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## Burger King to offer a slightly different \$1 deal

*In a compromise with unhappy franchisees, Burger King will replace its \$1 double cheeseburger with another \$1 sandwich with one less slice of cheese.*

**BY ELAINE WALKER**

Burger King plans to raise the price of its controversial \$1 double cheeseburger in April, replacing it with a similar value-engineered burger for \$1.

The main difference between the two burgers: a slice of cheese, worth about a nickel.

The moves are part of a value menu strategy outlined to franchisees in a memo written last Friday by two of Burger King's top executives.

The question is whether the changes will be enough to satisfy franchisees, most of whom have been against the product since the October launch.

While the double cheeseburger promotion was designed to increase traffic, franchisees complain that it has dragged down the average check and restaurant profitability. Franchisees have also sued the company, arguing that Burger King doesn't have the right to mandate maximum prices.

Now, Burger King is adopting a strategy similar to McDonald's, according to the memo obtained by The Miami Herald.

"Guests continue to count their pennies and the fight for traffic and sales is more competitive than ever," said the memo written by Chuck Fallon, Burger King North America president and Mike Kappitt, senior vice president of global business intelligence.

The new BK Dollar Double sandwich to be introduced on April 26 is comparable to McDonald's McDouble, a double cheeseburger with one slice of cheese. Burger King franchisees would be required to sell it for no more than \$1 and promote it on the value menu.

Burger King would also still require franchisees to keep the double cheeseburger on the value menu, but starting on April 20 that price can go up to "no more than \$1.19." But if McDonald's restaurants in the area are selling the product at higher prices, Burger King franchisees can request an exemption to raise their price to \$1.29.

Burger King spokeswoman Susan Robison confirmed plans late Tuesday regarding the BK Dollar Double launch and the changes in the double cheeseburger.

"We are excited to offer two great-tasting sandwiches to our guests at prices they appreciate," Robison said in a statement. "Burger King continues to test innovative new products that will appeal to both value conscious consumers and those seeking premium indulgent products at affordable prices."

Wall Street industry analysts say it's a move that makes sense.

"You don't want to force customers to go cold turkey all of a sudden," said Mark Kalinowski, restaurant industry analyst with Janney Capital Markets. "It's smart for them to go looking for a transition strategy."

"I wouldn't be surprised if they went even further, when they see how these products are selling and what the margins are," Kalinowski said. "It's going to be a continuous battle."

Burger King's analysis estimates that the double cheeseburger with two slices of cheese sold at \$1.19 would generate a 52.1 percent profit margin. By comparison, the new BK Dollar Double sold at \$1 would generate an estimated 47 percent profit margin. Both sandwiches use the same size burger patty.

"The transition to the BK Dollar Double offers the value our consumers demand while offering great financials to our restaurants," Burger King's memo states.

Based on McDonald's experience after the introduction of the McDouble in Jan. 09, Burger King expects the BK Dollar Double introduction will lead to a decrease in the percentage of double cheeseburger sales.

Burger King's memo shows that sales of McDonald's double cheeseburger have decreased from a high of 25.2 percent of sales in June 2008 to 12.3 percent in October 2009, according to NPD Group/Crest data. The McDouble represents 9.7 percent of sales.

The impact of the changes to incremental gross profit is between \$2 and \$22 per day, Burger King's memo shows. If the menu mix is the same as McDonald's, that number could reach \$25.

In another move to improve gross profit margins, Burger King's memo says it will also begin testing a higher price for the Whopper Jr.

That sandwich has been on the value menu for \$1; the tests would look at raising prices by nine to 19 cents.

While Burger King franchisees acknowledged the moves are a step in the right direction, they're not convinced it will provide enough relief to the bottom line.

Many franchisees say that a product with lower than a 65 percent profit margin isn't profitable.

Analysts say the challenge for Burger King is balancing the consumer and franchisee demands.

**"For Burger King, it's about finding a combination of new menu items that scream value to the consumer," said Tom Forte, restaurant industry analyst with Telsey Advisory Group. "And for the franchisees it's about having other items that can offset that impact on margins."**

In other menu changes, Burger King announced Tuesday that it has signed a deal with Seattle's Best Coffee to offer the fresh-brewed premium coffee at its U.S. restaurants by September 2010.

Customers will find hot and iced options priced between \$1 and \$2.79 at 7,250 Burger King restaurants. It will replace BK Joe.

The coffee introduction is part of a broader effort by Burger King to turn around its declining breakfast business. The chain also plans to launch a \$1 BK Breakfast Muffin sandwich on March 22. It will be modeled after McDonald's Egg McMuffin.