

AN IN-DEPTH COMPARISON OF THREE FAST FOOD INDUSTRY GIANTS:
HOW CHICK-FIL-A DIFFERS FROM MCDONALD'S AND WENDY'S IN THE
GROWTH FROM HUMBLE BEGINNINGS TO BECOME MULTI-BILLION
DOLLAR COMPANIES

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ABSTRACT

From humble beginnings to industry giants, three companies have combined for over 163 years of implementing innovative business models and growing sales across the globe. Chick-fil-A, McDonald's, and Wendy's have accounted for tens of billions of dollars in sales revenue since their respective inceptions. Chick-fil-A is a family-owned company started and run by S. Truett Cathy and his children. McDonald's is an industry juggernaut created by Ray Kroc, and Dave Thomas founded Wendy's. Over the years, Chick-fil-A has prioritized its growth by maintaining their high quality standards in exchange for a slower growth rate. McDonald's has grown rapidly to an enormous size and expanded across the world. Wendy's followed a growth pattern similar to McDonald's, but experienced a halt in growth around the late 1990s. While their overall financial success is comparable, their guiding philosophies and ideologies are somewhat different. Chick-fil-A, in particular, has a unique outlook on how to run a business – to make business decisions based on biblical principles. While customer loyalty can be difficult to measure, Chick-fil-A seems to have a customer base that identifies with Chick-fil-A's values and has proven to be loyal supporters even throughout recent controversy. Employee satisfaction ratings for Chick-fil-A also indicate how highly they value their human resources. With McDonald's and Wendy's falling well behind in such metrics, Chick-fil-A holds a specific advantage in both customer and employee satisfaction. All three companies are active philanthropically, giving large sums of money to various internal and external charities each year. Although Chick-fil-A does not lead in overall sales volume, same-store sales growth and customer satisfaction ratings show Chick-fil-A's unique business model can thrive in the modern business world.

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Introduction

The purpose of this project is to perform a broad and in-depth analysis of three fast food industry giants – Chick-fil-A, McDonald’s, and Wendy’s. Chick-fil-A is unique because it is still family owned and operated, is closed 52 days of the year more than the others, and has formed its foundations on biblical principles. How does a company in this highly competitive industry survive, even thrive, with such drastic differences between them and the industry leaders? In the following pages, we will look at each company’s history, mission, guiding philosophies, financial performance, target markets, past growth and growth potential, customer loyalty, controversies and unfavorable press, philanthropic efforts, and employee satisfaction. Let us begin.

I. History and Background

To begin diving into an in-depth analysis of these three companies, we must learn what and who built these companies into the giants they are today. How did they get where they are now? What time frame and opportunities led them to become national and international leaders in the quick-service restaurant industry? Let us find out.

A. The Beginnings of Chick-fil-A

In 1946, S. Truett Cathy opened a restaurant with his brother, Ben, called the Dwarf Grill (Cathy, 2002). They operated the restaurant 24/6, except Sunday. Yes, six days a week they were opened around the clock, but on Sunday they closed down the restaurant. Every Sunday Mr. Cathy attended church and made the commitment between himself and God that he would never open his restaurant on a Sunday. He said concerning this:

“Our decision to close on Sundays was our way of honoring God and directing our attention to things more important than business. If it took seven days a week to make a living with a restaurant, then we needed to be in some other line of work. Through the years I have never wavered from that position.” (Cathy, 2002)

This decision set the precedent for Chick-fil-A’s policy. The Dwarf Grill as a startup enterprise was challenging. Mr. Cathy lived in the house next door and when he would go to bed he would listen to the sound of the gravel crunching as cars would pull in and would always go over to help if the crowd got too big for his cook to handle. When asked why they did not close at nights Mr. Cathy replied, “We needed every customer we could get” (Cathy, 2002).

For years, Mr. Cathy had tried to serve a chicken breast quickly. However, because of the bone, there was no consistent way to cook it quickly and accurately. He finally figured it out. He took the bone out. He obtained some boneless chicken breast filets, and began experimenting with them. He still needed a faster way of cooking them than in an open fryer. He learned that by adding pressure, a whole chicken filet could be cooked in less than four minutes. This gave him the ability to serve a hot chicken sandwich fresh whenever a guest ordered one. He called it a chicken steak sandwich, and it became more popular than any other item on his menu. As an entrepreneur, he had to find a way to capitalize on its success in his restaurant and let the rest of the country know about it. After much marketing effort, the sandwiches were selling at astounding rates. In 1967, Truett Cathy opened the first Chick-fil-A restaurant in Greenbriar Shopping Center, Atlanta (Cathy, 2002).

Chick-fil-A now has over 1700 locations in 39 states and Washington D.C. They posted annual system-wide sales of \$4.6 billion in 2012 (CFA Properties, Inc., 2013). All of this began at the Dwarf Grill where first day sales totaled \$58.20 (Cathy, 2002).

B. The Beginnings of McDonald's

The McDonald's legacy is credited to Ray Kroc, who was born in 1902. For the first 52 years of his life he worked in a variety of industries. In 1954, when he was working as a multi-mixer salesman, a small restaurant run by Dick and Mac McDonald ordered eight of his multi-mixers (McDonald's, 2013). The effectiveness of their restaurant intrigued Ray and he immediately began contemplating his next steps. In 1955, he created the McDonald's Corporation, and five short years later he bought exclusive rights to the name McDonald's (McDonald's, 2013). His vision was to be able to serve a burger that tasted the same whether it was ordered at a franchise in Alaska or Alabama (McDonald's, 2013). His business philosophy was that of a three-legged stool. He told his franchisees that they were only as strong as the three legs together. The three-legged stool consisted of McDonald's, the franchisee, and the suppliers. His mantra was that you could be "in business for yourself, but not by yourself" (McDonald's, 2013). Ray Kroc died in 1984, but the business he left behind is still growing. Now McDonald's has over 34,000 system-wide restaurants (McDonald's Corporation, 2013).

C. The Beginnings of Wendy's

In 1969, Dave Thomas opened the first Wendy's restaurant in Columbus, Ohio (The Wendy's Company, 2013). His priority for quality was so important to him, he put it on their logo. One year later, a second Wendy's opened up that featured a drive-thru pickup window. In 1972, the first Wendy's franchise was sold. Four short years later, in

1976 Wendy's held their IPO and opened their 500th restaurant. They were now growing at an average rate of 100 restaurants per year. Two years later, the 1000th Wendy's restaurant opened, and in 1980 the 2000th location opened (The Wendy's Company, 2013). This growth was phenomenal; however, it may have been too much too soon for Wendy's. In October 2001, they opened their 6000th restaurant (The Wendy's Company, 2013). This was a rate of over 200 new locations being opened every year – a staggering pace. However, this growth could not be sustained, and in 2003 Wendy's stock dropped to less than a third of its previous value (Yahoo Finance, 2013). They have recovered somewhat from this financial crisis and are strengthening every day. They are still one of the country's most recognized brands in history.

II. Mission Statements, Corporate Purpose, Vision

A mission statement, in essence, describes what a company does. It is the most basic, stripped-down analogy of what the company does day-in and day-out. The mission of a company is at the foundation of its existence, and we will start here as we compare and contrast our three companies. The mission statements are as follows:

- Chick-fil-A – Be REMARKable.
- McDonald's – To be our customers' favorite place and way to eat.
- Wendy's – Our goal must be to exceed our customer's expectations everyday.

At first glance, all of these mission statements appear to be quite similar. They all have to do with creating a positive customer experience. Let us dissect these mission statements and find out what all these statements entail.

A. Chick-fil-A's Mission

Chick-fil-A recently changed their mission statement to “Be REMARKable.” Previously, their mission statement was “to be America’s best Quick Service Restaurant.” Why this new mission statement? The previous mission statement set a limit on the company by clearly defining an end. Reaching that goal would imply that no further effort for growth or development was needed. A problem arises, however, in quantifying “best.” Would it be in terms of money? Sales? Size? Locations? Global presence? To achieve that mission they needed to ascribe a measurable goal. Now their goal is simple, relevant, challenging, and could place them securely into the spot of “America’s Best Quick Service Restaurant.” By being REMARKable, their guests will enjoy their experience, tell others about their experience, and continue to build their business.

B. McDonald's Mission

McDonald's mission statement is almost identical to Chick-fil-A's previous mission. Simply put, they want customers to choose them as their favorite place and way to eat. This is a difficult goal for them to achieve. How can you measure where one's favorite place to go is? There are multiple ways. First, they can survey random customers to find out their frequency of visits, their level of satisfaction with their meal, and their overall experience. Chick-fil-A and many other companies in various industries take this approach by offering discounts or promotionals on the customer's receipt in exchange for a completed survey. They can also look at sales growth. While overall sales growth may have more to do with expansion, same-store sales growth could indicate how customers view their local McDonald's restaurant. However, as long as McDonald's, or any other company, has a mission statement that entails an emotional or

opinion-based component, measuring its success or failure accurately will be difficult. Since there is not a practical way to find out if their customers are coming for convenience, speed, price, or because it is their “favorite way to eat,” it is difficult to determine if their massive sales and unfathomable size are a byproduct of a successful mission statement or a combination of other motivations. Of course, all of these components could make McDonald’s a favorite place to eat, but it is the ambiguity and variance of motivations that make this mission statement hard to measure.

C. Wendy’s Mission

Moving onto Wendy’s mission of “exceeding customer’s expectations every day.” This goal seems plausible. How does this statement give the company direction? From the annual sales figures, it would seem they are not succeeding in their mission. Similarly to McDonald’s, this goal is difficult to measure. It could be analyzed using surveys, as previously mentioned, or by looking at sales growth, particularly same-store. This mission could lead Wendy’s towards mediocrity. If people have a low expectation of service and quality, then exceeding those expectations should be relatively easy to do. Also, Wendy’s could lack control over customers’ expectations because their expectations may be set by competitors in the market. As more companies in the fast food industry are offering higher quality products, Wendy’s mission becomes more difficult to achieve.

Mission statements are a good first step to determining what these companies view as their primary goal or reason for existing. However, because these can be broad and sometimes quite similar, distinguishing any significant differences between

companies using mission statements is difficult at best. The next step in finding corporate direction is a company's guiding philosophies.

III. Guiding Philosophies

Guiding philosophies are ideals, morals, and motives that outline and describe how the company conducts itself on a day-to-day basis. These principles affect how the company makes decisions and are directly related to the company's ethics. Indeed, a company's ethical code of conduct is an aspect of a company's guiding philosophies. As we delve into these three company's core principles, we will uncover what makes these companies who they are and how they have become successful in their own unique ways.

A. Chick-fil-A's Guiding Principles

To begin our look into Chick-fil-A's principles, we will start with their Purpose Statement: "To glorify God by being a faithful steward to all that is entrusted to us and to have a positive influence on all who come in contact with Chick-fil-A." This could possibly be lumped into their Corporate Mission; however, this really has a more direct effect on their day-to-day operations as decisions are made. This purpose statement breaks down into two parts:

- Being a faithful steward to all that is entrusted to us
- To have a positive influence on all who come in contact with Chick-fil-A

The first point of their purpose statement affects so many aspects of the business that we will touch on it in nearly every section to come. From finances to philanthropy, this part of their purpose statement guides decisions they make in every aspect of the business.

Chick-fil-A has pulled this principle straight from the New Testament. Jesus tells "The Parable of the Talents" as follows:

¹⁴“For it will be like a man going on a journey... to one he gave five talents, to another two, to another one, to each according to his ability. Then he went away... ¹⁹ now after a long time the master of those servants came and settled accounts with them. ²⁰ And he who had received the five talents came forward, bringing five talents more, saying, ‘Master, you delivered to me five talents; here I have made five talents more.’ ²¹ His master said to him, ‘Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master...’ ²⁴ He also who had received the one talent came forward, saying, ‘Master... I went and hid your talent in the ground. Here you have what is yours.’ ²⁶ But his master answered him... ‘you ought to have invested my money with the bankers, and at my coming I should have received what was my own with interest...’ ²⁹ For to everyone who has will more be given, and he will have an abundance. But from the one who has not, even what he has will be taken away.’” Matthew 25:14-29 ESV

The lesson is that it is foolish and unprofitable to sit on what you have been given and not put it to good use. Even keeping it in a bank would have provided some small return. Also, to the one whom more was given, more was expected. Chick-fil-A has flourished in many ways, and they know that.

It is this plenteousness that spurs them on to do more than even the founder of Chick-fil-A, Truett Cathy, ever dreamed. They donate significant portions of their profits to non-profit organizations and charities. Truett founded WinShape, a home for boys with the mission of “shaping winners.” Now WinShape does family and marriage retreats and even international mission trips to places like Karugotu, Africa where they

build wells to provide clean drinking water to remote villages. Financially, Chick-fil-A runs one of the most profitable quick-service restaurants ever. Their profit margins, food costs, and operator-compensation are among the most competitive in the industry. In everything, Chick-fil-A strives to be good stewards of all that has been entrusted to them, including financial, relational, and human resources.

The second part of their purpose statement, “to have a positive influence on all who come in contact with Chick-fil-A,” also touches on some of the previously mentioned areas. However, this applies more directly to the millions of guests’ experiences throughout the over 1,700 locations. Employee policies, practices, and other standards are in place to primarily ensure every guest has a remarkable experience. Almost innumerable are the ways Chick-fil-A strives to attain this level of performance. Some of the practices include: accommodating high-needs guests, escorting guests to and from their vehicle in the rain, anticipating guests’ needs preemptively, and “going the extra mile” for the guest. These practices are all part of what Chick-fil-A calls “2nd Mile Service.” Again, this guiding philosophy is pulled from the pages of Scripture in Jesus’ Sermon on the Mount. Matthew 5:41 says, “If anyone forces you to go one mile, go with them two miles.” For clarification, some historical reference is necessary. In early Roman times, it was customary that as a Roman soldier was walking through town he could enlist the help of a Jew to carry his armor or pack. The tradition was that the Jew was required to obey and follow the soldier for one Roman mile (Hatch, 1889). After one mile of carrying the Roman soldier’s armor, the Jew was free to return to his business and the Roman must either carry on alone or recruit another Jew. Jesus is telling the Jews to not only go the mile required of them by law, but also go a second mile. This servant’s

attitude was one Jesus portrayed often, and has subsequently turned into a popular management principle nowadays called “servant leadership,” which is leadership by serving others. Servant leadership is also a principle adopted by Chick-fil-A and is expected of their Operators and corporate employees.

To practice servant leadership, one must focus on leading by serving. Author Eugene B. Habecker says of servant leadership, “The true leader serves. Serves people. Serves their best interests, and in so doing will not always be popular, may not always impress. But because true leaders are motivated by loving concern rather than a desire for personal glory, they are willing to pay the price” (Maxwell, 1999). According to John Maxwell, author and leadership expert, there are five characteristics of a true servant leader. A servant leader:

1. Puts Others Ahead of His Own Agenda
2. Possesses the Confidence to Serve
3. Initiates Service to Others
4. Is Not Position-Conscious
5. Serves Out of Love

(Maxwell, 1999)

These are attributes Chick-fil-A expects out of all their Operators. In fact, Mark Miller, Vice President of Training and Development at Chick-fil-A, co-authored a book called “The Secret” which teaches readers the SERVE model as Chick-fil-A defines it. The SERVE model is an acronym as follows:

- See the Future
- Engage and Develop Others

- Reinvent Continuously
- Value Results and Relationships
- Embody the Values

(Blanchard & Miller, 2001)

It is this model of leadership that Truett Cathy embodied as he grew his business from the Dwarf Grill into Chick-fil-A today. As you can see, Chick-fil-A's guiding philosophies are strongly based on biblical principles and time-tested practices.

B. McDonald's Guiding Principles

McDonald's spells out its guiding principles on its "Mission & Values" webpage. These values direct how McDonald's makes business decisions on a daily basis. First, they state:

"We place the customer experience at the core of all we do. Our customers are the reason for our existence. We demonstrate our appreciation by providing them with high quality food and superior service in a clean, welcoming environment, at a great value. Our goal is quality, service, cleanliness, and value (QSC&V) for each and every customer, each and every time." (McDonald's, 2013)

This aspect of customer experience is a common thread among most restaurants, and even most companies for that matter. So it is no surprise that McDonald's lists this first in their values. For the time being, we will refrain from judging how sincere or how well executed these values are – they should speak for themselves when we look into company profitability and growth. However, it is apparent to all frequenters of McDonald's that, at the least, consistency in accomplishing this standard poses a problem for them. This value correlates with the second part of Chick-fil-A's purpose statement, "to have a

positive influence on all who come in contact with Chick-fil-A.” Although Chick-fil-A’s purpose statement is intended to reach beyond just in-store experiences, the customer’s experience in both restaurants is paramount to how they operate their businesses. One point of interest when dissecting these companies’ values and guiding principles: McDonald’s priority of customer experience is relatively unspectacular. The “quality, service, cleanliness & value” is something we as guests have come to expect from restaurants. Of course, although this is McDonald’s formal statement of restaurant standards, their main goal appears to be value. If value is the quantity of food for any given price, then McDonald’s has a competitive advantage that most other companies are not able to touch. Customer experience is not McDonald’s only value, they also strive to run an ethical business.

“We operate our business ethically. Sound ethics is good business. At McDonald’s, we hold ourselves and conduct our business to high standards of fairness, honesty, and integrity. We are individually accountable and collectively responsible” (McDonald's, 2013). McDonald’s states in this value, “sound ethics is good business.” As is taught in almost all management courses, companies who act ethically perform better in the long run. In the sections on financial performance and growth, we will see how effectively this and other practices have propelled McDonald’s to where they are today. Acting ethically can be a profitable business philosophy in the long run, but it is also another value that is not unique to McDonald’s.

One aspect of McDonald’s values that Chick-fil-A does not share is its need to monitor shareholder value. “We grow our business profitably. McDonald’s is a publicly traded company. As such, we work to provide sustained profitable growth for our

shareholders. This requires a continuous focus on our customers and the health of our system” (McDonald's, 2013). Because Chick-fil-A is a private company, they do not have the same focus for shareholders. However, this value of McDonald’s does relate with Chick-fil-A’s value “to be faithful stewards of all that is entrusted to us.” It is a common standard for both companies to maintain profitability and pursue lucrative opportunities.

C. Wendy’s Guiding Philosophies

Wendy’s was started with what they call “Dave’s 5 Values.” These values are as follows:

1. Quality is Our Recipe
2. Do the Right Thing
3. Treat People with Respect
4. Profit is not a Dirty Word
5. Give Something Back

(The Wendy's Company, 2013)

The first of Dave’s values, “Quality is Our Recipe,” is meant to permeate more than just the food that Wendy’s serves. It is also about how people are treated – it is important enough for Wendy’s to use it permanently in their logo. The second value, “Do the Right Thing,” has to do with operating with integrity. The third value represents a way of doing business that should be a standard among service companies. The fourth, “Profit is not a Dirty Word,” assures shareholders that Wendy’s is a profit-seeking company with the priority of maximizing shareholder value. Although everyone with business knowledge or experience knows this statement to be true, it seems the general public has

an overall negative reaction to companies who unashamedly pursue maximum profit. However, Dave's fifth value, "Give Something Back," informs consumers that Wendy's cares about the community. One significant difference between Wendy's and Chick-fil-A's guiding principles is the same difference between McDonald's and Chick-fil-A. That, as a publicly traded company, Wendy's must focus on maximizing shareholder value. They do this by valuing the quality of the product they serve their customers, managing their finances lucratively, and showing initiative in social responsibility.

IV. Financial Performance

In this section we will look into the financial success each of these companies have enjoyed over the years. There are certainly some significant differences in these companies fiscal performance and growth. Company size is a major factor for financial performance so we will also look at sales revenue per location and profit percentage to help level the playing field in terms of size.

A. Chick-fil-A's Financial Performance

In 2012, Chick-fil-A experienced sales of over \$4.6 billion (CFA Properties, Inc., 2013). For a company that had less than 1,700 restaurants in the United States at the time, this number is quite impressive. That is roughly \$2.7 million in sales per location. Corporately, Chick-fil-A operates debt free and is a privately-held company. Sales grew from 2011 to 2012 by over 13.5%, which marks the 45th consecutive year of sales growth since 1967 (Chick-fil-A, Inc., 2012). In 2012, Chick-fil-A opened up 96 new locations, four more than in 2011 (Stafford, 2013). In the summer of 2012, Mike Huckabee organized a "Chick-fil-A Appreciation Day" which subsequently set a chain-wide, single-day sales record for Chick-fil-A. The motivation behind this day will be discussed later

on when we look into corporate controversies that have affected our three restaurants. Chick-fil-A never released the official sales from that day, nor have they released sales for the 2012 as a whole. Due to the nature of a privately owned company, financial reports are not required to be published; thus, more detailed information than just discussed is not available. However, their financial success will become even more evident when we explore these companies' philanthropic efforts and the effect controversies and negative PR have had on them.

B. McDonald's Financial Performance

McDonald's success is undeniable. Without doubt, McDonald's is the largest restaurant company in the world with over 69 million customers served everyday (McDonald's Corporation, 2013). Because McDonald's is a public corporation, there is much more depth and detail that we can go into concerning their fiscal prowess. First, here is a brief six-year summary of McDonald's finances:

<i>Dollars in millions, except per share data</i>	2012	2011	2010	2009	2008	2007
Company-operated sales	\$18,603	18,293	16,233	15,459	16,561	16,611
Franchised revenues	\$ 8,964	8,713	7,842	7,286	6,961	6,176
Total revenues	\$27,567	27,006	24,075	22,745	23,522	22,787
Operating income	\$ 8,605	8,530	7,473	6,841⁽¹⁾	6,443	3,879⁽⁴⁾
Income from continuing operations	\$ 5,465	5,503	4,946	4,551^(1,2)	4,313⁽³⁾	2,335^(4,5)
Net income	\$ 5,465	5,503	4,946	4,551^(1,2)	4,313⁽³⁾	2,395^(4,5,6)
Cash provided by operations	\$ 6,966	7,150	6,342	5,751	5,917	4,876
Cash used for investing activities	\$ 3,167	2,571	2,056	1,655	1,625	1,150
Capital expenditures	\$ 3,049	2,730	2,135	1,952	2,136	1,947
Cash used for financing activities	\$ 3,850	4,533	3,729	4,421	4,115	3,996
Treasury stock purchases⁽⁷⁾	\$ 2,605	3,373	2,648	2,854	3,981	3,949
Common stock cash dividends	\$ 2,897	2,610	2,408	2,235	1,823	1,766
Financial position at year end:						
Total assets	\$35,386	32,990	31,975	30,225	28,462	29,392
Total debt	\$13,633	12,500	11,505	10,578	10,218	9,301
Total shareholders' equity	\$15,294	14,390	14,634	14,034	13,383	15,280
Shares outstanding <i>in millions</i>	1,003	1,021	1,054	1,077	1,115	1,165
Per common share:						
Income from continuing operations-diluted	\$ 5.36	5.27	4.58	4.11 ^(1,2)	3.76 ⁽³⁾	1.93 ^(4,5)
Earnings-diluted	\$ 5.36	5.27	4.58	4.11 ^(1,2)	3.76 ⁽³⁾	1.98 ^(4,5,6)
Dividends declared	\$ 2.87	2.53	2.26	2.05	1.63	1.50
Market price at year end	\$ 88.21	100.33	76.76	62.44	62.19	58.91
Company-operated restaurants	6,598	6,435	6,399	6,262	6,502	6,906
Franchised restaurants	27,882	27,075	26,338	26,216	25,465	24,471
Total Systemwide restaurants	34,480	33,510	32,737	32,478	31,967	31,377
Franchised sales⁽⁸⁾	\$69,687	67,648	61,147	56,928	54,132	46,943

(McDonald's, 2013)

The first figure of note is revenue. Company-operated sales topped \$18.6 billion and franchised revenues were more than \$8.9 billion. This brings McDonald's total revenues to over \$27.5 billion in 2012 alone. While franchised sales is not considered revenue by the company, it still accounted for a staggering \$69.7 billion in sales. This averages out to nearly \$2.5 million in sales per store, which is slightly less than Chick-fil-A restaurants. As is illustrated above, McDonald's revenues have grown consistently each of the last six years save for 2009. Interestingly, McDonald's net income did not suffer any downturn when their revenues dropped. In fact, McDonald's net income has steadily grown up until 2012 where it took a fraction of 1% decline.

C. Wendy's Financial Performance

Wendy's has had a very tumultuous history of financial issues. Explosive growth in the early years followed by consistent decline in recent times has put Wendy's on a dangerous path. However, recent marketing strategies, adjusted franchising plans, improved menu options, and an overall corporate facelift is beginning to point Wendy's in the right direction again. Below is financial data published in their 2012 Annual Report. Wendy's revenues exceeded \$2.5 billion in 2012 from the combination of nearly \$2.2 billion in sales and \$306 million in franchised revenue. Clearly, Wendy's is far behind McDonald's and Chick-fil-A in overall revenue and per store sales volume. Wendy's reports a company-operated average unit volume of \$1.48 million. Wendy's net income over the last few years has been very unpredictable. In 2010, they reported a \$4.3 million net loss.

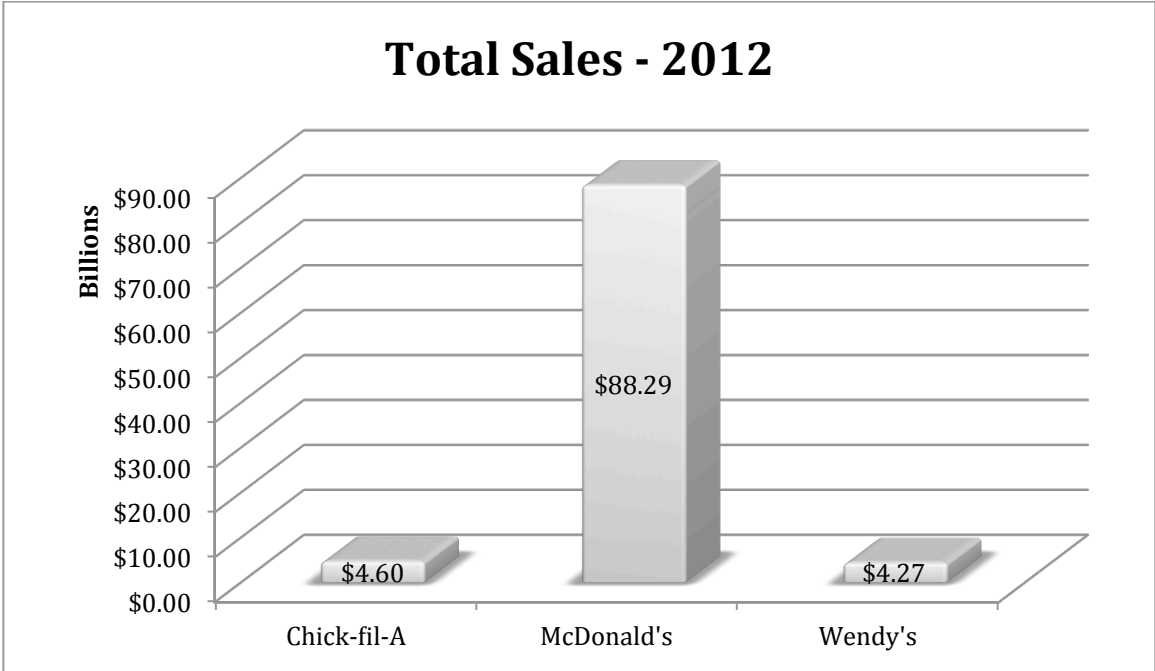
	2012		2011		2010
	Amount	Change	Amount	Change	Amount
Revenues:					
Sales	\$2,198.3	\$ 71.7	\$2,126.6	\$ 47.5	\$2,079.1
Franchise revenues	306.9	2.1	304.8	8.5	296.3
	<u>2,505.2</u>	<u>73.8</u>	<u>2,431.4</u>	<u>56.0</u>	<u>2,375.4</u>
Costs and expenses:					
Cost of sales	1,881.2	65.1	1,816.1	59.1	1,757.0
General and administrative	287.8	(4.6)	292.4	(19.1)	311.5
Depreciation and amortization	147.0	24.0	123.0	(3.8)	126.8
Impairment of long-lived assets	21.1	8.2	12.9	(13.4)	26.3
Facilities relocation costs and other transactions	41.0	(4.7)	45.7	45.7	—
Other operating expense, net	4.4	0.2	4.2	0.8	3.4
	<u>2,382.5</u>	<u>88.2</u>	<u>2,294.3</u>	<u>69.3</u>	<u>2,225.0</u>
Operating profit	122.7	(14.4)	137.1	(13.3)	150.4
Interest expense	(98.6)	15.5	(114.1)	4.3	(118.4)
Loss on early extinguishment of debt	(75.1)	(75.1)	—	26.2	(26.2)
Investment income, net	36.3	35.8	0.5	(4.8)	5.3
Other income, net	1.6	0.7	0.9	(1.6)	2.5
(Loss) income from continuing operations before income taxes and noncontrolling interests	(13.1)	(37.5)	24.4	10.8	13.6
Benefit from (provision for) income taxes	21.1	27.6	(6.5)	(11.0)	4.5
Income from continuing operations	8.0	(9.9)	17.9	(0.2)	18.1
Net income (loss) from discontinued operations	1.5	9.5	(8.0)	14.4	(22.4)
Net income (loss)	9.5	(0.4)	9.9	14.2	(4.3)
Net income attributable to noncontrolling interests	(2.4)	(2.4)	—	—	—
Net income (loss) attributable to The Wendy's Company	<u>\$ 7.1</u>	<u>\$ (2.8)</u>	<u>\$ 9.9</u>	<u>\$ 14.2</u>	<u>\$ (4.3)</u>

(The Wendy's Company, 2013)

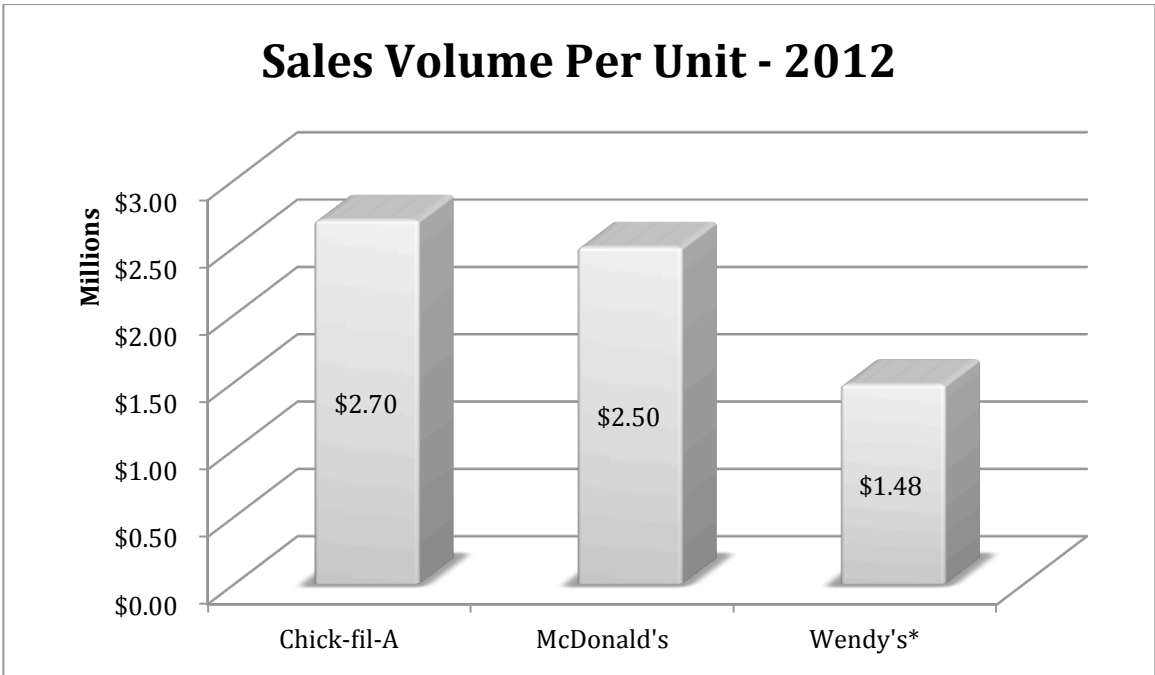
However, both 2011 and 2012 provided Wendy's with over \$9 million in net income.

This may be related to Emil J. Brolick taking over as CEO in 2011, and it seems he was able to immediately improve Wendy's financial horizon.

For ease of comparison, the following charts have been created to show differences and similarities between Chick-fil-A, McDonald's, and Wendy's financial performance.

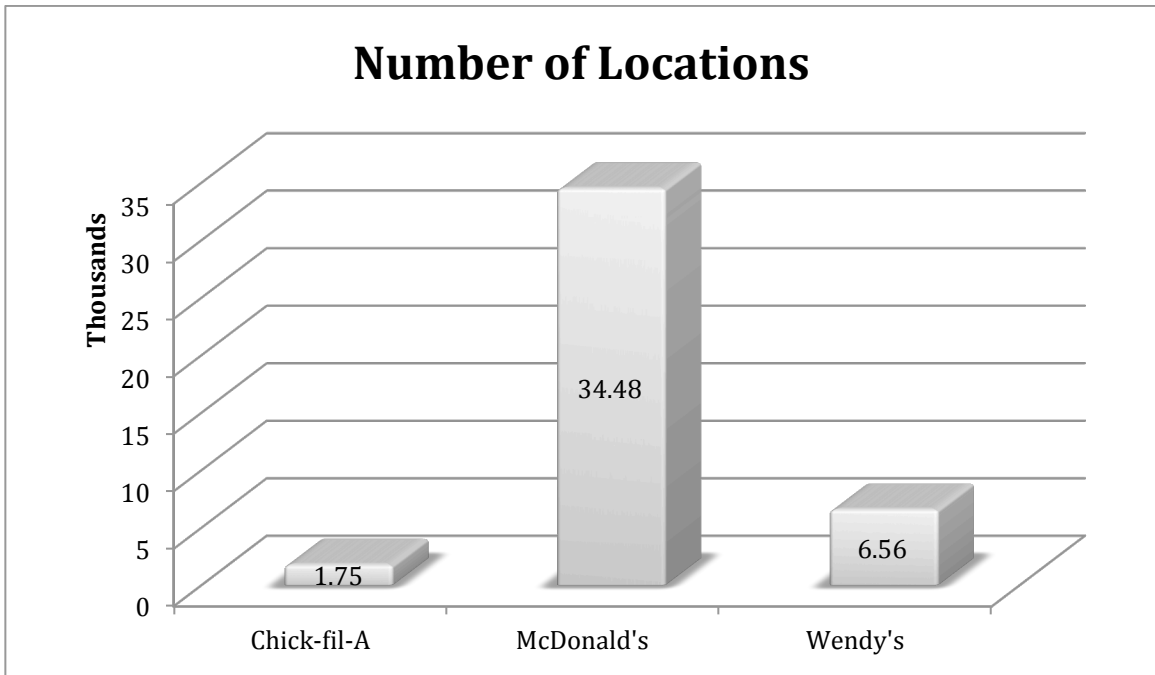


This chart illustrates the comparison in total sales of our three competitors. McDonald's clearly stands above the rest with 19 times the sales volume as Chick-fil-A and nearly 21 times the sales volume of Wendy's. However, there is more to the picture than just total sales. The next chart shows sales volume per unit.



*Wendy's reports per unit of company-owned locations only

Interestingly, McDonald's total sales are far beyond Chick-fil-A and Wendy's, but not because of single-store performance. Per unit, Chick-fil-A leads with roughly \$2.7 million in annual sales. The next chart illustrates the relative size of the corporations in terms of the number of stores.



Chick-fil-A has by far the fewest locations of any of these three competitors with slightly more than 1,700 restaurants. McDonald's has a staggering 34,480 locations, while Wendy's falls between them with over 6,500 restaurants. One point to notice from these three charts, Wendy's has nearly four times the number of locations as Chick-fil-A, yet still falls more than \$300 million short of Chick-fil-A's total sales. Without doubt, all companies have their areas of strength and are performing well independently. But when comparing to one another, stark differences are evident. Chick-fil-A has better per unit performance, while McDonald's dominates in total sales and market penetration. Wendy's is a strong competitor, but is far behind the other competitors. In terms of

market penetration, the next section we will look at the target markets and market strategies these companies are using to maximize their profitability.

V. Target Market and Strategies

While every business wants to appeal to a broad range of customers, most businesses focus their advertising on a relatively specific market segment. In this section, we will look at which market segment each of our three companies actively attempt to attract with their marketing efforts. In order to attract their target market, these companies must have a marketing strategy, which we will also attempt to identify.

A. Chick-fil-A's Target Market & Strategy

One of the most obvious ways to figure out whom a company is targeting nowadays is by looking at their commercials and their sponsorships. Chick-fil-A is built on what they refer to as “family values,” and that is whom they choose to target heavily. Many of their locations offer an indoor playground for children and often Chick-fil-A's will have a cow mascot there on special days to walk around and high-five and take pictures with kids. These tactics are similar to McDonald's playgrounds and mascots, but Chick-fil-A ads other family-oriented tactics. One unique aspect to Chick-fil-A locations is their involvement in community events. Many Chick-fil-A's holds special events multiple times a year that brings the whole family together. For instance, the Chick-fil-A in Oxford, MS put on a “Princess Ball” event at which dads and daughters could have a date night filled with carriage rides, a dance, fun activities, and, of course, free food. In Olive Branch, MS, the local Chick-fil-A held a “Pirates and Princess” day where kids could come dressed as a pirate or a princess and enjoy crafts, a live talking parrot, and a treasure hunt that ended with kids finding “gold” nuggets – chicken nuggets, of course.

Many Chick-fil-A's hold weekly "Kid's Nights" where children come in and make crafts and receive kid's meals all at no cost to the parents. Chick-fil-A knows well a common marketing strategy – attract children and the parents will come and spend money, too.

Chick-fil-A also sponsors many types of community events and sporting events. Locally, the Piedmont Region, which includes the Chick-fil-A's in and around Memphis, sponsors an annual 5K race held at Autozone Park in Memphis. On a national level, Chick-fil-A sponsors two significant college football games – the Chick-fil-A Kickoff Game and the Chick-fil-A Bowl (formerly the Chick-fil-A Peach Bowl.) These sponsorships attempt to reach those individuals who are active and health-conscious and who might not normally be interested in a fast-food restaurant. The sponsorships of the college football games are two-fold in motivation. First, it allows Chick-fil-A to put their name in front of a venue that attracts a huge national audience who may be simply sports fans or active athletes themselves. Secondly, the income from these games helps fund Chick-fil-A's Winshape program, which we will discuss later. The Chick-fil-A Bowl has now become college football's most charitable bowl game (Peach Bowl, Inc., 2013). While Chick-fil-A's main target market is families – particularly children, their secondary target market is an active, health-conscious, and sports fan combination market. Chick-fil-A targets both of these markets by leveraging their cow mascot to appeal to all ages of consumers.

Chick-fil-A's strategy is unique from most other quick-service restaurants. Instead of trying to attract customers by cheap pricing, low quality, and even cheaper value menus, they use a higher pricing strategy and offer no value menu. In contrast to most fast food restaurants, they use a differentiator approach in their pricing and

marketing strategy. Focused more on the quality and freshness of the food and to keep Operators' profit margins high, Chick-fil-A prices their items at a much higher cost than other similar competitors because of the elimination of the low-cost value items. There are multiple terms associated with the basic approach that Chick-fil-A uses when it determines its pricing structure that also indicate which type of customer they intend to attract. One such strategy is called prestige pricing – setting a high price to convey an image of high quality or uniqueness (Longenecker, Petty, Palich, & Hoy, 2011). Companies use this strategy because customers tend to associate price with quality. Another such strategy is called price skimming – charging the highest possible price that buyers who most desire the product will pay (Pride & Ferrell, 2011). The danger in these pricing strategies is that it could unintentionally alienate customers who are either unable or unwilling to pay the high price, particularly if they cannot see a difference in quality. Maintaining that noticeable superior quality is critical for any company using these pricing methods. Chick-fil-A has found success with these strategies by using name brand ingredients in their recipes, making their food from scratch and fresh every day, and providing a superior level of service.

B. McDonald's Target Market & Strategy

McDonald's target market consists of multiple demographics. First, similarly to Chick-fil-A, McDonald's aims their products and marketing at children. They are famous for their Happy Meals with a fun toy included and playgrounds. As many industries have proven, if you can attract the children, the parents will come and buy the product for their kids and likely for themselves as well. McDonald's has always strived to do this by placing indoor and outdoor playgrounds at the front of their restaurants,

constantly updating their Happy Meal toys, and leveraging their mascot, Ronald McDonald. This strategy has seemed to work well for McDonald's in the past. Personally, I remember as a child always having to have all the toys in each series of Happy Meals they would release and we would go to McDonald's just to get all the toys. Without that incentive, it is unlikely we would have eaten there much at all. This is exactly what McDonald's planned. Many McDonald's also have a life-size Ronald McDonald statue sitting on a bench for kids to take pictures with. They leveraged this mascot to appeal to children and create a friendly atmosphere at Ronald McDonald House, which will be discussed in a later section. But children are only one of McDonald's target markets.

With consumer's health-conscious purchasing habits on the rise, McDonald's has now begun targeting those needing a quick meal but who are still concerned with their health. They have

done this by adding salads, wraps, and smoothies to their menu and creating commercials with an emphasis on



(McDonald's, 2013)

their healthier options. For instance, this ad shows their offering of not just entrée salads but also side salads to pair with other entrées. In this contemporary environment, this

type of marketing is critical even for a fast-food giant that has never been known for their healthful options.

Concerning McDonald's pricing strategy, it is relatively easy to define. They seek to be a low-cost leader in the quick-service restaurant industry. Not only do they have inexpensive meals with value pricing, they also have the Dollar Menu that has smaller portioned item for only a dollar. This cost-leadership strategy is defined as a "business model that pursues strategies that work to lower its cost structure so it can make and sell products at a lower cost than its competitors" (Hill & Jones, 2012). In order to successfully execute this strategy, the lower cost must not only be directed at the final consumer, but also internally. McDonald's does this by massive economies of scale in purchasing ingredients, running an extremely low labor percentage in their stores, and maintaining high efficiency in all preparation and serving. One of the simplest ways to run low labor is by keeping wages low. McDonald's pays their restaurant employees an average of \$7.74/hr, which is only \$0.49 above minimum wage (Glassdoor, 2013). This compared to Chick-fil-A's average pay of \$8.05, a slightly higher \$0.80 above minimum wage (Glassdoor, 2013). However, according to Glassdoor, both stores' hourly wages vary greatly with each distinct position and title an employee holds. Albeit a small difference, this can greatly affect overall labor costs for a restaurant of the course of months or years. Also, many if not most McDonald's are set up with only two registers to minimize the need for extra cashiers. Even the drive-thru employees have a machine that automatically fills a cup with ice, fills with the selected beverage, and places right next to the employee so all they have to do is place a lid on top. These design

characteristics that McDonald's implements are all designed so they can maintain a cost-leadership strategy in the market.

Concerning McDonald's advertising strategy, as with Chick-fil-A they sponsor sporting events with the intention of capitalizing on huge audiences. One event that

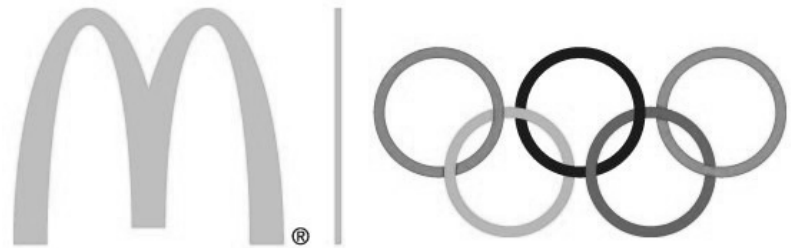
McDonald's sponsors is the

Olympics. There are two

main reasons why

McDonald's has chosen to

sponsor this sporting event.



official restaurant

First, this is the most viewed sporting event in the world,

(McDonald's, 2012)

stretches over the course of two weeks and receives hundreds of hours of airtime.

Second, sponsoring an event such as the Olympics places in the mind of consumers that a fast food giant like McDonald's, who all-in-all is not known for their healthful options,

goes together with the best athletes from around the world. In fact, actor Robert Downey,

Jr. said in a tweet, "McDonald's being the official restaurant of the Olympics is like

smoking being the official medicine of cancer" (Downey, 2012). Although it is hard not

to laugh at this tweet, what he said is likely the reason why they have chosen to sponsor

such an event. Downey's quote puts into words what is the common mindset of

consumers across the country – that McDonald's and healthy, active lifestyles do not go

together. This is not just a challenge for McDonald's, but for every other competitor in

the fast food industry. For this reason, many fast food companies are striving to promote

and associate with healthier lifestyles by leveraging healthy menu options and focusing

advertising strategies on sporting events.

C. Wendy's Target Market & Strategy

Similarly to Chick-fil-A and McDonald's, Wendy's focuses some of their marketing efforts towards children. They offer kid's meals with a prize inside; however, the vast majority of Wendy's do not offer any type of indoor play area for kids, nor do



(The Wendy's Company, 2012)

a more mature atmosphere. Their priority of quality has been on their

signage since the beginning. Above Wendy's head it reads, "Quality is Our Recipe."

This is pulled directly from Dave's Five Values in Wendy's core business philosophy.

The statement at the bottom of their logo, "Old Fashioned Hamburgers," also

distinguishes where Wendy's tries to market itself. Wendy's markets itself as a place for fast food made the old fashioned way with higher quality than others. Only a couple of

years ago did Wendy's finally change their logo to update it in hopes of appealing to the

modern fast food consumers. However, they still focus on their niche market. This is

evidenced by some of their menu options that are quite different than both McDonald's

and Chick-fil-A – namely, their chili and baked potatoes. These items make available to

consumers a style of food that is less "fast food" and more "home cooking," which is

what Wendy's intended.

In order to compete in the market of fast food with similar menu options to McDonald's, they have attempted to use a pricing strategy that offers quality food at a low cost, yet still offers a variety and an environment that competitors do not. It is more a combination of a



differentiator strategy and a cost leadership. While striving to keep prices competitive with McDonald's, they have used the atmosphere, restaurant design, and certain menu options to differentiate themselves. Recently, they have continued to push towards quality foods with their "natural-cut fries with sea salt" and their pretzel buns – which are naturally cholesterol-free. However, with competitors now filling in the gaps of high quality burgers such as Red Robin and Five Guys, Wendy's must continue to strive to keep prices low if they are to survive in this market. They do use a similar design to McDonald's in that they typically have only two registers and implement various other methods to help keep labor costs down. As we know in business, labor costs are the highest cost for many companies. In an industry that demands low pricing, keeping labor in check is critical for all three of these companies no matter what strategy they use.

Just like Chick-fil-A and McDonald's, Wendy's uses their sponsorships to get their name in front of large audiences – specifically through sporting events. Every week Wendy's sponsors a segment of NBC's Sunday Night Football called "Wendy's Postgame Report." Also, they sponsor what is called "Wendy's 3-Tour Challenge" for professional golfers. The event benefits the Dave Thomas Foundation for Adoption and is played by teams of three consisting of a player from the PGA Tour, LPGA Tour, and the Champions Tour. This is a unique way Wendy's can put their name on an event in a

popular sport and also benefit a charity that they run as well. Interestingly, however, Wendy's has not invested in sporting events to the level of Chick-fil-A or McDonald's, who both have been lead sponsors of notable venues. It is clear that all three of these restaurants recognize the benefits and necessity of placing their brand name alongside a popular sporting event and adding healthier menu options to appeal to a changing marketplace.

Now that we have looked at these three restaurants' strategies, the question is have they worked? To begin answering that question, we will look at company growth over the years and looking ahead.

VI. Company Growth

We have already seen that all three of these companies have performed well so far financially. So without just restating what was discussed in the earlier section on financial performance, we will look briefly into how these companies have grown over the years and attempt to evaluate their future potential for growth.

A. Chick-fil-A's Growth

Since its birth in 1967, Chick-fil-A has recorded 45 years of consecutive growth. They are not only growing in sales, but they are also rapidly increasing the number of franchises they open annually. Now there are more than 1700 Chick-fil-A locations around the United States. According to one source in the company, they are planning on doubling in size over the next 10 years. Even at this growth rate, it is still slower than market analysts have told Truett Cathy he can expand. In Truett's book, "Eat Mor Chikin Inspire More People," he states concerning growth:

“In all my years in the restaurant business, I have tried never to overextend. I’m satisfied stepping from one plateau to the next, making sure we’re doing every thing right before moving on. Financial experts tell me our strength would allow us to open restaurants at a much more aggressive pace than our current seventy per year. But I’d rather have seventy restaurants operating efficiently and professionally than 500 restaurants where half are run well and the other half not . . . The most common reason companies fail, I believe, is their desire to grow faster than they can manage. This can be particularly true with companies that make a public offering and find themselves staring at a pile of money. All they want to do is grow. But you have to digest growth as you go.”

(Cathy, 2002)

Even at the pace required to double in the next ten years, this would only mean opening 160-170 new locations every year – still a far cry from the 500 annually financial experts have told Mr. Cathy they could sustain. This wisdom has served Chick-fil-A well over the years. First, Chick-fil-A is known for its top-notch customer service in its restaurants. Second, they have now surpassed over \$4.5 billion in annual revenue in 2012 with less than 1700 locations open then. All this has been accomplished while Chick-fil-A has continued to operate debt-free – an unheard of feat for a large company. The philosophy of Mr. Cathy concerning company growth has worked for Chick-fil-A likely beyond what Mr. Cathy himself envisioned. We now turn to the growth strategies for the competitors.

B. McDonald’s Growth

McDonald’s has experienced a growth rate unlike many other companies. It has had a growth rate that since 1940 has propelled it to over 34,000 locations worldwide.

That is an average of 472 new restaurants every year for 73 years. Recently, they have recorded relatively consistent growth of about 5% a year (McDonald's Corporation, 2013). This past year they recorded a 3.1% sales growth and a 1.6% increase in guest count (McDonald's Corporation, 2013). Since 1970, McDonald's has grown over 29-fold, as illustrated in the chart below.



(Yahoo Finance, 2013)

It is now at its highest price range in history. Interestingly, in 2008-2009 when most stocks dipped, McDonald's spiked by over 20% (Yahoo Finance, 2013). This was actually a common occurrence with companies like McDonald's who offer products at budget-friendly prices. Because of the recent recession, people had to find ways to cut their spending. One way they did this was by eating at fast food restaurants instead of more expensive restaurants. Now that the economy is recovering, McDonald's is still growing steadily. The growth strategy chosen by Truett Cathy works well for Chick-fil-A, but McDonald's has followed a different path and found even greater financial success in terms of growth and total revenues than Chick-fil-A.

C. Wendy's Growth

Although Wendy's has certainly grown since its inception, its pace has been much more erratic. Since its inception in 1969, Wendy's has grown to over 6,000 locations (The Wendy's Company, 2013). This is an average of 136 stores every year for the last 44 years. Although much less than McDonald's growth rate, Wendy's still posts a respectable growth rate. Looking at their stock prices in the chart below, they opened in March 1992 at \$8.75 and closed November 15, 2012 at \$8.95. This is a growth of only 2.29%.



(Yahoo Finance, 2013)

As this graph illustrates, Wendy's grew extremely rapidly and probably made some people rich quick if they had the foresight to sell at its highest price of \$31.75 in September 1993. It has never since reached this height again. In fact, between October 2008 and November 2012 it hovered below \$5.00 per share. Although slight variances in stock prices and daily fluctuations in the market are hard to accurately relate back to company performance, the market performance Wendy's has experienced clearly shows

how weak and poorly run they are when compared to the likes of McDonald's. The strategy Wendy's attempted was similar to McDonald's; however, it did not translate into long-term growth or performance. Perhaps Wendy's would have been better off pursuing a growth strategy similar to what Mr. Cathy used with Chick-fil-A – preferring quality of the restaurant over quantity of locations.

As a reminder, Chick-fil-A is a privately owned company and is not required to publish detailed information that both McDonald's and Wendy's are required to do. Also, because Chick-fil-A is privately held, there is no stock price or stock market history with which to compare.

VII. Customer Loyalty

When it comes to growing a successful business, one of the most critical needs is to attract repeat customers. In this section we will attempt to reveal how these three restaurants pursue repeat customers and how much loyalty their customers actually have.

A. Chick-fil-A's Customer Loyalty

Chick-fil-A's customers may well be the most loyal of any customers in the quick-service restaurant industry. This was evidenced best on "Chick-fil-A Appreciation Day." The day was created by raving fans who planned to come together to support Chick-fil-A after a controversial interview was published of Chick-fil-A's COO, Dan Cathy, in the summer of 2012. After long lines of customers were served, Chick-fil-A announced it had set a single-day



sales record for the entire chain. This contributed significantly to Chick-fil-A's \$4.6 billion in sales in 2012, a 13.5% increase from 2011. Here is a view of what their customers did for them for this unsponsored event. It is hard to believe the sheer number of customers who showed up in support of a company they love. This demonstration does not merely indicate the customers' enjoyment of Chick-fil-A's food, but shows the customers' identification with a set of values that Chick-fil-A possesses.

Mr. Cathy has always placed his customers at the pinnacle of his restaurant. In his book "Eat Mor Chikin: Inspire More People," Mr. Cathy has this to say about his customers:

"Ever since I was a teenager delivering newspapers, I have tried not to lose a single customer. I treated each one like the most important person in the world, and delivered each paper as if I were delivering it to the front door of the Governor's Mansion. That's an image that still works to improve customer service. If you were working in a restaurant and suddenly the President of the United States showed up, your voice and facial expressions would change. You'd be eager to serve the President well, make sure he had a clean table, then go up and see if everything was all right, or if he needed anything. If we're willing to do that for the President, why not treat every customer that well?" (Cathy, 2002)

It is this mindset that has propelled Chick-fil-A to their high level of customer service in the fast food industry. Chick-fil-A Appreciation Day showed just how much his customers appreciate his company and his priorities. Truett Cathy also said, "Courtesy is cheap to provide, and it pays great dividends." After looking at his values and the consumers' responses, it appears he is right.

B. McDonald's Customer Loyalty

While there is plenty to discuss concerning Chick-fil-A's customers and their behavior towards that company, McDonald's has not encountered a situation that would allow for such a public display of customer loyalty. Because there has not been a specific event that demonstrates the loyalty of McDonald's customers, we will look at their customer satisfaction ratings to infer how likely their customers are to be loyal. According to the ACSI, American Customer Satisfaction Index, McDonald's has a benchmark rating of 73 in the Limited Service Restaurants segment of the Accommodation and Restaurant industry (American Customer Satisfaction Index, 2013). This is the worst rating in the entire industry. Every restaurant included in this industry that is rated by the ACSI (Chick-fil-A is not included in the list) scored at least one point or better. The average benchmark rating for this industry is 80 (American Customer Satisfaction Index, 2013). Without any recognizable event or day-to-day tracking of repeat customers for McDonald's, we must assume their low satisfaction index indicates lackluster customer loyalty. Their customers are much more likely to frequent McDonald's restaurants because of preferences of children, low cost, or convenience – not because they are loyal to the company itself. Price and convenience are driving factors in McDonald's customer's repeat business.

C. Wendy's Customer Loyalty

Looking at other aspects of Wendy's in performance, growth, etc., it is not surprising to them below average in customer loyalty. Using the same metrics from ACSI, Wendy's actually performs better than McDonald's. Wendy's benchmark customer satisfaction score is 79, which is still below the industry average of 80

(American Customer Satisfaction Index, 2013). The leaders in the ASCI are Subway and Papa John's with scores of 83 and 82, respectively (American Customer Satisfaction Index, 2013). One of the main reasons fast food restaurants gain repeat customers is because of the value and convenience they offer. McDonald's has secured its place as arguably the most value for a meal, when considering only price for quantity. Chick-fil-A offers a higher quality food with a unique atmosphere in the same convenient venue as McDonald's that keeps its customers willing to pay more. However, Wendy's does not have a well-defined niche that keeps its customers loyal. Consumers still frequent Wendy's due to the value and convenience they do offer, but not because they offer a "better value," in terms of price for quantity. The way Wendy's does attract repeat customers, however, is by creating menu items that other burger joints do not carry, such as the new pretzel bun and natural sea salt fries. Wendy's knows they must leverage these items to distinguish themselves and bring in repeat customers. One item in particular that does this probably better than any other item they serve is the Wendy's Frosty. The Frosty debuted in 1969 when the first Wendy's opened and has stuck around ever since (Wendy's, 2006). There have been many spinoffs using the Frosty since its creation; however, most of them were not successful enough to be kept. In 2006, Wendy's debuted a vanilla flavored Frosty in response to customer requests (Wendy's, 2006). The Frosty alone accounts for much of Wendy's customer loyalty because of its unique texture that is a hybrid of soft-serve ice cream and a milkshake. In fact, one celebrity, John Goodman, claimed an accident he had in 2010 at 1:00 A.M. was due to him frantically trying to find a Wendy's Frosty (McCart, 2012). Overall, Wendy's has

better customer satisfaction ratings and strives to differentiate their menu items, which help to drive their customer loyalty higher than that of McDonald's.

VIII. Controversies, Bad Press, and Their Affect on the Business

No matter what industry is being considered, there will always be controversies and bad publicity at times for companies. In this section we will look at some of the better-known incidences that have affected these three companies, how they handled them, and how the outcome positively or negatively affected the company.

A. Chick-fil-A's Controversies and Bad Press

Of our three companies, Chick-fil-A has the most recent and probably the best-known controversy to date. In an interview on the Baptist Press in July 2012, Dan Cathy, COO of Chick-fil-A, spoke openly about his company's foundations on biblical principles. In this interview he stated many things that show how differently Chick-fil-A is run compared to other corporate giants in America. Mr. Cathy states, "...As an organization we can operate on biblical principles. So that is what we claim to be. [We are] based on biblical principles, asking God and pleading with God to give us wisdom on decisions we make about people and the programs and partnerships we have. And He has blessed us" (Cary, 2012). This mindset alone distinguishes Chick-fil-A from other companies who operate on a secular business model. However, this belief is not what put Chick-fil-A in hot water with the media. During the interview, Mr. Cathy discussed some of Chick-fil-A's priorities with families and their WinShape foundation that has a marriage program that guides couples in fostering a healthy, Christian marriage. When asked about the company's position on marriage and family, Mr. Cathy responded, "Guilty as charged... We are very much supportive of the family – the biblical definition

of the family unit. We are a family-owned business, a family-led business, and we are married to our first wives. We give God thanks for that” (Cary, 2012). He went on to say in an interview on the “Ken Coleman Show”:

“I think we are inviting God's judgment on our nation when we shake our fist at Him and say, ‘We know better than you as to what constitutes a marriage’ ... I pray God's mercy on our generation that has such a prideful, arrogant attitude to think that we have the audacity to define what marriage is about.” (Collier, 2012)

This comment erupted into one of the most controversial topics of recent history.

Proponents of the homosexual lifestyle and same-sex marriage took this comment to be an anti-gay hate speech and went to the media to fuel the fire. Some extremists resorted

to vandalizing one

Chick-fil-A location

as pictured here.

They also organized

a “kiss-in” event

where gay and



(Huffington Post, 2012)

lesbian couples were to go to Chick-fil-A on August 3, 2012 and take pictures of

themselves kissing in the store. Former presidential candidate Mike Huckabee used his

Facebook platform to organize a “Chick-fil-A Appreciation Day” on August 1, 2012 to

encourage all those in support of free-speech to visit a Chick-fil-A and show their support

for the company. According to ABC News, 12,000 people signed up on Facebook to

attend the “kiss-in,” while a whopping 650,000 people signed up to attend the

appreciation day (Bingham, 2012). The Chick-fil-A Appreciation Day was reported to have set a single-day chain record in sales for Chick-fil-A.

On the day of the “kiss-in,” many Chick-fil-A restaurants went out of their way to demonstrate their non-discriminatory views. In fact, the Chick-fil-A location in Rancho Cucamonga, California, passed out free meal coupons to those attending the “kiss-in.” Operator Corey Braun said, “We serve everyone. We're happy to serve the community and this was an opportunity to have this group come in and show them our hospitality regardless of their beliefs, sexual orientation, or whatever” (Fox News, 2013). Braun’s actions garnered this response from Eden Anderson, a board member of the local LGBT community: “It feels like acceptance and we just want to be accepted and engaged in society, so when it's confirmed, I think the overall reaction was, yes, certainly that Chick-fil-A in Rancho Cucamonga is welcoming to us” (Fox News, 2013).

On October 3, 2012, Chick-fil-A released this statement:

“The Chick-fil-A culture and 66-year service tradition in our locally owned and operated restaurants is to treat every person with honor, dignity and respect – regardless of their beliefs, race, creed, sexual orientation or gender. We are a restaurant company focused on food, service and hospitality; our intent is not to engage in political or social debates.” (CFA Properties, Inc., 2012)

As this press release shows, Chick-fil-A quickly tried to pull out of the conversation concerning its view of marriage. Although at the time it appeared this could be a crushing blow to the company, they still posted a 13.5% sales increase in 2012 (Stafford, 2013). Likely what helped them was not necessarily the consumer’s agreement or disagreement with Chick-fil-A’s political and social views, but the nation’s response to

Dan Cathy's right to free speech. Citizens knew that no matter their point of view on the marriage issue, punishing a company for their right to an opinion and to express that opinion as free speech would set a dangerous precedent for companies in the future. So far, the controversy has not appeared to hurt Chick-fil-A. They were able to recover well from the bad publicity. This in great part to Mike Huckabee's organization of the Chick-fil-A Appreciation Day that not only set a sales record, but also demonstrated America's support for free speech.

B. McDonald's Controversies and Bad Press

Probably the best-known issue McDonald's has had is not particularly a controversy as much as it was a legal battle. In 1992, the case *Liebeck v. McDonald's Restaurants* concerned an instance where 79-year-old Stella Liebeck spilled scalding hot coffee on herself and subsequently sued McDonald's for her injuries. Although this initially sounds like the definition of a frivolous lawsuit, there is more to the case than most people know. It was McDonald's policy to serve their coffee between 180-190 degrees Fahrenheit, a temperature that could cause third-degree burns in three to seven seconds (Consumer Attorneys of California, 2013). Mrs. Liebeck was not the first to suffer injuries from McDonald's coffee. Over 700 other cases were reported of similar injuries to customers who spilt the coffee on themselves. Even with the numerous reports of injuries, McDonald's refused to change their policy on the temperature their coffee should be served. In 1994, Mrs. Liebeck was awarded a \$2.9 million settlement for punitive damages (Consumer Attorneys of California, 2013). This case is the reason why all coffee cups and lids now have "Caution: Contents May Be Hot" scripted on them.

In addition to this famous lawsuit, McDonald's has also been subject to controversy concerning the quality of the beef they use to make their hamburgers. "Pink slime," as it is called, is made from a process that takes spare beef trimmings and washes them in either ammonium hydroxide or citric acid to make them safe to eat. This process was brought to light by Jamie Oliver, a televised chef, who demonstrated the process on his show "Jamie Oliver's Food Revolution" on April 12, 2011 (Satran, 2012). According to the Huffington Post, McDonald's announced in January 2012 that they would no longer use the ammonium-treated beef in their hamburger meat (Satran, 2012). Many other fast food chains announced the same thing including Taco Bell and Burger King. These beef trimmings, known as lean finely-textured beef or LFTB, are banned from human consumption in the UK and are only approved for use in dog and chicken foods (Rosenbaum, 2012). All this came at a time when McDonald's was actively trying to produce menu items that would appeal to health-conscious consumers. McDonald's did release this statement concerning the ammonium-treated meat:

"At the beginning of 2011, we made a decision to discontinue the use of ammonia-treated beef in our hamburgers. This product has been out of our supply chain since August of last year. This decision was a result of our efforts to align our global standards for how we source beef around the world."

(Rosenbaum, 2012)

According to this statement, McDonald's was already working on eliminating this ingredient from their supply chain before the real controversy ever began. To determine if either of these negative events had any significant effect on McDonald's bottom-line, we need only to look at fiscal performance and growth. Using information provided in

previous sections, it would appear that McDonald's has not suffered greatly from either of these negative publicities.

C. Wendy's Controversies and Bad Press

In Wendy's most notorious bout with bad press, the issue itself did not come from within Wendy's as a comment, policy, or any other internally controllable aspect. The incident occurred when Anna Ayala claimed to have found a piece of human finger in her Wendy's chili in March 2005. The finger turned out to be placed there by Ayala who got the severed finger from her husband's coworker, Brian Rossiter (ABC News, 2006). Ayala and her husband purchased the finger for \$100 from Rossiter and planned to make their fortune by suing Wendy's when they would "find" the finger in her chili. Her falsified claim was soon uncovered and she was sentenced to prison for up to nine years for conspiracy and grand theft (ABC News, 2006). According to ABC News, "Wendy's said that it had lost \$2.5 million in sales because of the bad publicity generated by the finger scandal and that dozens of employees at its Northern California restaurants had to be laid off" (ABC News, 2006). This event came during a time when the company was reeling from recent poor stock performance and stagnant growth. Although this one incident cannot be blamed for all of Wendy's performance problems, it could be the most destructive of all the controversies and bad press we have seen from Chick-fil-A and McDonald's. Since 2005, Wendy's has failed to grow consistently and had to change CEOs in 2011.

In conclusion, Chick-fil-A seems to have weathered the storm of political and social controversy and in some areas it could be said they have benefited from it. McDonald's has survived lawsuits and ethical concerns without any noticeable effect;

however, their massive size helps significantly in absorbing any financial woes accumulated by bad press. Wendy's, on the other hand, has never fully recovered since this chili conundrum made headlines. Even though Wendy's was cleared of any wrongdoing and the perpetrator was sent to prison, they have failed to perform well financially ever since.

IX. Philanthropic Efforts

Generous giving and other philanthropic efforts provide a company with some great public relations along with frequently helping their bottom line. All three of these companies run their own organizations to catch philanthropic funds with the intention of bettering their community. In this section we will look specifically at which foundations these companies have started and how they use them to benefit others.

A. Chick-fil-A's Philanthropic Efforts

Giving back has always been at the heart of Chick-fil-A. Just six years after the first mall location opened, Chick-fil-A has been awarding scholarships to qualified team members. Since 1973, over \$25 million in scholarships have been awarded (Winshape Foundation, 2013). Truett Cathy has always had the desire to "shape winners," so, in 1982, he started The Winshape Foundation. According to The Winshape Foundation's website, the vision for Winshape is:

"To strengthen families and bring people closer to God and each other. Each ministry within the WinShape Foundation is committed to equipping Christ-centered servant leaders who live life on purpose; with purpose; from children to college students, families, couples, business leaders and others in need around the world." (Winshape Foundation, 2013)

The Winshape Foundation has expanded its available opportunities for those in all stages in life. Programs include college assistance, camps for children, foster homes, wilderness team building, business retreats, marriage strengthening retreats, and international mission trips. One of their greatest efforts is directed towards children who are victims of adverse circumstance. Winshape Homes provide a safe place for children to develop physically, emotionally and spiritually (Winshape Foundation, 2013). Since 1987, Winshape Homes have helped hundreds of children grow up into healthy, responsible adults. Currently, there are 11 foster homes with 22 full-time house parents taking care of 95 foster children (Winshape Foundation, 2013). Chick-fil-A's generosity is not only limited to The Winshape Foundation. "Over the past three years, Chick-fil-A, Inc. and its franchised Restaurant Operators have given more than \$68 million in contributions to over 700 educational and charitable organizations and have provided millions of dollars in food donations all across America" (Chick-fil-A, Inc., 2013). Truett Cathy states in his book "Eat Mor Chikin: Inspire More People" that "I experience tremendous joy in giving, but I also try to be sensible about it" (Cathy, 2002). His intentional generosity has given hundreds of foster children a renewed chance at life. He has assisted in strengthening families and marriages around the country. Winshape International has allowed Truett Cathy's generosity and convictions to literally change the world. Additionally, the thousands of scholarships Chick-fil-A gives to its team members have helped many students make it through college. I myself received a scholarship as a junior in college. In no small part, Truett Cathy is helping to develop America's next generation.

B. McDonald's Philanthropic Efforts

In 1974, the first Ronald McDonald House opened its doors with the mission to “create, find and support programs that directly improve the health and wellbeing of children.” In 1984, Ronald McDonald House Charities (RMHC) was officially established in memory of Ray Kroc. For children across the country who suffer from serious illnesses, Ronald McDonald Houses provide a safe place for families to stay while their child is in treatment. These facilities are provided at little or no cost – a \$25/day donation is requested at some of the Houses. “The RMHC Global Policy is that families are never turned away; if it’s not possible to pay, the fee is waived” (Ronald McDonald House Charities, 2013). Ronald McDonald House Charities also has other programs to help the community around them. For instance, the Ronald McDonald Family Room provides a place for families to escape the unwelcoming surroundings of a hospital room while still being only steps away intensive care units (Ronald McDonald's House Charities, 2013). Also, the Ronald McDonald Care Mobile provides “access to health care where children need it most” (Ronald McDonald House Charities, 2013). They operate 49 mobile clinics all across the globe (Ronald McDonald House Charities, 2013). Not only does RMHC try to directly assist those in need, they also donate generous grants to other non-profit organizations around the world committed to helping others (Ronald McDonald House Charities, 2013). Finally, just as Chick-fil-A does, RMHC offers scholarships for students across the country to help them achieve their dreams of a college education. They have awarded over \$52 million in scholarships since 1985 (Ronald McDonald House Charities, 2013).

McDonald's is RMHC's largest corporate donor and they assist them in more than just monetary donations. Every year RMHC Donation Boxes are placed in McDonald's restaurants through which over \$200 million has been collected from generous customers (Ronald McDonald House Charities, 2013). Below is an abbreviated list published by RMHC of their large corporate sponsors who assist them monetarily and otherwise on an annual basis.

- McDonald's
- ACN
- The Coca-Cola Company
- Thirty-One
- The Dwyer Group
- La-Z-Boy
- Dillard's
- Southwest Airlines
- USA Today

(Ronald McDonald House Charities, 2013)

All of these companies donate \$250,000 or more annually to the Ronald McDonald House Charities. McDonald's is the largest with over \$1 million donated annually (Ronald McDonald House Charities, 2013). It is clear that McDonald's aligns with Chick-fil-A in their care and commitment to children across the world.

C. Wendy's Philanthropic Efforts

In 1992, Dave Thomas, founder of Wendy's, established The Dave Thomas Foundation for Adoption. Mr. Thomas had always had a passion for adoption. In 1990,

President George H. W. Bush invited him to be the spokesperson for a national adoption campaign (Dave Thomas Foundation for Adoption, 2013). In 1997, Dave Thomas testified before Congress in support of an adoption tax that would make adoption more affordable (Dave Thomas Foundation for Adoption, 2013). The reason why Dave Thomas was so outspoken about adoption was because he, too, was adopted as a child (The Wendy's Company, 2013). The vision for The Dave Thomas Foundation for Adoption is that “every child will have a permanent home and a loving family” (Dave Thomas Foundation for Adoption, 2013). As opposed to offering physical locations for children to reside in, the Foundation serves to raise money and award grants to “public and private adoption agencies to hire adoption professionals who implement proactive, child-focused recruitment programs targeted exclusively on moving America’s longest-waiting children from foster care into adoptive families” (Dave Thomas Foundation for Adoption, 2013).

Wendy’s also sponsors “A Home for the Holidays,” a CBS-special highlighting the impact adoption has on children across the country. Other than a few other small initiatives, Wendy’s does not really participate much in philanthropic activities. This could be in part to their constant struggle since their inception to truly have powerful sales and growth as revealed in earlier sections.

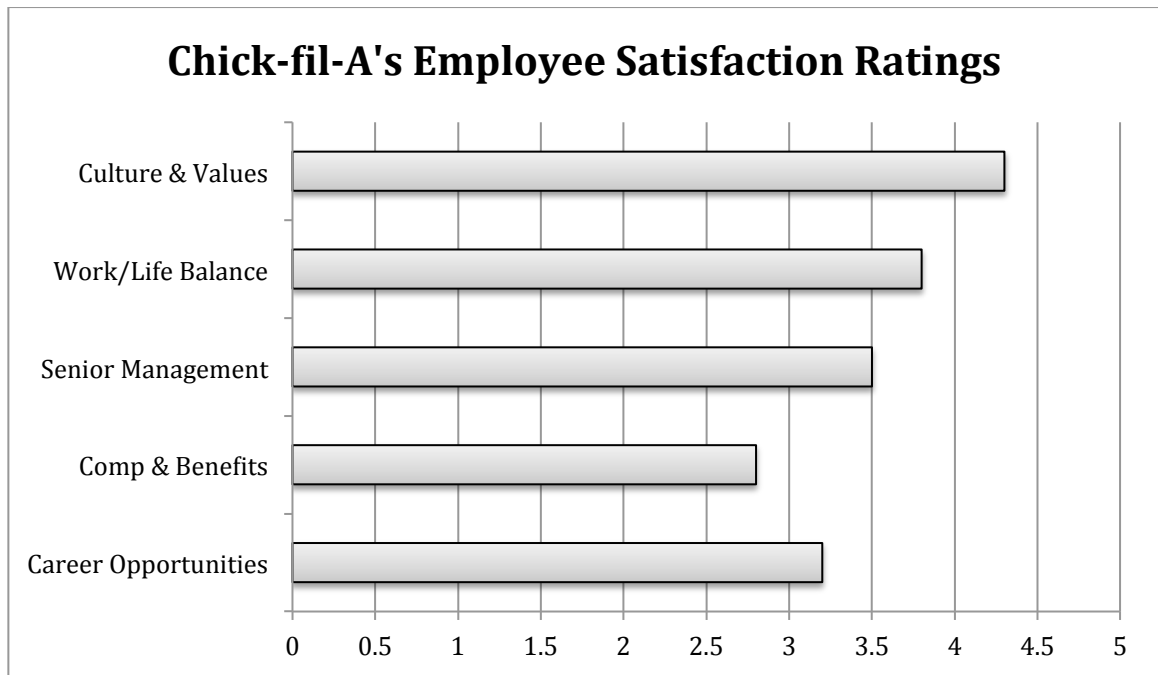
X. Employee Satisfaction

Most of what we have looked at up to this point concerns the company’s corporate vision, market strength, financial performance, or other non-tangible aspects of the business. Now we will look at one of the most important tangible aspects of the business – the employees. We will look at employee satisfaction ratings, average wages,

and compare the two to see if there is a correlation or if the variances in satisfaction have more to do with company culture.

A. Chick-fil-A's Employee Satisfaction

The online resource Glassdoor provides an informative source of information regarding employee satisfaction and average wages. We will primarily use this resource in our comparisons. First, Chick-fil-A's employees rate the company a 3.7 out of 5 stars, based on 392 reviews. In fact, 75% of Chick-fil-A employees would recommend this company to a friend as a place of employment (Glassdoor, 2013). Glassdoor bases the overall star rating on five metrics: culture & values, work/life balance, senior management, comp & benefits, and career opportunities. Here is how Chick-fil-A's employee ratings break down.



*Chart Data Courtesy of Glassdoor, Inc., 2013

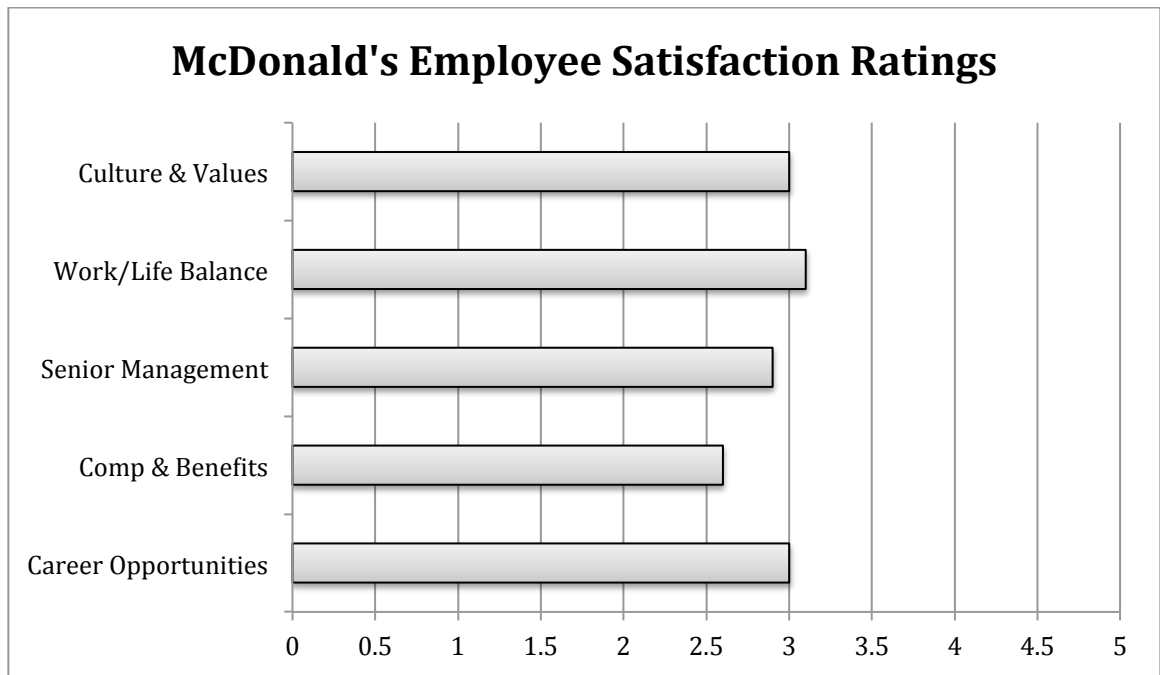
Based on 291 ratings, 93% of Chick-fil-A employees approve of their former CEO S.

Truett Cathy (Glassdoor, 2013). It is important to note that as of November 9, 2013, Dan

Cathy is now the CEO of Chick-fil-A. The reviews have not been updated to reflect this change. Also, Chick-fil-A's average wage for their low-level store employees is \$8.07/hr. (Glassdoor, 2013). This is \$0.82 above federal minimum wage.

B. McDonald's Employee Satisfaction

According to Glassdoor's information provided by employees, McDonald's employees give them 3.0 out of 5 stars, based on 2,018 reviews. Also, only 50% of McDonald's employees would recommend them to a friend as a place of employment (Glassdoor, 2013). The rating is based on the same five metrics as Chick-fil-A: culture & values, work/life balance, senior management, comp & benefits, and career opportunities. Here is how McDonald's stacks up.



*Chart Data Courtesy of Glassdoor, Inc., 2013

Based on 492 ratings, only 71% McDonald's employees approve of their CEO, Don Thompson (Glassdoor, 2013). McDonald's average wage for their low-level employees is \$7.75/hr (Glassdoor, 2013). This is only \$0.50 above minimum wage.

C. Wendy's Employee Satisfaction

While McDonald's employee satisfaction ratings fall well below those of Chick-fil-A, Wendy's is even lower. According to information provided to Glassdoor, Wendy's employees rate the company a 2.9 out of 5 stars, based on 362 reviews. Only 46% of Wendy's employees would recommend them to a friend as a place of employment (Glassdoor, 2013). Again, the average rating is based on five metrics: culture & values, work/life balance, senior management, comp & benefits, and career opportunities. Below is a chart that breaks down Wendy's ratings.

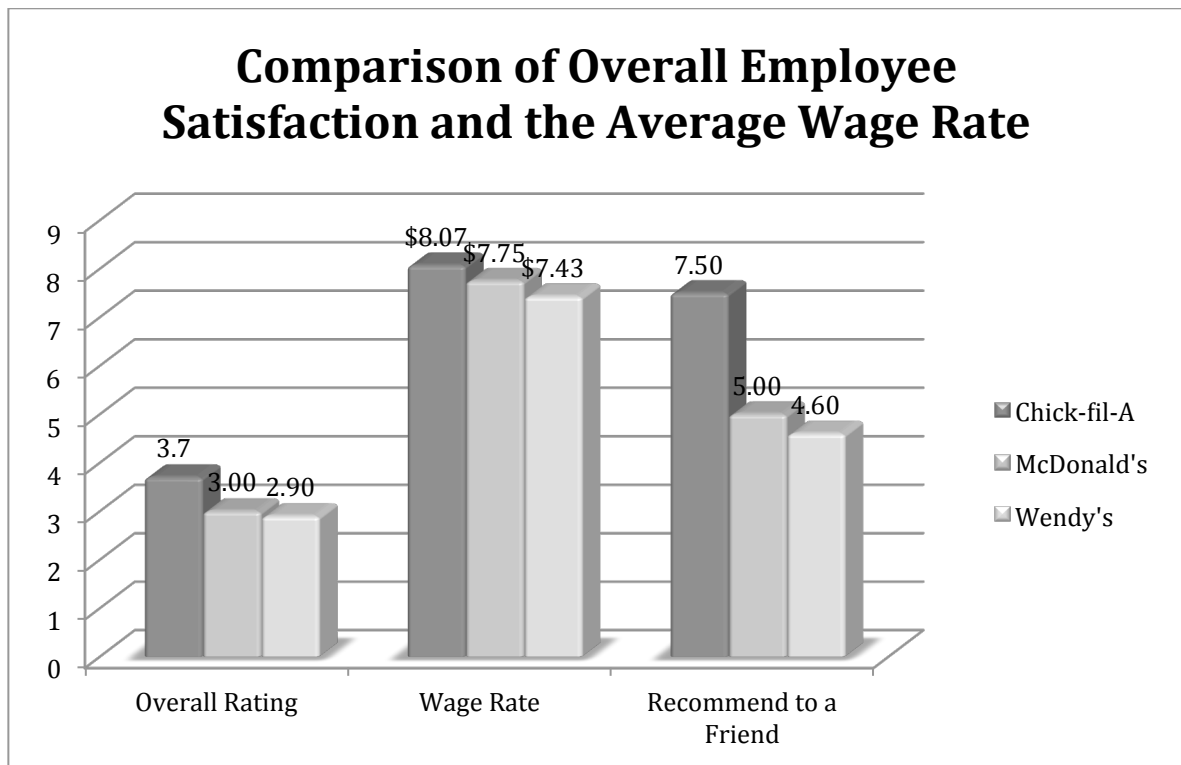


*Chart Data Courtesy of Glassdoor, Inc., 2013

Based on 75 ratings, only 68% of Wendy's employees approve of their CEO, Emil Brolick (Glassdoor, 2013). The average wage rate of Wendy's low-level employees is \$7.43/hr. (Glassdoor, 2013). Which is only \$0.18 more than federal minimum wage.

There is an interesting correlation here: the lower a company pays its employees on average, the lower its employee satisfaction ratings. At this level of pay grade,

employees are likely not working at any of these specific companies due to company culture and values. Although, this argument could be made given that as the average rating drops, so does the culture and values metric drop. However, this would be hard to prove anything more than the law of averages taking its affect. For better visualization, here is a chart that compares all the companies together with their average wage rate and their overall rating. The percentage of employees who would recommend the company to a friend has been converted to a scale out of 10 in order to be better visualized in the chart.



As this chart illustrates, as the average wage rate declines, so does the company's employee satisfaction rating and the percentage of employees who would recommend the company as a place of employment. Chick-fil-A leads these companies in every category. In fact, Chick-fil-A was just named one of the 50 Best Places to Work by Glassdoor (Glassdoor, 2013).

Conclusion

In conclusion, we have analyzed these major players in the fast food industry, Chick-fil-A, McDonald's, and Wendy's. We have compared their mission and purpose statements, their corporate governing values, their financial performance over the years, the target markets they focus on, their growth in the past and their growth potential, their customer loyalty, controversies and bad press and how they affected them positively or negatively, their philanthropic efforts, and, finally, their employee satisfaction ratings. Results of this analysis are mixed. Furthermore, this review was not exhaustive of all companies in the industry. There are many other competitors that vie for the same or similar market share including: Subway, Burger King, Taco Bell, Church's Chicken, and more. Even more refined restaurants such as Panera Bread are in the mix competing for consumers interested in a quick, healthful meal in a pleasant atmosphere.

Our selection of these three firms is intended to sample the key players in the industry to compare and contrast their policies, practices, and outcomes. The purpose is to explore relations among these elements to see if any differences seem to be of benefit. Chick-fil-A, McDonald's, and Wendy's all have core competencies that have brought them thus far in the industry and they are all looking forward to the years to come and preparing themselves to gain market share and financial success. While the business philosophies may differ greatly, especially in regards to Chick-fil-A, all of these companies have one thing in common: they exist to make money. Many consumers seem to view big businesses seeking better profit margins in a negative light. In reality, it is companies like these that have provided literally hundreds of thousands of jobs to Americans and their continued success is vital to our nation's economy and job growth.

These companies all had humble beginnings shaped by hard work, long hours, and lots of uncertainty. But each of them has grown to be household names in America and around the globe. How well these companies fare in the future is anyone's guess, but given their history these companies look to provide us with satisfying meals for decades to come.

It is my hope the information published herein has offered insights into how these companies operate, and how a single innovative idea framed by years of perseverance can turn into multi-billion dollar companies in only a few decades.

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