

Is Burger King Poised to Retake Second Place From Wendy's?

By: Maureen Morrison Bio Follow on Twitter E-mail Author RSS feed Published: May 28, 2012

Wendy's upended the industry last year when it overtook Burger King as the No. 2 burger chain in the U.S.

Sofia Vergara for Burger King

Now it looks like Burger King is turning the fast-food tables.

When it bested Burger King, Wendy's held a 12.3% U.S. share, according to Technomic, compared with Burger King's 12.2%, and the gap's been narrowing fast since. Burger King in the first quarter of this year posted a 4.2% jump in same-store sales in North America while the same segment for Wendy's showed an increase of less than 1%. And Burger King's April numbers are even better. Its largest franchisee, Carrols Restaurant Group, said its same-store sales in April rose 9%, nearly triple that of leader McDonald's.



But don't go all-in on the king yet. A closer look reveals that the chain still has a hard-fought battle ahead to regain the throne. "There's a lot of chatter about which one is going to be No. 2. But at the end of the day, it's really just about keeping up more than anything groundbreaking," said Morningstar analyst R.J. Hottovy of Burger King's performance.

It's not so much that Burger King is doing the right things -- but it is doing fewer of the wrong things, say industry observers. Much of its first-quarter growth could be attributed to the fact that Burger King had a bad first quarter last year, so the comparable gain is easier to achieve. Meanwhile, Wendy's played into Burger King's hands with some major miscalculations, like its W burger launch.

Burger King declined to comment for this story. Wendy's downplayed the rivalry. "We're less interested in who is No. 2 or No. 3. We're more interested in being the best in quality," said spokesman Denny Lynch.

Dennis Lombardi, exec VP-foodservice strategies at WD Partners, cautioned not to read too much into Burger King's results. "It's nice to see BK has had a good quarter, but it's not all that different than pretty much what the industry saw for the quarter."

Competitors also cite discounting as a factor in Burger King's gains. Wendy's midtier W burger introduced late last year was priced between the 99¢ menu and the more-premium Dave's Hot "N Juicy burger in the hopes of getting value customers to trade up. But not only did the product end up cannibalizing sales of Hot "N Juicy, it also was blunted by Burger King's price cutting.

"We were hopeful that our February promotion of [Hot "N Juicy] would help us regain our momentum," said Wendy's Chief Financial Officer Stephen Hare during an earnings call, "but unusually intense competitive couponing and discounting negatively impacted our sales growth."

When it bested Burger Kind, Wendy's held a 12/3% U.S. share.

That reference is likely to Burger King's aggressive couponing in the first quarter. "Burger King was couponing a lot then, which is what you



have to do in order to get trial," said Sara Senatore, senior analyst at Bernstein Research.

Burger King also had an unusually active spring. It unveiled a campaign in April with a host of expensive celebrities such as Jay Leno, David Beckham and Mary J. Blige backing a new menu that included smoothies, frappes, salads and chicken wraps -- items that McDonald's has offered for years. That same week it announced it was going public again, just 18 months after it went private.



"They did a nice job of adding variety," said Mr. Tristano. "The smoothies alone can be a demand driver."

The campaign didn't go off without a hitch, though. Burger King pulled Ms. Blige's ad, claiming that there were music-licensing issues and that the ad would resurface. Others cried foul over African-American stereotypes related to fried chicken. The singer suggested that the chain released an unfinished ad.

According to people familiar with the matter, however, the ad with Ms. Blige will not be rereleased, and the celeb-laden campaign will stop running at the end of the second quarter.

It's believed that in third quarter the chain will bow a new national marketing push, for which it'll likely draw on one of its roster agencies. In January it brought on Mother, Pitch and David to work on general-marketing advertising, in addition to then-lead agency McGarryBowen. Burger King tapped McGarry in the middle of last year to handle creative, and up until the celebrity campaigns the agency handled the national general-market ads. Those spots were product-oriented, as opposed to focused on the King character.

It appears as though Burger King is playing a sort of jump ball with its agencies to provide shorter-term executions, unlike Wendy's. Wendy's has said its current campaign that features two Wendys - the real Wendy Thomas and another redhead with the tagline "Now that's better" -- will run through at least the remainder of the calendar year. Publicis' Kaplan Thaler Group is its agency.

"The common thread is they're both trying to go back to their roots. And they both went too far away from talking about the quality of their food," said Ms. Senatore.

Both companies have acknowledged the marketing missteps, but some still question Burger King's marketing consistency. "Lack of consistency and jumping around really confuses people," said independent restaurant marketing consultant Denise Lee Yohn, who has worked on Burger King as well as competitors such as Jack in the Box. She added that people might not "really know what Burger King stands for, or what the differentiation is. I don't think that they've really been consistent on any message. They're kind of shooting themselves in the foot."

Ms. Lee Yohn criticized Wendy's ads as well, saying that although Wendy's has a "clearer brand platform," its "ads don't really get people excited [or create] an emotional connection with the brand."

Wendy's disagrees, but concedes it's a work in progress. "In terms of marketing traction [with consumers], the metrics we have in place are showing increases across the board, and we're going to continue to refine the marketing program," said Mr. Lynch. "We want to be more concise and more impactful with our target audience."