Chapter 11

Similarities between Competitors and the Implications for Location Strategies

Lawrence Joseph

Arizona State University, USA

ABSTRACT

Although Burger King and McDonald’s are widely recognized as direct competitors, there may be enough differences in customer profiles between the two chains to recommend or justify divergent location strategies. In this regard, the authors use ordinary least-squares (OLS) regression to test whether site and trade-area criteria can explain individual store sales and if such criteria are consistent for both chains. This research shows that there are situations where locational factors may have directionally different effects on store sales of the two chains. While Burger King generally experienced higher sales in denser urban areas with higher proportions of minorities, McDonald’s experienced higher sales in suburban areas adjacent to freeways.

INTRODUCTION

In the United States, quick-service restaurant (QSR) sales measure in the billions of dollars annually (Paeratakul et al., 2003). This mature competitive environment is fierce as domestic markets are continually reaching new levels of saturation (Duecy, 2006). Consequently, a number of these chains such as Burger King and McDonald’s have been aggressively exploring international markets for growth opportunities (Vignali, 2001). Still, there are opportunities to gain domestic competitive advantages and increase market share through improved business
practices. A prudent location strategy is one area that can contribute to improved performance. This is not limited to new growth, but also includes decisions on relocations, store closings, and how location relates to marketing the business. Most QSR stores have small trade areas as customers will generally not travel the same distances for low-end goods as they would for high-end goods such as furniture, automobiles, or gourmet dining (Huff, 1963; Konishi, 2005). It is essential to be located close to target customers, whether it is near their home, work, or other activities (Melaniphy, 1992). What’s more, it is important to recognize the spatial positioning of competitors. Hotelling (1929) described the benefit to retailers of locating near competitors, but in an intervening position between the customers and the competitors. In trying to establish a differential advantage in a competitive environment, having the right location can provide long-lasting sustainable returns on investment (Ghosh & McLafferty, 1987).

Although the importance of location is widely recognized by academics and practitioners, there are a number of components to finding good locations that make it an ambiguous procedure at times. These many unique complexities can stand in the way of developing rules of thumb for desirable QSR locations. For instance, although it might seem obvious that being at an intercepting location between competitors and a freeway exit is desirable, what if the target customers are college students and generally do not consistently drive long distances. Perhaps other locations, such as those close to a university campus, may generate larger sales volumes. Prior to targeting specific locations, one sure rule of thumb is to analyze and understand the customers.

QSR companies have occasionally been misled by wrongful assumptions and lack of analytical research. The highways have been plagued over the last several decades with closed stores that were the result of the flawed strategy of simply following McDonald’s and expecting success to follow. Melaniphy (1992) attributes this to both franchisors and franchisees of being unaware of their actual customer profile and competitors or assuming that everyone was their customer.

McDonald’s, on the other hand, has displayed a deep commitment to location research through its real-estate practices. They have a history of utilizing Geographic Information Systems (GIS) software to assist the process of identifying new locations (“Leaders,” 2002). According to McDonald’s website (“McDonald’s Corporation,” n.d.), the site-selection process includes researching and identifying locations first at the regional corporate level, followed by real-estate acquisitions and building construction, and finally the placement of the most qualified franchisee for that store. In other words, their business model, including site selection, is franchisor-driven.

Most other QSR chains have not historically been renowned for high levels of analytical real-estate research. Burger King’s business model provides considerable control to the franchisees. As described on their website (“Burger King,” n.d.), the chain employs GIS for market analysis and site selection, especially underserved markets, but this is primarily an effort to assist the franchisees in their location decisions. It should be noted, however, due to the retreating costs in Information Technology (IT) and the associated data, that many more businesses have the capabilities of processing large volumes of data in GIS software for the purposes of site selection either by internal research analysts or by external third parties (Hernandez et al., 1998).

QSRs are ubiquitous throughout the US. Some chains have existed for several decades and have national exposure, while regional chains and new start-ups also attempt to capture market share. Depending on the menu offerings, these chains compete with each other and other restaurants with varying levels of intensity (Melaniphy, 1992). Burger King and McDonald’s have long been recognized as direct competitors in the QSR industry. Direct competitors offer similar products at similar prices (Melaniphy, 1992). These two chains have