tricon Global Restaurants, Inc., target different consumers than hamburger chains.</td>
</tr>
</tbody>
</table>

*Five Forces Analysis*

**Force 1: The Bargaining Power of Customers.** “The bargaining power of customers determines how much customers can impose pressure on margins and volumes” of Wendy’s (Recklies, 2). The customers in the fast-food industry display a high bargaining power because of the following reasons:
“The product is undifferentiated and can be easily replaced by substitutes.

Switching to an alternative product is relatively simple and is not related to high costs.

Customers have low margins and are price-sensitive.

Customers can produce the product themselves, if needed.

Customers have a fairly good idea of the cost to make the product” (Recklies, 2).

“All Older, affluent and health and quality-conscious customer base than those a couple of decades ago” (Zhang, 3).

“Changes in demographics and cultural make-up of the customer segments.

There are an increasing number of immigrants from Latin America and Asia. The strong growth in the Hispanic population has increased the demands for Mexican food.” (Zhang, 3).

**Force 2: The Threat of New Entrants.** Wendy’s always faces the threat of such new entrants who can “change major determinants of the market environment (e.g. market shares, prices, customer loyalty). There is always a latent pressure for reaction and adjustment for existing players in the fast-food industry. The threat of new entries will depend on the extent to which there are barriers to entry.

The key barriers to entry that Wendy’s has created are:

- “Economies of scale – equipment and resources to support volume cooking at a low cost.

- High initial investments and fixed costs through equipment and real estate.
Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets.

Brand loyalty of customers” (Recklies, 3).

**Force 3: The Bargaining Power of Suppliers.** Recklies (2001) also states, “The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services.” Key drivers for the presence of this force in the fast-food industry are as below:

- "The market is dominated by a few large suppliers rather than a fragmented source of supply.
- There are no substitutes for the particular input.
- The suppliers' customers are fragmented, so their bargaining power is low.
- There is the possibility of the supplier integrating forward in order to obtain higher prices and margins. This threat is especially high in the fast-food industry since:
  - The buying industry has a higher profitability than the supplying industry,
  - Forward integration provides economies of scale for the supplier,
  - The buying industry hinders the supplying industry in its development (e.g. reluctance to accept new releases of products),
  - The buying industry has low barriers to entry” (Recklies, 3).

In the case of Wendy’s, there is some evidence of supplier power through the use of single suppliers instead of multiple suppliers. Wendy’s International has implemented Mind flow’s strategic outsourcing software as the sourcing analysis platform to build total cost of ownership sourcing model. Mind Flow’s strategic sourcing suits are unique in enabling purchasing managers to formulate sourcing strategies by
bundling critical, low spend items into complex, high spend categories that enable purchasing managers to dynamically model the inbound supply chain during strategic negotiations. This helps Wendy’s to significantly reduce cost, optimize vendor and product selection in ways that reduce material and freight/logistics cost, and improving product quality. (Wendy’s Goes Live, 2002)

**Force 4: The Competitive Rivalry between existing players.** Wendy’s faces intense “competition with existing players in the fast-food industry. High competitive pressure results in pressure on prices, margins and, therefore, profitability for every single company in the industry. Some of the reasons for this intense competition are:

- There are many players of about the same size as Wendy’s.
- Almost all the players have similar strategies.
- There is not much differentiation between the players and their products; hence, there is much price competition.
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor” (Recklies, 3-4).

“Competition in the restaurant industry is intense due to low entry barriers and low product differentiation” (Zhang, 5). There is a price war among the key players in the fast food market. McDonalds and Burger King launched their $0.99 burger, which made the price increase difficult, if not impossible. Wendy’s fast food also competes with full-service restaurants and food stores for their market share” (Zhang, 6). The restaurants depend heavily on teenagers to staff their units. Because of the aging of the US population, the percentage of youth in the whole labor market has decreased greatly.
Many opportunities with better-payroll arrangements also compete for the young laborers. The labor shortage is becoming a serious issue for the fast food industry, in general and for Wendy’s in particular” (Zhang, 5).

**Force 5: The Threat of Substitutes.** “A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume thereby reducing the potential sales volume for existing players. This category also relates to complementary products” (Recklies, 3).

There is a proliferation of substitutes for fast food in general. These substitutes range from high-dollar restaurants, to local diners, to food prepared at home. Bertagnoli (1990) stated that the slowdown is partially because of the new competitors such as supermarket delis and independent ethnic restaurants that offer delivery and takeout. There has been an increasing number of different types of fast food restaurants that have become commonplace in the past decade. Now with the health frenzy that has been spreading through the country there has also been an outpouring of fast food items that are healthy from restaurants such as McDonalds, Burger King and Wendy’s, along with the restaurants that specialize in fast healthy food.

“The threat of substitutes is primarily influenced by the following factors:

- Brand loyalty of customers.
- Close customer relationships.
- Switching costs for customers.
- The relative price for performance of substitutes.
- Current trends” (Recklies, 3).
Factors that Create and Influence Demand

There are numerous factors that create and influence demand. Society in America has become a fast paced environment for everyone. From this hectic, fast paced lifestyle, the fast food industry emerged. Fast food allows for more time for doing other things instead of being in the kitchen at home. This lifestyle time period originated with the post World War II era with the consumers being tagged the baby boomers. Horn, Ledet, Rauch (2002) stated, approximately 80 million of these baby boomers are now approaching retirement age and the fast food industry is now also going through changes of its own. The industry is slowing and there is a growing demand for a full-service restaurant and not just quick service. This is causing the restaurant industry to change to offer more table service, cafes and other formats in greater numbers.

Economic Conditions

The economic conditions until the past couple of years have been prosperous for most Americans. This had resulted in increased consumer spending and fast-food expenditures are no exception. Over the last couple of years, however, there has been some slowdown in the spending patterns in the fast-food industry.

Role of Technology

Technology has added in the fast food industry in ordering items and even cooking certain foods. Computers are used to enter the customer’s order where the cooks can immediately see the order so that they can put the order together even before the customer is done ordering. Talwar (2002) states, “[i]n the fast food
restaurant, automation usually reduces steps in a station assignment. This allows for quicker and more accurate orders.

Factors that Create and Influence Cost Structures

*Economic Conditions*

From a cost perspective, the cost of borrowing has definitely been quite low over the past couple of years due to the lowering of interest rates by the Federal government. With such low interest rates, Wendy’s can definitely capitalize on expansions and large capital investments.

*Technology and Economies of Scale*

There have been many changes in the fast food industry with regard to technology just like many other areas of business. Whiskeyman (1991) stated that because of the lack of willing employees the fast food industry had to compensate by adding self-ordering computers instead of having an employee take the order. The article states that the need for employees could be cut in half with this technology. This not only helps with order taking but also reduces costs. According to Crecca (2002), there are new capabilities that can allow for even faster turnaround in the fast food restaurant. Taco Bell and McDonald’s have been testing the idea of a cashless and cardless payment system. This allows the purchaser to just wave a wand over their merchandise and it automatically bills their credit card. This allows for fast and more cost efficient ways of conducting business. This also keeps cash and credit card
numbers out of the hands of the employees, which will reduce fraud and the costs involved with fraud.

Major Strategic Issues from External Analysis

**Driving Forces**

**Social Culture**

We identify two trends in social culture that greatly affect the fast food industry:

- “Less free time and family time; American life styles are changing. Fewer young people are getting married and more than half of mothers in the U.S are employed. Because of increased competition in the job market, workers are tending to focus more on their careers and have less free time and family time. Eating out is a practical alternative to at-home dining” (Zhang, 2).

- “Increasing health-consciousness in food consumption; education and information efforts to guide American to more healthful diet; nowadays the average intake of fat, saturated fat, and cholesterol has decreased greatly. More people are willing to have fresh, low fat [food]. While this trend has hurt the fast-food business, it is also provides some space for product innovation” (Zhang, 2).

**Competition**

“Fast food industry is intensely competitive. Wendy’s anticipates that intense competition will continue to focus on pricing. A select few of the company’s competitors have substantially larger marketing budgets” (Safe Harbor Statement, 2002).
Economic, Market and Other Condition:

“The fast food restaurant industry is affected by changes in international, national, regional, and local economic condition” (Safe Harbor Statement, 2002). The national economy has a significant impact on personal disposable income, inflation, and the interest rate, sales . . . restaurant especially the fast food industry are affected by those economic factors” (Zhang, 3).

Importance of Locations

“The success of franchised restaurant such as Wendy’s is dependent in substantial part on location. There can be no assurance that current locations will continue to be attractive, as demographic patterns changes. It is possible current restaurant locations could decline in the future, thus resulting in potentially reduced sales in those locations” (Safe Harbor Statement, 2002).

Government Regulation

“The company and its franchisees are subject to various federal, state, and local laws affecting their business. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic, and other regulations (Safe Harbor Statement, 2002)"
INTERNAL ANALYSIS

Organizational Description

Corporate mission, vision statement and core values are all quoted and obtained from Wendy’s International (2003) website.

CORPORATE MISSION STATEMENT

“Our guiding mission is to deliver superior quality products and services for our customers and communities through leadership, innovation and partnerships.”

(Wendy’s Strategic Plan, Mission, ¶ 1.)

VISION STATEMENT

“Our vision is to be the quality leader in everything we do.” (Wendy’s Strategic Plan, Vision, ¶ 2.)

CORE VALUES

Wendy’s core values focus on quality, integrity, leadership, people, customer satisfaction, continuous improvement, and community. Quality emphasizes fresh products, superior service, and excellence. Integrity requires “absolute honesty, fairness and respect for every individual” (Wendy’s Strategic Plan, Core Values, ¶ 3). Leadership is based on leading by example for all personnel regardless of level. People focus is on employees who are viewed as the reasons for Wendy’s success; employees are viewed as family and valued for contributions and team achievement. Customer satisfaction includes focusing on internal and external customers. Continuous improvement is based on innovation forming competitive opportunities. Lastly, community involvement is ingrained in Wendy’s heritage through investment and participation in the community. (Wendy’s Strategic Plan, 2003.). Community involves includes “. . . working with children’s hospitals, medical research institutes, and private charities . . .” further Mr. Thomas “. . . established the Dave Thomas Foundation for Adoptions” in 1992 (Thomas, 2000).
Marketing Mix

The following marketing mixes are for Wendy’s North American, Tim Horton’s and Baja Fresh. Wendy’s International investments in Café Express and Pasta Pomodoro are excluded since they are not fully controlled by Wendy’s International.
Wendy’s North America Product Description

The marketing mix for Wendy’s is quoted from their website (2003) unless otherwise noted.

Hamburgers. “Hamburgers are fresh, made to order and are never frozen” and come with a wide variety of toppings which allow for 256 different combinations (Wendy’s Menu, Hamburgers, ¶1). Their square hamburger shape signifies that Wendy’s does not cut corners. Wendy’s is most noted for the “. . .Big Bacon Classic and the Jr. Bacon Cheeseburger.” (Wendy’s Menu, Hamburgers, ¶1).

Chicken Sandwiches. These sandwiches are “. . .made from a skinless, boneless breast of chicken include a grilled chicken sandwich, a breaded chicken fillet sandwich and a Spicy Chicken sandwich” (Wendy’s Menu, Hamburgers, ¶2).

Salads. “A wide variety of freshly prepared salads are offered at Wendy’s featuring an assortment of greens, contrasting textures and a variety of unique toppings and dressings. Wendy’s Garden Sensations™ offerings include Mandarin Chicken™, Chicken BLT, Taco Supremo and Spring Mix salads” (Wendy’s Menu, Hamburgers, ¶3).

Super Value Menu. “The Super Value Menu consists of several offerings priced at 99 cents every day. These include the Junior Bacon Cheeseburger, Junior Cheeseburger Deluxe, Side Salads, Baked Potato with sour cream and chives, Chili, Medium Fry, Medium Drink, and Frosty” (Wendy’s Menu, Hamburgers, ¶4).

Kids Meals. “Kids offerings include a Junior Hamburger, Junior Cheeseburger or chicken nuggets served with french fries, drink or Frosty and a prize. “
**Premium Promotional Products.** To entice the public Wendy’s periodically offers unique and innovative products such as Monterey Ranch Chicken sandwich, Smokey Bacon Cheeseburger, or Chicken Cordon Bleu. (Wendy’s Menu, 2003).

**Wendy’s North America Product Price**

As of March 9, 2003, Sugar Land location’s outdoor menu price, quotes are as follows:

- **Hamburgers:** $2.19-4.09
- **Chicken Sandwiches:** $3.09-3.19
- **Salads or Garden Specials:** $2.99-3.99
- **SuperValue Menu:** $0.99
- **Combo Meals:** $3.09-5.19
- **Kids Meals:** $2.19-2.99
- **Baked Potatoes:** $2.29-
- **Premium Promotional Products Prices not available**

Prices for the above may vary according to location.

**Wendy’s North America Product Placement**

Wendy’s is the product placement is within more than 6,250 restaurants in the United States, Canada and international markets making it the third largest quick-service hamburger restaurant. According to Investors Relations (2003), this encompasses 14% of the market share. Additionally, Wendy’s targets the emerging lifestyle market through “a balance of wellness, and great-tasting health food choice” with their Garden Sensation and targeting late night meals (2002 Annual Report, p.15).
According to Pearce and Robinson (2003), Wendy’s target market is a young adult, 25 and older, which generate 82% of the business.

**Wendy’s North America Product Promotions and Innovation**

Various innovations in Wendy’s product line, such as the Southwest Chicken Caesar Salad and Home-style Chicken Strips are sparking customer interest. Wendy’s uses eight national “advertising pillars” marketing the value menu and specialty menu items. Their promotions will further focus on kids’ menus and the Hispanic market due to rapid increase in population. Kids’ toys will include characters from *Animal Planet* and *Hey Arnold*. For brand advertising, Wendy’s motto will be “It’s better here.” Their square hamburgers evolved from the advertising campaign “we don’t cut corners.” (2002 Annual Report.) Lastly, their restaurants are built around a modern, flexible, streamlined and functional plan with an old-fashioned theme and cleanliness (Pearce and Robins 2003). Pearce and Robins add Wendy’s chili was brought about through an ingenious idea to reduce waste by using uncooked meat that was not used by the end of the day for hamburgers in the chili; competitors because of their use of precooked meats cannot duplicate this innovation. The novel idea enhances Wendy’s offerings, revenues and reducing costs.
Tim Horton’s Product Description

The marketing mix below is from Tim Horton’s website (2003) unless otherwise noted.

**Coffee.** Coffees include: Tim Horton’s Blend Coffee; English Toffee, French Vanilla, and iced Cappuccinos; Café Mocha.

**Donuts and Timbits.** This product selection includes: soups, sandwiches, muffins, cakes and cookies – and donuts, which are very popular. Donut varieties include: Apple Fritter, Dutchie, Maple Dip, Old Fashioned Plain, Chocolate Glaze, Boston Cream, Walnut Crunch and Crueller. Additionally, “customers can buy these bite-sized treats in whatever quantity they prefer . . . [Donuts and Timbits] ’required’ varieties [vary] to best meet the needs - and taste buds - of their store’s customers” (What’s in Store, Timbits the Bite Size Treat, ¶1).

**Baked Goods.** “Goods made fresh daily to ensure top quality include: regular and low-fat muffins, bagels, pies, cakes, tarts, cookies, croissants, tea biscuits, danishes and fancies” (What’s in Store, Baked Goods, ¶1).

**Lunch Menu.** Lunch includes: soup and sandwich combinations; sandwich deal; chili deal; soup and bagel deal; and soup deal.

Tim Horton’s Product Pricing

Tim Horton’s product pricing is not available.

Tim Horton’s Product Placement

“Tim Horton’s has more than 2,188 stores across Canada and a steadily growing base of 160 locations in key markets within the United States.” 24-hour drive through is
available. Tim Horton’s captures 22% of the Canadian quick service and 70% of the bakery and coffee markets. “Five warehouse distribution centers, located in Oakville, Ontario; Calgary, Alberta; Debert, Nova Scotia (Truro); Kingston, Ontario; and Aldergrove (Langley), British Columbia presently service the stores across Canada and the U.S. A fleet of decorated trucks criss-cross Canada and the states in which Tim Horton’s operates, delivering food orders to the stores through the Tim Horton’s distribution centers.” (2002 Annual Report.) These stores are versatile and small enough to fit anywhere and are specially adaptable to specialty sites such as airports, hospitals and universities; additionally the combination of Wendy’s and Tim Horton’s have been very successful in Canada whereby economies of scale are experienced through decreased cost associated with cross-marketing, sharing land and building expenses, and sharing personnel with eight-hour shifts shared between the two operations (Pearce and Robinson, 2003).

*Tim Horton’s Product Promotions and Innovation*

Product innovations include iced cappuccino and fruit filled muffins. As for their coffee, "if it's not sold within 20 minutes of being brewed, it's not served at all." Their advertisement is based on the “Wholesome Home Style” and “Come Home to Lunch” campaign featuring 17 varieties of soup and chili. (2002 Annual Report, p. 8). Advertising includes Tim Horton’s “rolling billboards,” trucks with awarding winning graphic designs featuring products offered (Pearce and Robinson, 2003). Pearce and Robinson further state Tim Horton’s enjoys fierce loyalty from patrons who come back sometimes more than twice a day where employees recognize these regulars and have their orders ready before the customer reaches the counter.
Baja Fresh Product Description

The marketing mix description following is quoted from the Baja Fresh website (2003), unless otherwise noted.

Baja Fresh Product Description:

Baja Fresh product offerings include burritos, tacos and taquitos, salads, specialties, quesadillas, nachos, and side orders. They boast “[o]ur salsas are hand-crafted daily with only the freshest ingredients! We only serve boneless, skinless, chicken breast, marinated and charbroiled. Our steak is USDA Choice, hand-trimmed and charbroiled. Our beans are simmered every day from our own special recipe without lard” (Fresh Food, Fresh Menu, ¶1). Further, party trays and planners are offered which include taquito, burrito, taco, and tostada party delights.

Baja Fresh Product Pricing

Average ticket is $7.00-$8.00 per Wendy’s International 2002 Annual report.

Baja Fresh Product Placement

Their market appeals to: “dual-family income, single professionals, aging baby-boomers, and 18-34 year old market” (2002 Annual Report, p. 20). According to their website, they “currently have over 210 restaurants in more than 18 states.”

Baja Fresh Product Promotions and Innovation
The Baja website states their promotions are based on “It’s About Flavor, It’s About Fresh, and It’s About Time!” They state their food is not prepared with MSG, lard, microwave ovens, can openers, or frozen.

Leadership

The words that guide Dave Thomas’ management philosophy are: “always serve quality food, take care of the customers, and never cut corners” with further emphasis on hard work, dedication and commitment. Mr. Thomas (2000) believes in putting other people first before one’s self and believes all people have value from the person pushing the mop and the customer behind the counter to the vice president and CEO; he further states to focus on one thing at a time and only focus on a few things through one’s life. In the 2002 Annual report, praise is offered several times to managers and crew for their excellence. Acknowledgements are further enhanced by through “Service Excellence” reward for fastest drive-through and “People Excellence” rewards wherein Wendy’s has decrease turnover by 24% from last year and 61% from 1998. (2002 Annual Report.) Mr. Thomas’ focus on fresh products has led to successful horizontal integrations with Baja Fresh and Tim Horton’s; this focus is additionally maintained in their strategic focus of long-term goals.

In 1972 according to Pearce and Robinson (2003), Wendy’s Management Institute trained “... managers, supervisors, area directors and franchise owners” in the arts of management (p. 40-1). Applicants for franchise must demonstrate a desire for profits and a desire to get involved as opposed to managing from a chair; further they must demonstrate skills and expertise in the restaurant industry. (Pearce and Robinson, 2003.)
Organizational Structure

"Wendy's International, Inc. is one of the world's largest restaurant operating and franchising companies, with $9.4 billion in 2002 system-wide sales, more than 8,800 total restaurants, and quality brands - Wendy's Old Fashioned Hamburgers, Tim Horton's and Baja Fresh. The Company invested in two quality brands during 2002 - Cafe Express™ [45% investment] and Pasta Pomodoro® [25% investment]."

(Wendy's.com Investors Relations, 2003.)

Wendy's does not sell supplies or food other than buns to franchises because this enables franchise owners' to maintain high quality freshness by determining their own suppliers. To support franchisers, Wendy's maintains a staff of 50 franchise area supervisors who advise and ensure quality standards are met. (Pearce and Robinson, 2003.)

Further, Pearce and Robinson state Wendy's has a strong organization internationally with four regional offices governed by a vice president in the Pacific region, Latin American region, European-Middle East region, and Canadian region. Each of these regions has separate administrative departments and training centers for individual locales.

Organizational Culture

Organizational culture is based on Dave Thomas' belief of listening to both customers and employees out of respect and education through shared experiences. According to Pearce and Robinson (2003) listening to customer complaints of "breadburgers," Wendy's developed the larger square hamburger. As for employees, Schuessler, President and COO, believes “one of the jobs of a CEO is to set the right environment in place and let people perform, . . . That's pretty much the philosophy
here.” (Sperber, 2002, ¶ last.) Additionally, quoted in Dave Thomas’ Biography, everyone at Wendy’s should have an “MBA--Mop Bucket Attitude and that we should all treat every customer as if our jobs depended on it—because they do!” He also believed in sharing success and experiences with the community. Also, Michell Fedurek, Wendy’s VP-media services, states that Wendy’s success is due “… to a ‘family’ work atmosphere, but emphasizes Calhoon’s ‘holistic' and ‘very disciplined, strategic approach’ to focus on ‘what's right for us, what's the right message for us to have.” (Sperber,¶ 23.) Wendy’s supports diversity wherein 25% of franchises are owned by women and minorities and 75% of the workforce is the same with 56.8% in management according to Pearce and Robinson.

Strategies and Performance

Wendy’s generic strategy is high quality fresh food offered at reasonable prices with quick service, boasting the lowest transaction time in the industry for causal dining with emphasis on exceeding customer expectations; this strategy is based on the Wendy’s belief that one should never underestimate operational excellence. Wendy’s uses WenView to improve speed and accuracy for customer satisfaction. (Pearce and Robinson, 2003.)

Their grand strategy is based on market concentration, vertical integration and horizontal integration. Market concentration includes adding additional Wendy’s, Baja Fresh and Tim Horton’s restaurants in the United States and internationally. Pearce and Robinson state to maintain a strong concentration, Wendy’s buys back weak performers and revamps them then resells these locations to other franchisers. Wendy’s will further its market concentrations by developing specialty sites within airports, hospitals, and gasoline outlets per Pearce and Robinson. Horizontal
integration includes adding various low-cost restaurants to their portfolio such as Baja Fresh and Tim Horton’s with additional investments in Café Express and Pasta Pomodoro moreover emphasizing high quality and freshness in all their endeavors; additionally, Wendy’s purchases competitors sites and converts those locations to Wendy’s states Pearce and Robinson. Vertical integration includes adding bakery plants for Tim Horton’s restaurant inputs such is the case with joint venture (50/50) of IAWS Group/Cuisine de France in Canada and coffee roasting facilities in Rochester.

Strategic Goals

According to Wendy’s International, Inc. Investors Relations website (2003), Wendy’s financial goals for growth include: earning per share, store sales, new restaurant developments, operating margins, and taxation. Wendy’s goals for earning per share are up 7% to 10% with revenue growth in the range of 11% to 14%. Store sales growth are expected for Wendy’s (1.5% to 2.5%), Tim Horton’s Canada (3.5% to 4.5%), Tim Horton’s US (6.0% to 7.0%), and Baja Fresh (2.0% to 3.0%). Total new restaurant development is expected to grow by 5% to 6%. Operating Margins are expected to increase to 15.5% to 16%. Lastly, taxation is expected to decrease .75% due to joint venture with IAWS Group/Cuisine de France. These goals are detail in Exhibit 1.

Definition of Business Strategy

The Company expects 2003 capital expenditures in the range of $325 million to $365 million for new restaurant development, remodeling, maintenance and technology initiatives. The Company also plans to invest $50 million to $60 million on new business
opportunities and to expand its Tim Horton’s joint venture facility in Canada.
(Wendy’s.com Investors Relations, 2003.)

Internal Capabilities and Skills

This section includes financial information and core competencies.

Evaluation of Financial Performance

Profitability Ratios

The Gross Profit Margin (gross profit/total revenue) measures the difference between what it costs to produce a product and what is the selling price. While some ratios uncover trends by looking at the past, the gross profit margin is a tool you can use to chart your company’s future (Kell, Kieso & Weygandt, 1999). Overall, Wendy’s Net Profit margin is lower than the Industry’s average and McDonald’s, but slightly higher than Jack in the Box. This is due to the fact that McDonald’s sales were almost 7 times better than Wendy’s in the year 2002. Although this is the case, McDonald’s has more restaurants and employees than Wendy’s.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wendy's</td>
<td>28%</td>
<td>27%</td>
<td>28%</td>
<td>27.6%</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>56.6%</td>
<td>38.6%</td>
<td>40.9%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>22.5%</td>
<td>19.4%</td>
<td>19.4%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Industry</td>
<td>39.0%</td>
<td>34.7%</td>
<td>36.2%</td>
<td>36.6%</td>
</tr>
</tbody>
</table>

Source: (moneycentral.msn.com)
Return on Assets (Net Income/Total Assets) divides a company’s annual earnings by its total assets. This is useful to indicate how profitable a company is relative to its total assets. It is also referred to as Return on Investment (Kell, et al., 1999). Overall, Wendy’s ratio performance outgained its competitors and the industry average over the past two years.

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<tr>
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<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
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</thead>
<tbody>
<tr>
<td>Wendy’s</td>
<td>8.5%</td>
<td>9.3%</td>
<td>8.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>3.8%</td>
<td>7.3%</td>
<td>9.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>7.5%</td>
<td>8.0%</td>
<td>11.0%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Industry</td>
<td>7.4%</td>
<td>7.3%</td>
<td>7.2%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Source: [moneycentral.msn.com](http://moneycentral.msn.com)

Return on Equity (Net Income/Shareholder’s Equity) measures a corporation's profitability calculated as net income divided by shareholder’s equity (Kell, et al., 1999). As indicated below, Wendy’s ratio is better than its competitors and the industry, because Wendy’s generates more profit per dollar of the stockholder’s investments.

<table>
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<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
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</thead>
<tbody>
<tr>
<td>Wendy’s</td>
<td>18.2%</td>
<td>18.8%</td>
<td>15.1%</td>
<td>17.3%</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>18.0%</td>
<td>17.2%</td>
<td>21.5%</td>
<td>18.9%</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>17.9%</td>
<td>20.3%</td>
<td>31.7%</td>
<td>23.3%</td>
</tr>
<tr>
<td>Industry</td>
<td>17.5%</td>
<td>15.2%</td>
<td>18.1%</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

Debt Ratios
Debt to Equity (Debt/Equity) ratio shows the ratio between capital invested by the owners and the funds provided by lenders (Kell, et al., 1999). Wendy’s debt-to-equity ratio is higher than Jack in the Box’s, but lower than McDonald’s and the Industry average. The higher the ratio is the greater the risk to a present or future creditor; but the lower the ratio, the more secure the investment is. Increased ratios by McDonald’s are a reflection of increased financing.

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
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</thead>
<tbody>
<tr>
<td>Wendy's</td>
<td>.47</td>
<td>.44</td>
<td>.22</td>
</tr>
<tr>
<td>McDonald's</td>
<td>.89</td>
<td>.90</td>
<td>.85</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>.31</td>
<td>.68</td>
<td>.89</td>
</tr>
<tr>
<td>Industry</td>
<td>.76</td>
<td>.70</td>
<td>.71</td>
</tr>
</tbody>
</table>

Source: (moneycentral.msn.com)

Activity Ratios

Inventory Turnover (COGS/Avg. Inventory) measures how quickly a company sells the products it produces, i.e., how efficient its marketing efforts are. It is a measure of basic efficiency (Kell, et al., 1999). Wendy’s ratio is higher than Jack in the Box’s and the industry average. In 2002, Wendy’s average has improved since 2001.

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wendy's</td>
<td>50.4x</td>
<td>38.1</td>
<td>40.2</td>
</tr>
<tr>
<td>McDonald's</td>
<td>66.9x</td>
<td>97.2</td>
<td>88.1</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>49.0x</td>
<td>37.5</td>
<td>19.1</td>
</tr>
</tbody>
</table>
Total Asset Turnover (Net sales/Total Assets) measures how well assets are used to produce revenue (Kell, et al., 1999). Wendy’s ratio is higher than McDonald’s, but it is tied the industry’s and lower than Jack in the Box. Over the last three years, Wendy’s ratio has stayed the same.

<table>
<thead>
<tr>
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<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>29.7x</td>
<td>38.1</td>
<td>36.2</td>
<td>34.7</td>
</tr>
</tbody>
</table>

Source: *(moneycentral.msn.com)*

**Liquidity Ratios.**

Current Ratio (Current Assets/Current Liabilities) is an indication of a company’s ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is (Kell, et al., 1999). Wendy’s ratio is the same as McDonald’s, but it is higher than Jack in the Box’s and the industries. In order for Wendy’s to have more liquid assets, they should decrease their current liabilities.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wendy's</td>
<td>1.2x</td>
<td>1.2x</td>
<td>1.1x</td>
<td>1.2x</td>
</tr>
<tr>
<td>McDonald's</td>
<td>.7x</td>
<td>.6x</td>
<td>.7x</td>
<td>.7x</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>1.9x</td>
<td>1.8x</td>
<td>1.8x</td>
<td>1.8x</td>
</tr>
<tr>
<td>Industry</td>
<td>1.2x</td>
<td>1.2x</td>
<td>1.0x</td>
<td>1.1x</td>
</tr>
</tbody>
</table>

Source: *(moneycentral.msn.com)*
Quick Ratio (Quick Assets /Current Liabilities) measures a company's liquidity, used to evaluate creditworthiness (Kell, et al., 1999).

Wendy's ratio is higher than all 3 of its competitors.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
<th>3-yr average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wendy's</td>
<td>1.00%</td>
<td>.90%</td>
<td>1.10%</td>
<td>1.00%</td>
</tr>
<tr>
<td>McDonald's</td>
<td>1.00%</td>
<td>.80%</td>
<td>.70%</td>
<td>.83%</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>.50%</td>
<td>.34%</td>
<td>.55%</td>
<td>.46%</td>
</tr>
<tr>
<td>Industry</td>
<td>.70%</td>
<td>.62%</td>
<td>.73%</td>
<td>.68%</td>
</tr>
</tbody>
</table>

Source: (moneycentral.msn.com)

*Market Value Ratios.*

Price/Earnings Ratio (market capitalization/after tax earnings) is the most common measure of how expensive a stock is. The higher the P/E ratio, the more the market is willing to pay for each dollar of annual earnings (Kell, et al., 1999). Although Wendy’s is higher than Jack in the Box, McDonalds and the industry average are higher because there is a higher value in McDonald’s growth prospects and potential.
Dividend Yield (yearly dividends per share/market price) is when a company pays out to its shareholders in the form of dividends. It is calculated by taking the amount of dividends paid per share over the course of a year divided by the stock's price (Kell, et al., 1999). Wendy’s is higher than Jack in the Box and the industry; however, it is lower than McDonald’s. Wendy’s future goal is to increase dividends in order to be on top.

Growth Enabling Skills. The Balanced Scorecard (BSC) helps Wendy’s remain focused on their goals enabling growth. Using of Balance Scorecard to communicate with the entire corporation and measure goals regularly (includes measures for intangible assets as well). The skills based on the BSC include: customer, finance, internal business
processes, and learning and growth. Customer relations involve knowing the target customer and listening to them (Nichols, 2002); by doing this Wendy’s developed product innovations such as avoiding bread burgers with large square hamburgers and a healthy lifestyle menu.

Internal business processes included Wendy’s is ability to quickly and accurately service its customers with technologies like WenView and management skill whereby customer focus in essential. Other technologies enabling growth are connecting franchises through broad band satellite networks which enable electronic payments, in-store music, intranet access, training, and other applications to run restaurants (Cohen, 2002). Now the non-technical side, listening and respecting employees has lead to strong employee relations thereby reducing turnover leading to double sales according to a study on Taco Bell (“How Wendy’s”, 2002) and, for Wendy’s, reduces training costs and improved services (Doss, 2002). Lastly, focus on quality and fresh products enabled growth by “[keeping] the Wendy’s brand focused . . . ushering Wendy’s international into other realms with investments and acquisitions that stay true to the food-quality imperative and distinct position of the core brand, versus the operational mismatches often experimented with by the fast food giants” (Sperber, 2002)

Learning and growth enable Wendy’s to maintain high standards. Wendy’s management approach involves “. . . relatively narrow spans of control, heavy investment in training, exacting standards, and incentive compensations systems” (Pearce and Robinson, p. 44-21). Tim Horton’s website describes training as:

“[a]n important part of our intensive training program structure includes a coffee training course. Here, Tim Horton’s storeowners and management learn about roasting, green beans, quality assurance, brewing and machinery. Each trainee
takes part in a hands-on cupping demonstration that highlights the extremes in flavors that coffee beans from different countries can have. Similar to wine tasting, 'cupping' allows participants to get a sense of the different aromas and flavors associated with coffee” (What’s in Store, Creating Coffee Connoisseurs, ¶1).

Training at Baja Fresh according to their website:

“The team at Baja Fresh® undergo extensive training to make sure our customers receive a consistently pleasant experience, visit after visit. Our unique brand of teamwork instills personal accountability, promotes a systems approach to operations, and includes generous quantities of respect and praise for a job well done” (Joint Our Team, Fresh Food Great People, ¶1).

Further, continuing product and other innovation has enabled Wendy’s to fend against fierce competition—Wendy’s was the first restaurant to offer drive-through windows, salad bars (14% increase in revenues for second quarter 2002 according to Doss), value menu (12% same) and baked potatoes. Mr. Thomas went against the norm when pioneering franchise sales based on city and regional franchises rather than single franchises, which enable major growth (Thomas, 2000).

SWOT ANALYSIS

Strengths

Wendy’s has a number of strengths that can be leveraged further stimulate to its competitive advantage. The company has a brand equity, customer loyalty and menu familiarity to a large base of customers (Wendy’s 2002 Annual Report). Wendy’s
displays a strong reputation for quality and a solid history of providing the best value in quick-service restaurant (QSR). In 2002, Wendy’s average service time at the drive-thru window was 127 seconds (Wendy’s 2002 Annual Report). For 14 consecutive years, Wendy’s has offered the Super Value Menu – 10 items priced every day at 99 cents (Wendy’s 2002 Annual Report). Wendy’s has consistently shown a history of efficiency in operations and strong financial results. The company has significant financial resources and low debt with significant access to capital markets. The consolidated net income of the company in year 2002 was $219 million (Wendy’s 2002 Annual Report). The company displays an identifiable advertising and public relations persona in the character of Dave Thomas, the company’s founder. This is a very important marketing strength for the company. Wendy’s also has a strong strategically leveragability through Tim Horton’s in Canada. Tim Horton’s provides Wendy’s with a strong Canadian presence. As per Wendy’s 2002 Annual Report, the company has 354 restaurants in Canada. Wendy’s rates number one in 42 of 56 attributes when compared to the top two quick-serve restaurants according to a third-party survey (2003 Annual Report, p8). Wendy’s was inducted into the 2002 Balanced Scorecard Hall of Fame by Dr. Kaplan of Harvard; selection criteria included: strategic focus, implementation of Balance Scorecard, break through performance, change leadership, explaining strategy into operational terms, aligning organization around strategy, presenting strategy as a continual process, significant financial and market share gains, and measurable achievement of mission and customer objectives (2002 Annual Report, p. 29). They have maintained their fresh high quality foods throughout their endeavors. Employee and customer relationships are high priority at Wendy’s. Dave’s simple, but eloquent ideas such as “Just Be Nice”, “Give Something Back” and “Profit Isn’t a Dirty Word” are
indelibly etched in the company’s past and future (2002 Annual Report, p.2). Lastly, it is important to note that Wendy’s is a highly innovative company. This is evident by the launch of the highly successful Garden Sensations salads, use of hamburger meat in chili, which generated strong sales growth, attracted new consumers and set Wendy’s apart from its QSR hamburger competition (2002 Annual Report).

Weaknesses

Wendy’s has displayed slow international development as compared to its key competitors. At year-end 2002, there were only 4 International Wendy’s and 346 Franchises as against 1316 North American Wendy’s and 4587 North American Franchises (Wendy’s 2002 Annual Report). Also, Wendy’s has a very focused target market. The target market is 7-12 year old children, 18-24 male heavy QSR users and young adults. Such a small target market focus shows that the company has a lot of untapped customer bases. (Restaurant Research Journal, 2003)

Opportunities

There are a number of opportunities for the company. Wendy’s should leverage off operational synergies and economies of scale with Tim Horton’s. The strategy should leverage different customer profiles of Wendy’s and Tim Horton’s to generate increased same-store sales. The company should also focus on growth in international markets including other key continents like Asia, Australia and South America. There is a lot of potential to offer healthy food and other menu alternatives. Home delivery, web-based ordering, late night offerings are other significant untapped opportunities. For expansion and growth, the company should consider the introduction of more Tim
Horton’s in United States. At present, there are only 40 Tim Horton’s companies in the U.S. and 120 Franchises (2002 Annual Report). Lastly, the company should respond to changing consumer demands, including the trend towards healthier food and customized orders.

Threats

One of the key threats for the company is the political instability in its international host countries can cause serious profitability implications. The company could also face economic difficulties internationally depending on the global economic climate. Other threats include changes in international franchise law, market entry by new competitors focusing on niche markets, price and discount wars brought on by competitors like McDonalds and Burger King and the potential for a saturated domestic fast food market.

STRATEGIC ANALYSIS AND ALTERNATIVES

Strategic Analysis

After setting the 1970’s on fire with rapid fire growth and then coasting through the 1980s with lackluster financial performances, Wendy’s approached the 1990s with a renewed commitment to the entrepreneurial vigor that had marked its halcyon days. Led by Gordon Teter, Wendy’s challenged itself to refocus its domestic strategy and to ignite its international interests. Wendy’s domestic strategy is built around four themes. These themes are:

1. Operate in such a manner as to exceed customer expectations.
2. Accelerate new store development and strengthen the quality of existing locations.
3. Increase market penetration by focusing growth on non-traditional sites.
4. Leverage quality perception with higher priced promotional items.

The first of these themes, to exceed customer expectations, serves to refocus Wendy’s on its number one competitive advantage, a perception of quality. Wendy’s particular strength is its ability to withstand competitive pressures by discounting heavily. Wendy’s is able to withstand these pressures because it has cultivated the perception that its food is prepared in a more quality manner, using fresher, higher quality ingredients, than is that of its competition. This particular theme calls for Wendy’s to enhance this image via a combination of training, facility upgrades, and technology. Wendy’s sets exacting standards for each of its employees and rewards achievement of these standards with incentive compensation. To further enhance the restaurant’s efficiency, Wendy’s has also invested heavily in facility upgrades and in technology like the WenView (Pearce and Robinson, 2003). While none of these efforts alone would work to set Wendy’s apart for very long, coupled with Wendy’s longstanding reputation for quality, they serve to heighten the customers’ awareness of Wendy’s core competency and to keep management focused on this area of competitive advantage.

The second theme refocuses the company on the manner in which it was able to grow during its genesis. Wendy’s growth rate has deteriorated rapidly domestically and is almost non-existent internationally. Wendy’s hopes to stem this tide by focusing on opportunities to buy competitors and to form joint ventures overseas. Still, Wendy’s does not wish for growth as much as for quality growth. This is the second prong in this theme. Again, focusing on Wendy’s competitive advantage – a quality perception – Wendy’s systematically buys those units that are under performing, turns them around, and then re-sells them. Thus, this theme refocuses Wendy’s strategy on its two
hallmarks, growth and quality. As a part of the renewed focus on growth, Wendy’s has had to recognize, as most fast food entities have, that most traditional growth avenues are saturated. After all, there are only so many profitable street corners for hamburger, chicken, and hot dog vendors to fight over.

This is the third theme of Wendy’s strategy - Increase market penetration by focusing growth on non-traditional sites like malls, college campuses, and airports. Sadly, Wendy’s is well behind the curve in implementing this strategy and has to play catch up if it hopes that this strategy will be successful.

Finally, the fourth theme is perhaps Wendy’s most successful strategic direction. It emphasis has been to leverage its high quality with promotions of upscale menu items. The case lists a number of Wendy’s more successful promotional offerings. Again, this strategy serves to differentiate Wendy’s from its competitors because it enables the restaurant to forgo discount wars and to sell higher margin, higher quality foods. Thus, all four of Wendy’s strategic themes work in concert to refocus Wendy’s on its particular strengths – growth and quality.

Wendy’s has supplemented its domestic strategy with a healthy dose of corporate social responsibility. This has been especially important in winning Wendy’s the patronage of ethnic minorities. Hundreds of local program are supported by Wendy’s franchises all over North America, carrying forward Dave’s spirit of “Giving Back”. Key programs include the Dave Thomas Foundation for Adoption, Wendy’s High School Heisman, Wendy’s Championship for Children, A Home for the Holidays, Wendy’s Classic Achiever High School Scholarship Awards Program & Tim Horton’s Children’s Foundation (Wendy’s 2002 Annual Report). These programs are important steps in establishing Wendy’s as a corporate community citizen. Also, they serve as a
means of drawing attention to issues that surround some of Wendy’s minority customers.

While Wendy’s domestic strategy seems sound focusing on its core competencies and particular competitive advantages, Wendy’s international strategies seem more disjointed and are a significant cause for concern. The biggest concern for Wendy’s is its late entry to globalization. At a time when fast food competitors like McDonald’s and KFC have thousands of international interests, Wendy’s has remained relatively stagnant in the international arena. At year-end 2002, there were only 4 International Wendy’s and 346 Franchises as against 1316 North American Wendy’s and 4587 North American Franchises (Wendy’s 2002 Annual Report). To address this deficiency, Wendy’s has chosen to put into place an international development team and to begin expansion into familiar territories. Wendy’s has segmented its international operations into four regions, each of which have outlined specific priorities. Canada is perhaps Wendy’s strongest region, augmented by the purchase of Tim Horton’s in 1995. With this purchase, Wendy’s was attempting to kick start its international endeavors by expanding into a region that is very similar to the United States. Thus, Wendy’s could grow safely in a relatively stable environment while getting its international feet wet. Coincidentally, Wendy’s could also attempt to leverage the two concepts to build internal economies of scale and to capitalize upon the different times of day that customers frequent each establishment. This endeavor has been largely successful, and was a strategically wise move. The Tim Horton’s/Wendy’s concept could potentially be introduced on a large scale basis in the United States to fuel domestic growth and allows Wendy’s to expand internationally where there are very few cultural differences. However successful the Tim Horton’s venture has been though,
Wendy’s must not forget that, economically, the fastest growing regions are in Asia and Latin America.

Alternatives

The following alternatives are our top picks from a corporate strategy perspective.

Alternative 1

Alternate one focuses on growth through market expansion and innovation. This initiative involves developing and growing in various markets – North America, Europe and Asian. The company should also capitalize on the current low interest rates, increasing customer relationships and satisfaction through café formats, following health trends of aging target market to develop customer loyalty, through partnerships in fad prizes in kid’s meals and collectibles for adults, and enhancing benefits to attract employees from the diminishing workforce. There are many tactical actions that the company could take as bulleted below:

1. Grow Tim Horton’s in local and global markets.
2. Aggressive international expansion through joint ventures.
3. Buy smaller competitors with good branded products.
4. Product diversification through focused innovation.
5. Partnering or taking over new suppliers.
6. Grow the Baja Fresh franchises in the southern border states.
7. Develop customer relationships and satisfaction through a café format for current Wendy’s facilities.
8. Partnership with fad toy manufacturers to attract young customers.
9. College funding to attract a younger and dynamic workforce.
10. Attractive Pension plans and Retirement benefits to retain existing experienced workforce and attract experienced talent.

**Alternative 2**

Merge with McDonalds or Burger King.

This alternative of merging with McDonald’s or Burger King will enable Wendy’s to become a part of the leading company in the fast-food industry. With such a merger, Wendy’s will be part of a larger enterprise with significant revenues and global presence. Some of the key points in favor of a merger are:

*Have more promotions on healthy food*: Although both McDonald’s and Burger King provide salads in addition to their regular meals, Wendy’s has a better variety of healthy foods. These foods, in addition to their famous garden salads, include chili, grilled chicken breast sandwich, and even veggie burgers (in some areas of the country). Today, people are eating healthier and better than ever requiring successful merging companies is to honor customers’ trends and satisfaction. In addition, with many people crowding in fast food restaurants for a quick bite, these companies can come up with a healthy, low-fat and low-calorie sandwich that will excel far beyond expectations. A merger with McDonalds or Burger Kind would provide Wendy’s with a larger distribution network and outlet to market their healthier menus.

*Promote the kids*: McDonald’s and Burger King not only sell their value meals for customers, but also sell value meals for the kids. McDonald’s and Burger King both have contracts with the Walt Disney Corporation, enabling them to market Disney movies and events worldwide. The products that become part of the kid’s meal can
either become a collectible movie character toy or other collectibles, such as a drinking glass or watch. Wendy’s can benefit from this because they are one of the few fast food chains that do not have anything that gathers the interest of the children.

*A larger community presence and role:* McDonald’s also contributes millions of dollars annually to minority based scholarship funds, such as the United Negro College Fund, and the NAACP. In some areas of the country, proceeds of meals purchased go to help young man or woman attend college to receive a world-class education. Wendy’s has similar programs under its umbrella today. A merger would help the two companies work in sync to promote a much broader community image.

One potential negative of a merger is the possibility of a loss of the Wendy’s logo and name. This, of course, is a function of the decision made by the management of the new company; whether to keep the Wendy’s logo or leverage totally of the McDonalds or Burger King logos. Another key point to keep in mind is whether the merger is creating any wealth for the company’s shareholders. If the merger does not provide the bang for the buck from the shareholder’s perspective, then the management has not done a good job by going ahead with the merger.

*Alternative 3*

Sell off Tim Horton’s and Baja Fresh and focus only on the growth of Wendy’s Old Fashioned Hamburgers.

This alternative would entail finding some suitable buyers for Tim Horton’s and Baja Fresh and pursuing aggressively towards it. Starbucks may have a potential interest in Tim Horton’s as it provides not only a fine distribution in Canada but also a fine brand
addition to their existing product portfolio. Buying Tim Hortons would directly eliminate a competitor (one of the five industry forces) and translate immediately to bottom-line improvements for Starbucks. From the perspective of Wendy’s International, the elimination of the coffee and baked foods business enables the company to have a better focus on its core competence – cooking and selling hamburgers. By a similar rationale, Baja Fresh could be sold off to a leading Mexican food joint (like Pappas or Taco Bell). The projected timeline of implementing this strategy is relatively much shorter than Alternative 1 and almost similar to Alternative 2. Though there is not a significant tangible cost for this strategy, there are some hidden costs in terms of loss of employee morale and loyalty to the company. These need to be properly understood and the transition to the new company must be made as smoothly as possible. One key tangible cost could be the loss of talented employees and management from Tim Hortons and Baja Fresh. The timeline for this alternative is a function of the prevalent economy. A bullish economy would not only execute the alternative faster but also fetch a good price for the two companies. A timeline of 1-2 quarters would be a good estimate for this alternative when economic conditions are booming. Under the current bearish economic climate and the economic uncertainty with the prevailing war at Iraq, Alternative 3 loses much of its appeal.

RECOMMENDATIONS AND CONCLUSIONS

Of all the alternatives available to Wendy’s, our recommendation is Alternative 1 – Growth through market expansion & focused innovation. We believe that this strategy provides the biggest bang for the buck. Alternative 2 is highly dependent on the financial impact and potential “loss of control” of the company’s logo and image.
Alternative 3 is definitely not a good route to take in a bearish economy. Also, it is a function of how well the step aligns with the company’s core business objective – “Diversify and Grow” or “Focus and Grow”. Based on our assessment of the company’s financial health and growth pattern so far, we strongly recommend Alternative 1 as the winner of the three alternatives. Some of the key tactical steps that Wendy’s needs to implement in support of Alternative 1 are as bulleted below:

1. **Growth of Tim Horton’s in North America and Europe; later on in Australia the Asian sub-continent.**
   - **Timeline:** Through end of 4th quarter
   - **Estimated Cost:** $100 million

2. **Commit wholeheartedly to aggressive international expansion via joint ventures, especially in Europe, Asia and in Latin America.**
   - **Timeline:** Through end of 2nd quarter
   - **Estimated Cost:** $75 million

   Based on the company’s 2002 Annual Report, the company paid about $43 million dollars for joint ventures. The company should budget an incremental increase in the amount for next year in order to show a significant growth through this option.

3. **Buy smaller competitors that provide a good branded product and leverage off Wendy’s distribution network to promote the product.**
   - **Timeline:** Through end of 4th quarter
   - **Cost:** $500-600 million
Based on the company’s 2002 Annual Report, it paid about $287 million dollars to acquire Baja Fresh. The company should budget about $600 million dollars to acquire a couple of similar companies to expand its product portfolio in niche ethnic markets. Some potential targets could be CiCi’s Pizza and Schlotzsky’s Deli.

4. Continue to leverage the perception and reality of quality in order to avoid discount wars and shrinking margins.

   **Timeline:** Through end of 4th quarter

   **Cost:** $100 million

   This tactical step will involve continued investments in advertising through various media (TV, Radio, newspapers, magazines etc.) and focusing communication on the company’s commitment to quality; whether it is hamburgers or coffee or tacos.

5. Due to the changes in the customers’ demand, Wendy’s should try to diversify its product lines and improve the food quality. Multi-brand companies proliferate rapidly as the result of product diversification. Adding new concepts will not only broaden the company’s current customer base and target a different customer group, but also trim the cost and share with the scales of economy.

   **Timeline:** Through end of 4th quarter

   **Cost:** $50 million

   The primary use of this cost allocation is toward R&D as the company innovates on new formulations and fast-food concepts. Similar to the Garden Sensations launch, Wendy’s should continue their investment in R&D with an eye towards the changing lifestyles and needs of its dynamic customer base.
6. Partnering or taking over a supplier to trim down costs of raw materials in this margin-sensitive industry.

**Timeline:** Through end of 1st quarter

**Cost:** $10-$20 million

This could be a classic approach to not only cut down costs but also effectively lower the total lead-time in its supply chain. Cutting off some key dependencies in the supply chain would effectively trim down the raw material inventory holdings in the channel and also improve predictability and significant improvements in the QSR metric. However, as stated earlier, franchisers lose control over fresh product quality control to a predetermined supplier.

7. Growth of the Baja Fresh franchise in the southern border states from California through Florida where there is a higher concentration of Spanish-speaking people.

**Timeline:** Through end of 3rd quarter

**Cost:** $50 million

8. Develop customer relationships and satisfaction through a café format.

**Timeline:** Through end of 2nd quarter

**Cost:** $50 million

The idea behind this point is to keep the aging target market. Customer would order as normal and an employee would serve the meal and keep watchful eye for additional needs like coffee and tea refills; reading customers actions to determine if other needs should also be met like napkins. The cost is minimal but the benefits of keeping the aging target marketing highly beneficial. This would currently take place in mature
neighborhood facility locations. This would also mean taking advantage of low fat and low cholesterol products and enhancing flavor for aging taste buds.

9. Partnership with fad toy manufacturers to attract young customers.

**Timeline:** Through end of 2nd quarter

**Cost:** $10 million

This strategy will mimic the strategy adopted by McDonalds through its alliance with Disney. Wendy’s should adopt a similar strategy to bring in young customers to Wendy’s and develop their taste for Wendy’s as they grow to young adulthood. Toys would include such themes as *Harry Potter* movies and books, Pokemon, and Yugi-Oh. This partnership would also involve revenue sharing and advertising cost sharing so the partnership costs are based on additional sales from the same. To further attract adults, collectibles should be introduced such as the Walt Disney 25th anniversary glass introduced by McDonalds. This initiative brings in additional customers who will develop a liking for Wendy’s thereby loyalty because of Wendy’s high standards. This point requires taking the pulse of the US children’s toy marketing or industry.

10. College funding to attract a younger and dynamic workforce.

**Timeline:** Through end of 1st quarter

**Cost:** $5 million

In order to reduce employee turnover, Wendy’s needs to offer attractive work incentives for younger employees. This tactical move has a high relevance and aligns very well with the company’s strategic direction of keeping their restaurants open 24/7 that would definitely mandate the need to hire younger workers.

11. Attractive Pension plans and Retirement benefits to retain existing experienced workforce and attract experienced talent.
**Timeline:** Through end of 1st quarter

**Cost:** $10 million

This tactical move is a very crucial one to prevent any attrition of talented employees in management roles. It also serves as a very good incentive to attract experienced and good workers from the job market or key employees from its competitors.

### TIMELINE CHART OF KEY TACTICAL MOVES

<table>
<thead>
<tr>
<th>ID</th>
<th>Task Name</th>
<th>Budgeted Cost</th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Grow Tim Hortons in North America, Europe and Asia</td>
<td>$100,000,000.00</td>
<td></td>
<td></td>
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<td></td>
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<td>2</td>
<td>Aggressive International Expansion through joint ventures</td>
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<td>3</td>
<td>Buy smaller competitors with good branded products</td>
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<tr>
<td>4</td>
<td>Spread the image of quality through increased advertising</td>
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<td></td>
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<tr>
<td>5</td>
<td>Diversify product lines and innovate: Invest in R&amp;D</td>
<td>$50,000,000.00</td>
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<tr>
<td>6</td>
<td>Partner or take over key suppliers</td>
<td>$20,000,000.00</td>
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<tr>
<td>7</td>
<td>Grow DQ/DQ Fresh franchise in southern border states</td>
<td>$50,000,000.00</td>
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<tr>
<td>8</td>
<td>Develop customer relationships through café format</td>
<td>$50,000,000.00</td>
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<tr>
<td>9</td>
<td>Partnership with food toy manufacturer</td>
<td>$10,000,000.00</td>
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<tr>
<td>10</td>
<td>College funding to attract a younger workforce</td>
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<tr>
<td>11</td>
<td>Attractive Pension and Retirement benefits</td>
<td>$10,000,000.00</td>
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</tbody>
</table>
EXHIBIT 1

http://www.wendys-invest.com/ne/wenkeygls03.htm

“The Company’s key financial goals for 2003 include:

- Earnings per share in a range of $2.02 to $2.08, up 7% to 10% from $1.89 in 2002. The Company's long-term goal for annual earnings per share growth continues to be in a range of 12% to 15%. Wendy's EPS grew 14.5% in 2002.

- Revenue growth in the 11% to 14% range.

- Same-store sales growth at Wendy's U.S. company restaurants in the 1.5% to 2.5% range, which is slightly lower than the chain's 10-year average of about 3.7%. Management is cautious about 2003 due to economic uncertainty and competitive discounting. Wendy's U.S. company restaurants same-store sales increased 4.7% in 2002.

- Same-store sales growth in the 3.5% to 4.5% range at Tim Horton’s restaurants in Canada and in the 6.0% to 7.0% range at Tim Horton’s U.S.

- Same-store sales growth (system) in the 2.0% to 3.0% range at Baja Fresh® Mexican Grill.

- Total new restaurant development in a range of 560 to 605, which would be approximately 5% to 6% growth on a net basis. The new unit openings will be concentrated in North America - Wendy’s U.S., Tim Horton’s Canada and Baja Fresh.

- The Company will strive to maintain Wendy's domestic operating margins in the 15.5% to 16% range, which would be similar to the 15.8% performance in 2002.
The Company will focus on controlling general and administrative costs, as a percent of revenue, in the 8.5% to 9.0% range, which would be similar to 8.8% achieved in 2002. The Company continues to focus on strategic initiatives, tight control of headcount and spending on projects that can generate a high return on investment.

A 75-basis point reduction in the effective corporate tax rate from 36.75% to 36.0%. The lowering of the effective tax rate is primarily the result of Tim Horton’s joint venture with IAWS Group/Cuisine de France producing income, which is included in the Company's results net of taxes.

The Company’s 2003 earnings outlook anticipates the following:

- More modest sales growth compared to 2002, especially at Wendy's U.S., due to poor weather conditions beginning in January, competitive discounting, weak consumer confidence and economic conditions.
- Manageable food costs and crew labor cost increases.
- Escalating costs for utilities and insurance.
- As previously announced, dilution of $0.03 to $0.04 per share from Baja Fresh due to interest payments on $225 million in debt incurred when Wendy’s International, Inc. acquired the chain. Baja Fresh’s business is profitable, and management expects it to contribute positive EPS to the Company beginning in 2004.
- Minimal impact from the Canadian dollar, which is important since Tim Horton’s generates more than one-third of the Company's income.
- A similar level of net asset gains in 2003 compared to 2002, which were $0.01 per share.
A significant income contribution from the par baking joint venture between Tim Horton's and IAWS Group/Cuisine de France, as well as from the growing Tim Horton’s U.S. business.

Average diluted shares outstanding in the range of 116 million to 117 million”
EXHIBIT 2

Wendy’s ANNUAL REPORT 2002 STATEMENTS HERE


Figure 1 Wendy’s Annual Report
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