

**A STRATEGIC ANALYSIS FOR A MULTI-UNIT DAIRY QUEEN OPERATION  
IN CANADA**

by

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## **Abstract**

This paper is a strategic analysis for ABC Holdings, a family run multi-unit Dairy Queen in a small Northern Canadian city. An industry analysis of the fast food industry in Canada is conducted as well as an in-depth examination of International Dairy Queen. An external analysis in the form of Porter's Five Forces are utilized to determine the key success factors to identify the threats and opportunities available to the Dairy Queen. An internal analysis of the DQ using the Diamond-E Framework investigates its management preferences, organization, and resources. The internal capabilities of DQ are applied to provide recommendations for the owners and the future of the organization.

## **Dedication**

*~ For my parents, Jim and Julie Mah ~*

*I am truly appreciative for the love, patience and support. Thank you helping me along my career path.*

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## **Glossary**

DQ	Dairy Queen
DQC	Dairy Queen Canada
IDQ	International Dairy Queen
KSF	Key Success Factor
NPD Group	A global consumer and retail market research firm
PCYA	Percent Change versus Same Period Year Ago
QSR	Quick Service Restaurant

# **1: Introduction**

The purpose of this paper is to analyze ABC Holding's business situation and to evaluate the alternatives available to Jay Smith for the future of his company. ABC Holdings is the parent company to two Dairy Queens (DQ) located in a small Canadian city of approximately 50,000 people. A strategic analysis will also determine the options available to daughter Kim and the viability for her to take over the business. A detailed analysis of the fast food industry in Canada and internal capabilities of the two Dairy Queen restaurants will also be considered. A determination of the key success factors, opportunities and weaknesses will be identified and analyzed in comparison to the two Dairy Queens' competitors. Furthermore, strategic alternatives will be investigated and a decision will be made dependent upon management preferences and capabilities.

## **1.1 Fast Food Industry Overview**

The purpose of this section is to assess the overall Canadian fast food industry and determine the factors that influence and shape it. A review of current Canadian demographic and population changes, economic situation, as well as Canadian's health trends and dining habits are covered. The goal is to illustrate the broad industry in which DQ competes.

### **1.1.1 Canadian Demographics**

It is important for companies to be aware of what target market they are catering to and the size of the demographics. The fast food industry is a mature industry that is no

longer rapidly growing; therefore, restaurants compete heavily for its customers. According to Euromonitor (2009), the expected population growth for Canada is estimated to be around 0.90 percent. At this projected growth rate, Canada's total population will be 36.7 million people by 2020. As the population study below in Figure 1:1 reveals the older generation (age 65+) or baby boomers will jump from size of 3.3 million (9.4 percent of the total population) in 1980 to over 9.4 million people or 18.7 percent of Canadians by 2020. This age group is projected to account for 13.6 percent of Canadians total gross income by 2015. Middle-aged adults between the ages of 40 to 64 years old will comprise of 34 percent of all Canadians by 2020 and will command a significant 50.7 percent of the nation's total gross income (Euromonitor International, 2009). The aging population will clearly have a significant impact on spending trends and the focus of the foodservice industry.

### **1.1.2 Economic Recession**

Since mid 2008, the global economy has suffered from a widespread recession. The Canadian government has projected a \$50.2 billion deficit from 2009 to 2010 as of 2008. The government has taken several temporary measures under Canada's Economic Action Plan to help stabilize the economy by supporting the job market. These measures include an Employment Insurance enhanced work-sharing feature, a Home Renovation Tax Credit and infrastructure projects. As a result, the Canadian economy was less affected in comparison to other G7 countries.

Figure 1:1 Population Age Shift 2000 and 2020, Each Column Represents a Single Age Group<sup>1</sup>

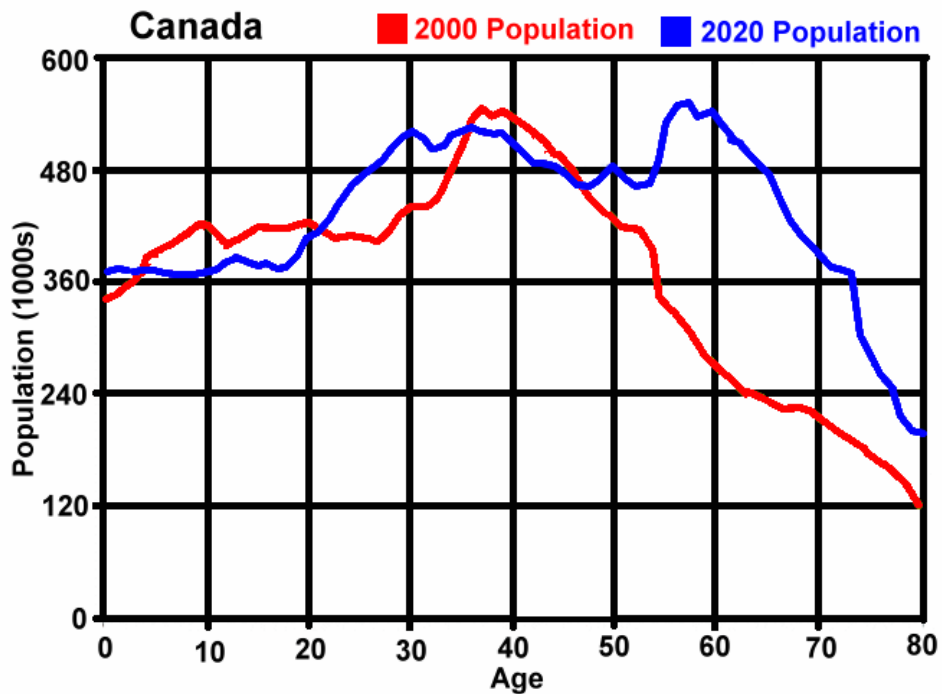
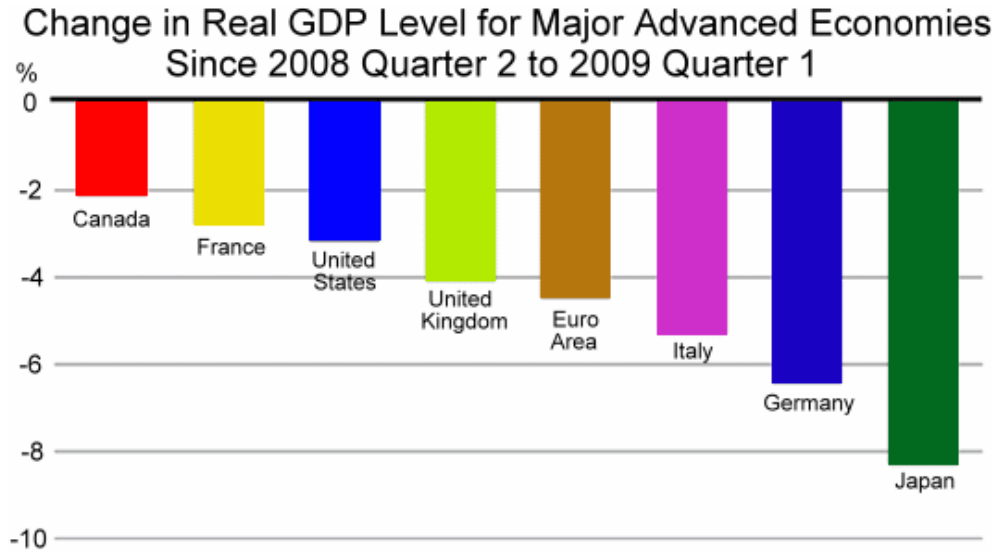


Figure 1:2 below shows Canada’s GDP fell by 2.2 percent since the second quarter of 2008 to the first quarter of 2009 (Canada’s Economic Action Plan, 2009). According to the International Monetary Fund (IMF), the worldwide economy is in a state of severe recession with massive financial crisis and loss of confidence. Canada’s economic situation however is not as severe as the United States since the Canadian banking system is characterized by a more stable and regulated system with its low leverage ratios and high capital adequacy ratios (Canada’s Economic Action Plan, 2009).

<sup>1</sup> Euromonitor International. (2009). Future Demographic – Canada. Retrieved June 12, 2009 from <http://www.euromonitor.com>

Figure 1:2 Change in Real GDP 2008Q2 to 2009Q1<sup>2</sup>



### 1.1.3 Health Trends

Health concerns are a significant factor for the aging Canadian demographic. Diseases such as obesity, diabetes, heart disease and high blood pressure characteristically plague this cohort of individuals. These middle-aged adults and baby boomers control more than half of Canada's discretionary income; therefore, there is an increased demand for fresh and healthier food. It is logical that in order to remain profitable and competitive restaurants are evolving to cater to this demographic since the majority of the wealth and expendable spending resides within it. Current trends are consistent for most fast food establishments to adopt healthier menu items such as salads, fruit/vegetable juice, subs and sandwiches.

<sup>2</sup> Canada's Economic Action Plan. (June 5, 2009). *Economic Climate*. Retrieved from <http://www.actionplan.gc.ca/eng/feature.asp?pageId=114>

Updates and consistent menu changes are apparently due to the stakeholder pressures from consumers, government bodies, and health organizations. The importance of offering fresh food, lower calorie alternatives and trans fat free foods are currently and will become more prominent. For example, McDonald's Canada offers a lighter choice menu that includes Chicken McGrill®, the Fruit 'n Yogurt Parfait®, and several salad choices (McDonald's, 2006). Dairy Queen also has several salad options, grilled iron sandwiches and grilled chicken wraps.

#### **1.1.3.1 Trans Fat Concerns**

According to Statistics Canada, almost one-quarter (23.1%) of Canadian adults were classified as obese and 36.1 percent or 8.6 million people were overweight in 2004 (Statistics Canada, 2005). In 2006, the Canadian Restaurant and Foodservices Association (CRFA) in association with Health Canada created a Trans Fat Task Force to determine methods to decrease the trans fats in the nation's diet. Although trans fats occur naturally in some animal based foods, they are also formed during the process to manufacture semi-solid fats such as shortening and hard margarines. There is scientific evidence that a diet high in saturated and trans fats can increase the risk of developing heart disease (Health Canada, 2009). On June 20, 2007, the Minister of Health announced that Health Canada will monitor the progress of the Canadian food industry to meet the Task Force recommendations:

- 1) Limit the trans fat content to two percent of the total fat content for vegetable oil and margarines.

- 2) Limit the trans fat content to five percent of the total fat content for all other foods. This includes any food and ingredients sold to restaurants. (Health Canada, 2009)

Food manufacturers are also encouraged to use fewer saturated fats and trans fats and replacing them with healthier fat alternatives such as monounsaturated and polyunsaturated fats. While currently there are no regulations that require the Canadian food industry to follow these recommendations however, the Minister is on track to develop laws to ensure the trans fat limits will be met (Health Canada, 2009). Major franchise chain restaurants have felt the pressure and are following the trend to reduce trans fats, for example KFC has switched from hydrogenated cooking oil for canola in order to eliminate trans fat from their oil (Euromonitor International, 2008). On January 1, 2008, the Calgary Health Region passed regulation to limit trans fat to two percent. However, a massive overhaul within Alberta's health system from the new Alberta Health Services Board has dissolved this rule. Unfortunately, Calgary health inspectors can no longer inspect and enforce that restaurants abide by the trans fat rules because there is no province wide standardization for trans fat policies (CBC.ca, 2009).

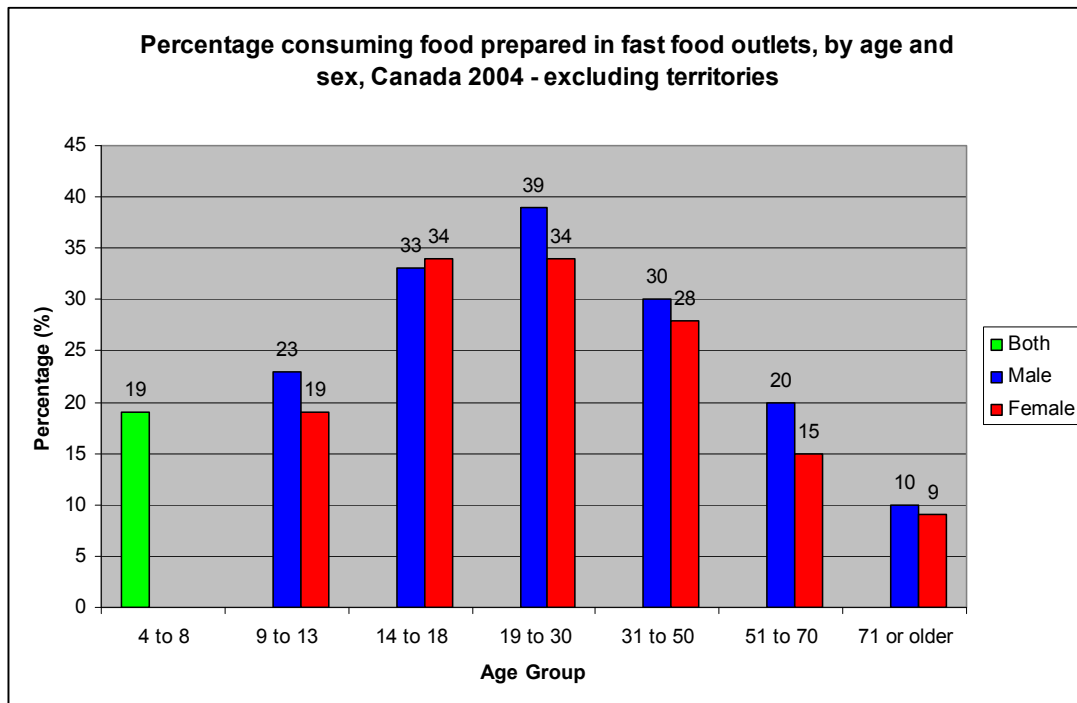
#### **1.1.4 Canadian Dining Trends**

Despite of the growing trend for healthier foods, consumer demand for indulgent foods is also increasing. Consumers are well informed and aware that certain foods are not as healthy yet they still indulge in foods such as pizzas, iced frappes and bacon cheeseburgers (Euromonitor, 2009). A survey conducted by the National Restaurant Association found that on average men and women eat 4.6 and 3.8 commercially prepared meals per week respectively (Binkley, 2006).



Figure 1:3 below charts the results of a Statistics Canada survey on eating habits of Canadians in 2004. The survey revealed that in general one-quarter of Canadians eat from fast food outlets. Of that, one-third of adolescents (fourteen to eighteen year olds) eat food prepared from a fast food restaurant. The demographic that has the highest prevalence to eat fast food regularly at thirty-nine percent are men aged nineteen to thirty years. (Statistics Canada, 2006). The survey further reported that of the Canadians that frequent fast food establishments, forty percent chose to eat a hamburger, pizza, hot dog or a sandwich. Also twenty-five percent chose to drink regular soft drinks rather than diet pop (Statistics Canada, 2006).

Figure 1:3 Percentage consuming food prepared in fast food outlets<sup>3</sup>

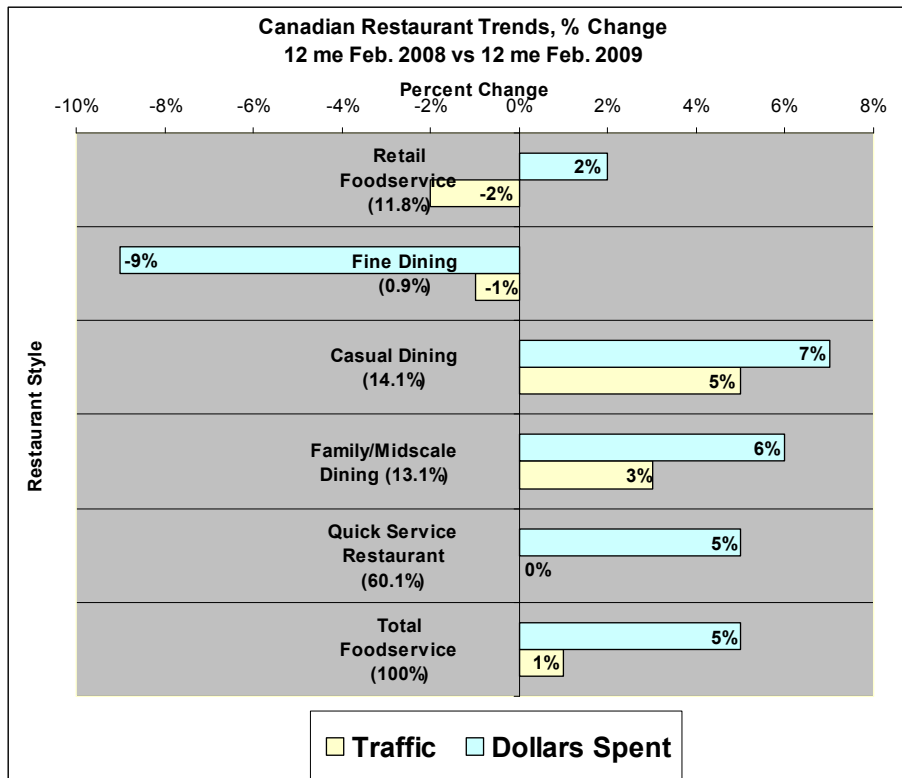


<sup>3</sup> Statistics Canada. (2004). 2004 Canadian Community Health Survey: Nutrition. Retrieved June 13, 2009 from <http://www.statcan.gc.ca/pub/82-620-m/2006002/c-g/4144195-eng.htm>

Canadian consumer trends for restaurant spending and traffic is displayed in Figure 1:4. The study by NPD reveals that the quick service restaurant segment accounts for 60.1 percent of consumer's spending in the total foodservice market. The casual dining sector is the next largest segment with 14.1 percent of the foodservice market spending and fine dining only accounts for a small portion, 0.9 percent of what is spent in the total dining industry. (CRFA, 2009).

Despite the current economic downturn, Canadians continue to dine out. This is demonstrated by the moderate growth in spending at quick service restaurants. NPD Group a market research firm conducted a survey of households in 2009 which indicated that an allocation of consumer's disposable income to the total foodservice market rose five percent when comparing the periods between the twelve months ending February of 2008 and the twelve months ending February 2009, please refer to Figure 1:4 below (CRFA, 2009). Fine dining showed a dramatic drop of nine percent in spending due to fewer patrons and smaller average checks per person. Fine dining is a luxury good and service therefore during hard economic times consumer spending is reduced for that product and substituted for a lower cost item. Quick service restaurants showed a five percent year-over-year increase for patronage spending where traffic remained the same but the average check price rose by 3.7 percent due to both price increases and greater consumption (CRFA, 2009). Dining out is an integral part of the Canadian lifestyle and seemingly the facts suggest that the convenience and quick service offered by fast food restaurants is something consumers are not willing to sacrifice.

Figure 1:4 Canadian Restaurant Trends<sup>4</sup>

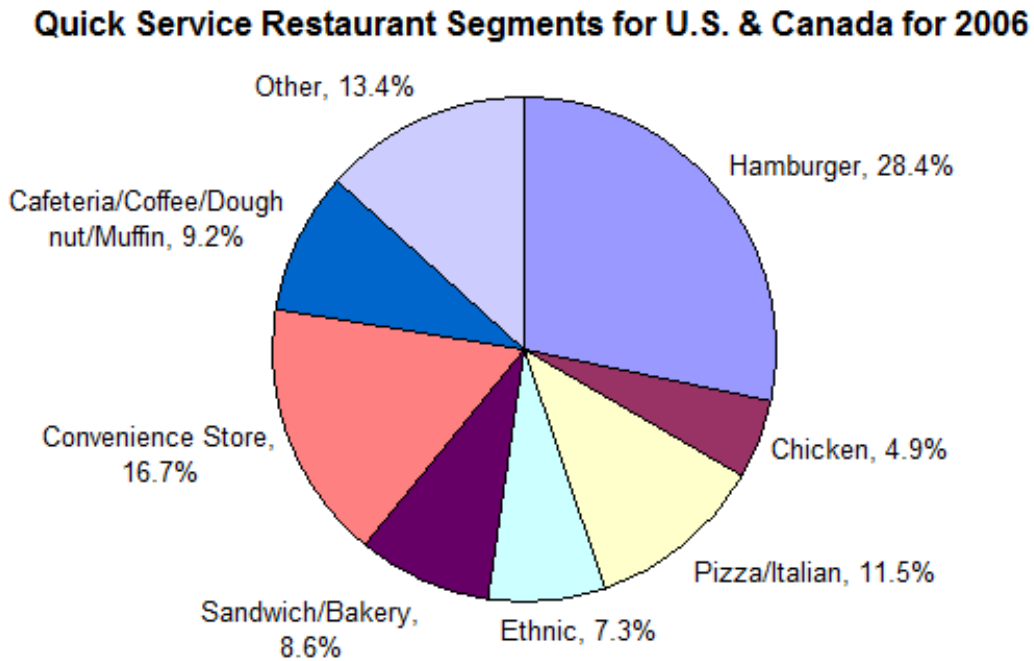


### 1.1.5 Hamburger Market Share Trends

In 2007, fast food sales in Canada exceeded \$19 billion, which grew at rate of four percent despite the increasing awareness of the unhealthy stigma associated with fast food as stated in section 1.1.3 Health Trends (Euromonitor, 2008). Burgers are the consumer’s premier choice when dining out at a quick service restaurant. According to a 2006 study by NPD Group, the hamburger category accounts for twenty-eight percent of all quick service visits in Canada and the U.S (Glazer, 2007). Below, Figure 1:5 shows the breakdown of consumer’s choices for the major food categories.

<sup>4</sup> CRFA (2009). Eating Out Quarterly: Results for Q1 2009: Restaurant Trends. Retrieved June 23, 2009 from <http://www.crfa.ca/research/statistics/eatingoutquarterly.asp#2>

Figure 1:5 Quick Service Restaurant Segments<sup>5</sup>



Many fast food chains have been able to produce higher quality burgers to meet consumer demands for better value for their money. From 2006 to 2007, NPD Group monitored the incremental traffic change of the top ten restaurant categories. The hamburger category showed the largest trend increase of 304 million more visits in 2007 than in 2006 (Glazer, June 2007). In a five-year period from 2002 to 2007, hamburgers supplanted the ‘other sandwich’ category that includes chains such as Subway and Arby’s, as shown in Figure 1:6 and Figure 1:7 below.

<sup>5</sup> Glazer, Fern, (2007). NPD: QSR chains expanding globally must also act locally. Retrieved June 14, 2009 from [http://www.nm.com/article.aspx?keyword=quick-service&menu\\_id=1418&id=346804](http://www.nm.com/article.aspx?keyword=quick-service&menu_id=1418&id=346804)

Figure 1:6 Top Ten Foodservice Segments, 2003 vs. 2002<sup>6</sup>

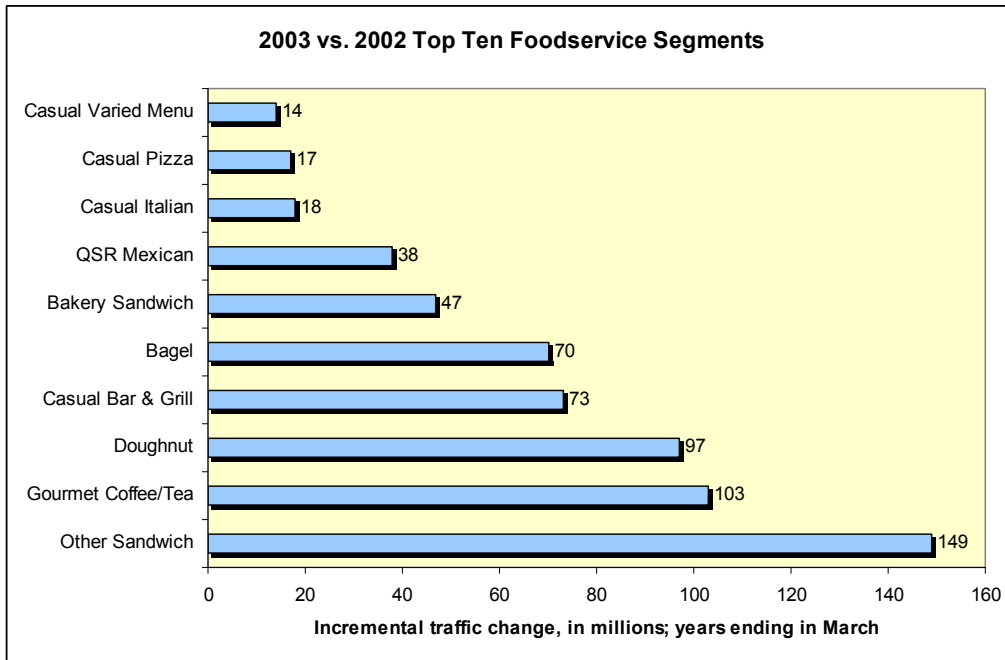
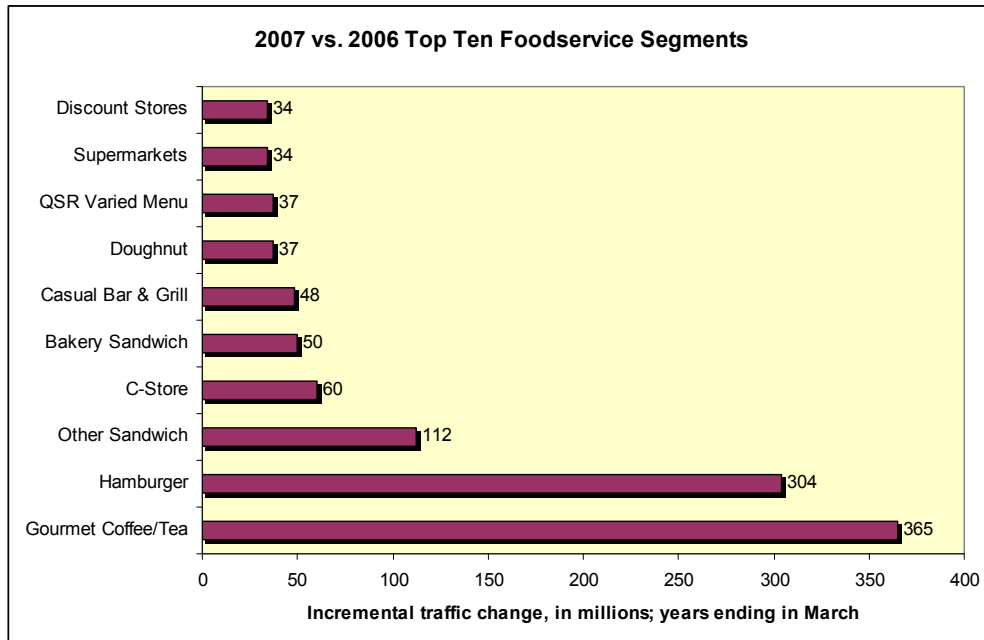


Figure 1:7 Top Ten Foodservice Segments, 2007 vs. 2006<sup>7</sup>



<sup>6</sup> Glazer, Fern, (2007). NPD: Gourmet coffee and tea, burgers top growth segments. Retrieved May 22, 2009 from <http://www.cafemakers.com/news/segment-trends.pdf>

<sup>7</sup> Glazer, Fern, (2007). NPD: Gourmet coffee and tea, burgers top growth segments. Retrieved May 22, 2009 from <http://www.cafemakers.com/news/segment-trends.pdf>

### **1.1.6 Fast Food Breakfast Trends**

According to MacLean's Magazine breakfast accounts for an estimated US\$40 billion annually in food sales in the U.S. alone. Fast food companies capture about sixty percent of the breakfast market and are predicted to have up to eight percent annual growth, or \$3 billion a year (Gulli, 2007). Industry wide, breakfast sales account for eleven percent of revenue, and for McDonald's more than twenty-five percent of their sales are from breakfast (Horovitz, 2007). Starbucks' upscale breakfast sandwiches are estimated to bring an additional US\$35,000 in revenue per store. McDonald's has counteracted with a strategy offering McGriddles® and premium coffee which has proven to be successful since it has driven a growth of thirty-three percent to US\$20 billion since 2002 (Gulli, 2007). In Canada, according to the Canadian Restaurant and Food Association (CRFA), morning breakfast snacks account for over thirty-two percent of sales of fast food outlets, with Tim Horton's capturing a large proportion of the market (Euromonitor, 2008).

Historically the majority of fast food chains have focussed on lunch and dinner as the mainstay of their sales. Alternatively, coffee shops served doughnuts and muffins. Now however, these coffee shop franchises are boosting their revenues with breakfast sales. An NPD study showed that the trend of people eating breakfast at home is declining. This can be demonstrated in that toast consumption has declined from twenty-six percent to thirteen percent over the last couple of decades (Gulli, 2007). Recently, drive-through convenience, coffee and breakfast sandwiches have flourished; and although McDonald's has dominated the breakfast market for decades, competitor chains have been aggressively marketing their breakfast menus to garner a share of the market.

Convenience, time and value are important drivers for the breakfast market however one determining factor that establishes sales is that people are ritualistic and habitual: forty-eight percent of people polled indicate their breakfast choices are driven by routine (MacLean's, 2007). Therefore, chains must compete heavily to obtain and maintain regular breakfast customers. According to CRFA and Statistics Canada the most popular food ordered at Canadian restaurants are French fries and the most popular beverage is coffee (CRFA, 2009).

## **1.2 Company Overview**

In 1980, the Smith family purchased a small Dairy Queen Brazier store in a remote town in Northern Canada for \$600,000. The store was very small staffing fewer than ten people, and yielding moderate revenues. In 1989, the owners purchased the adjacent five lots and built a larger DQ Brazier store. The old DQ was demolished turning the older property into a parking lot for the new store. The new store was an instant success and revenues doubled. In 1998, further renovations occurred and a drive-thru window was added. The drive-thru window was a very successful addition as revenues increased another forty percent. Starting in the late 1990s, the city experienced a large growth in population and the Smith family took advantage of this demographic and economic 'boom' by building another DQ. As with most businesses in the province, economic growth was driven by wealth from natural resources. To this date, both stores have prospered and have consistently placed in the top ten grossing DQ stores in Western Canada. In spite of both stores having approximately double total sales revenues comparative to the national average for Canadian DQs; the economic downturn has

slowed growth dramatically to almost zero percent for the first quarter sales of 2008 and 2009 (AM. D.Q. Corp., 2009).

### **1.3 International Dairy Queen (IDQ) Overview**

#### **1.3.1 IDQ History**

Sherb Noble opened the very first Dairy Queen store in 1940 in Joliet, Illinois. The founders of Dairy Queen built their store around the concept of a soft serve ice cream dessert product. A common misconception people have is they believe DQ's soft serve is made from cream; however, it is made from milk and therefore renders a reduced fat ice cream. Dairy Queen was one of the first companies to begin expanding its operations through the franchise system. DQ's signature soft serve ice cream with its patented trademark 'curl' grew to become a popular American brand. As of June 2009, there are 5,862 DQs operating in the United States, Canada and nineteen other countries globally. The first DQ opened in Canada in 1953 in Estevan, Saskatchewan (AM. D.Q. Corp., 2007). The majority of DQ restaurants are individually owned and operated franchises with independent business owners. In January 1998, Berkshire Hathaway Inc. purchased International Dairy Queen (IDQ) along with its subsidiary companies, Orange Julius and Karmelkorn Shoppes.

#### **1.3.2 IDQ Growth**

In 2007, the IDQ generated almost \$3.0 billion in global sales, a 4.8 percent growth increase of sales in 2006. A breakdown of system sales reveals that thirty-six percent was generated through food, four percent from beverages and sixty percent from treat item sales. As seen in Figure 1:8 below, U.S. same store-sales, or sales of stores



open more than one year, increased 3.9 percent while Canadian same-store sales increased 5.5 percent from 2006 to 2007 (AM. D.Q. Corp., 2008).

Figure 1:8 Same-to-Same Sales<sup>8</sup>

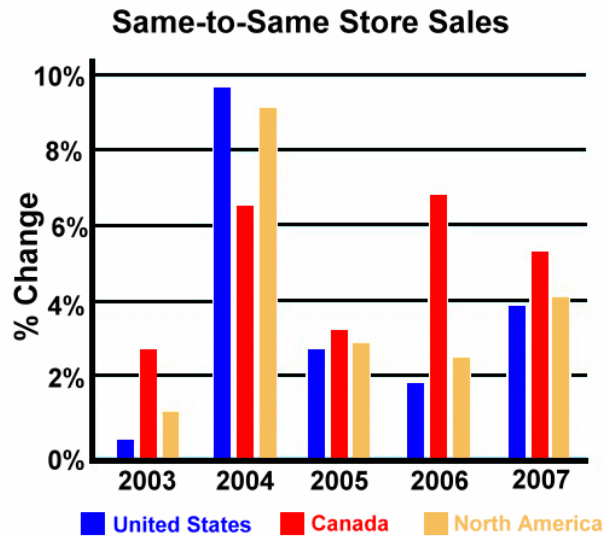
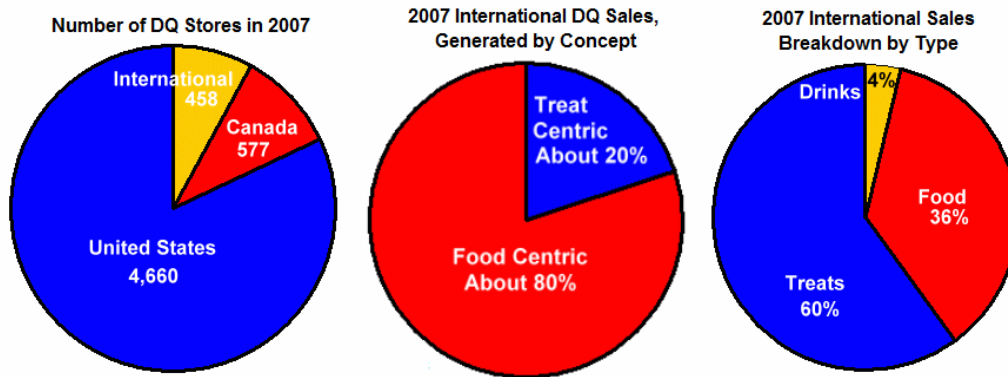


Figure 1:9 below shows that approximately four-fifths of the system sales occurred in food-centric based DQ concept restaurants, whereas one-fifth of the sales are from treat-centric DQ stores (AM. D.Q. Corp., 2008). Treat-centric DQ stores are the DQ/Limited Brazier and the DQ/Orange Julius Treat Center franchises that have the full line of DQ treat products with a very limited food menu that usually entails only hot dog products. Food-centric DQ stores are the DQ Brazier and the DQ Grill & Chill franchises that carry the full menu product line for both DQ treats and food. The strengths of sales from the food-centric concepts are one contributing factor for IDQ to encourage their franchisees to remodel to the DQ Grill & Chill concept. A reason why food-centric concepts generate most of the sales is that there are many more food-centric stores than

<sup>8</sup> AM. D.Q. Corp. (2008). DQ 2008 Pride and Unity Report. International Dairy Queen, Inc.

treat-centric ones. In Section 1.3.4 IDQ Size, Table 1-1 shows there are only 765 treat-centric stores out of 5862 internationally in 2009, therefore the sales generated is proportionately smaller.

*Figure 1:9 International DQ 2007 Performance<sup>9</sup>*



### 1.3.3 IDQ Strategy

#### 1.3.3.1 IDQ Differentiation Strategy

The Dairy Queen franchise began in the 1940s and has a well branded family atmosphere with identifiable quality ice cream and fast food products. DQs are well known for their Blizzards and patented ‘curl’ on the top of their DQ treats. Firms in a monopolistic competitive market must differentiate their product in order to create a competitive advantage and establish consumer loyalty. An industry has a monopolistic competitive market when it is characterized by several factors: 1) There are many buyers and sellers, 2) Each firm produces a differentiated product, and 3) there is free entry into and exit from the industry (Baye, 2006). The fast food industry has many features of a monopolistic competitive market and firms typically expend many resources to market

<sup>9</sup> AM. D.Q. Corp. (2008). DQ 2008 Pride and Unity Report. International Dairy Queen, Inc.

and differentiate their products. For instance, a burger from one chain like McDonald's is not a perfect substitute for one from DQ, the burger price and quality differs enough allowing each firm to have some market power within their differentiation. The DQ brand is a well known, however overall the franchise has been suffering. The last successful product IDQ has introduced was the Blizzard® in 1985. IDQ has launched several different products in past years but none have experienced the success and the identifying name brand appeal as the Blizzard®. IDQ's decision to try to redefine the brand image and focus away from delicious ice cream treats to a more food orientated design will hopefully revitalize the franchise.

DQ's products can be classified as both impulse products and as a specialty product. An impulse product is one that is bought spontaneously, dependant on the consumer and the situation. Consumers will have 'cravings' and impulsively buy their desired burger or ice cream treat. As a specialty product, the consumer will only specifically purchase a certain brand or product. In a different situation the same consumer may plan ahead to have lunch or dinner or meet up with friends at the DQ, in other words they are willing to spend the extra time and effort to obtain a specific DQ ice cream treat or burger.

The fast food industry is largely in the mature market stage of the typical product life cycle, with each restaurant chain or individual restaurant advertises and markets heavily in order to create a niche in the industry. In order to retain customers and increase consumer loyalty, the restaurant chains are continually improving old products or introducing new ones. One of IDQ's strengths is the broad product portfolio the restaurants offer as a quick service franchise. It is critical that all fast food restaurants to

operate on a cost-based strategy through their supply chain and shared marketing and operational resources. IDQ relies on a more differentiated strategy since no other fast food restaurant offers the wide range of soft serve ice cream treats along side food products such as burgers, hot dogs, chicken, salads, wraps and iron grilled sandwiches. Over the years, DQ has been losing market share to competitors like McDonald's who efficiently operate with a low-cost strategy and to the largest growing quick service franchisor, Tim Hortons who has become Canada's largest foodservice company with twenty-two percent of fast food sales (Euromonitor, 2008).

IDQ's strategy since the inception of the DQ Grill & Chill design in 2001 was to re-brand the DQ image in order to be more competitive. DQ has a strong iconic image with its ice cream treats however to re-vitalize its old image, a more food-centric concept is combined with a more inviting casual dining atmosphere and healthier meal options. To revitalize the stagnant brand image of Dairy Queen, IDQ is marketing the Grill & Chill as a fast, yet casual dining restaurant. The concept was designed to create a new niche in the saturated fast food industry where franchises have the need to constantly differentiate their products in order to be economically profitable. The Grill & Chill is a hybrid concept between the fast food genre and a casual sit-down restaurant (Wolkowitz, 2005). According to Mike Keller, chief brand officer of US IDQ headquarters, "our efforts were about modernizing an American icon that had grown tired over more than six decades," he continues. "Unit growth had stagnated. To build bigger restaurants and put them in better real estate, we needed to change the brand. For several years we were losing more stores than opening new ones." (Wolkowitz, 2005). Customers are greeted to a more upscale style DQ where they order their food or treats at the counter then are

brought their baskets of food by the employees. The Grill & Chill offers a larger food menu while the ice milk treats are identical to the original DQ (Wolkowitz, 2005).

As a fast food establishment, DQ service would be considered a 'homogeneous' service or one that is typical of every other fast food franchise. Customers would enter the establishment, order their food at the counter, wait a few minutes for their order to be prepared then proceed to sit down to eat their meal. The DQ Grill & Chill concept differentiates the service. Instead of having the customer wait at the counter for their food, they are given a number placard, an empty cup for their pop so they can fill their own drinks then can proceed to sit down at a table. An employee will then expedite or bring their food to the customer.

The positioning strategy is two-fold. First, it helps re-brand the overall image of the DQ by becoming more food centric but still maintaining its strong dessert/ice cream consumer base, this is done by the improved 'service' style. Second is the expansion of the food menu to cater towards more 'meal-like' lunches and dinners. The purpose of the strategy is catered to enhance the customer's perception of value with DQ's food and service. According to Dave Acton, Area Vice President of Dairy Queen Canada, DQ's rebranding is to create a more upscale fast food restaurant, which provides high quality table service that reduces the customer's perceived wait time. By the time customers fills their pop and seats themselves; their food order is usually served within three minutes. The change of service style will hopefully place DQ Grill and Chills as a new hybrid between a full service restaurant and a fast food restaurant and create a positive atmosphere of enhanced value for the consumer. IDQ hopes that these changes will attract and retain a larger portion of the industry's market persuading consumers that DQ

is a great place to not only get their ice cream treats but is a restaurant alternative for hot meals.

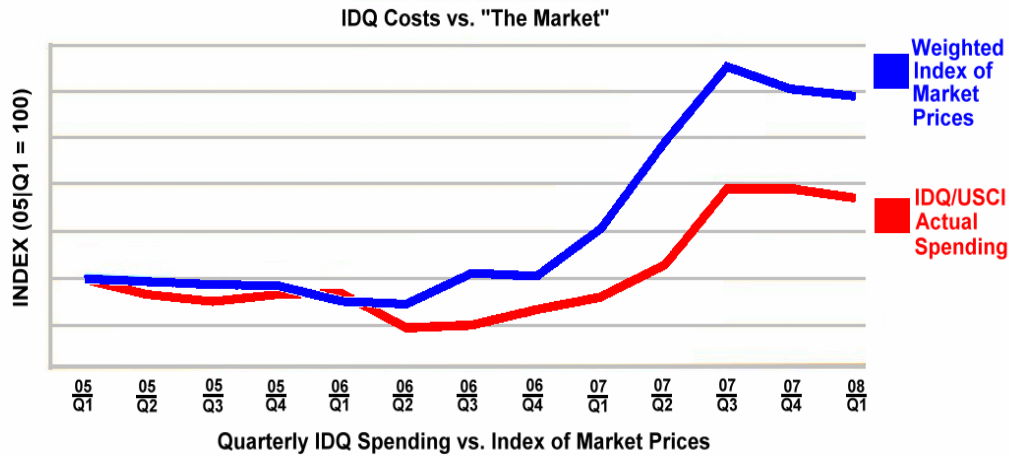
### **1.3.3.2 IDQ Cost Strategy**

The differentiated strategy may not have been as successful as IDQ hoped for; therefore, they have pulled back slightly and focussed more on a cost strategy. In 2004, the Unified Purchasing Alliance (UPA) was formed to help lower food costs to Canadian franchisees. The UPA's efforts to minimize the increasing costs was demonstrated by utilizing RFPs (Requests for Proposals) for major protein items, transportation costs and equipment costs; as such, in 2007, more than \$500,000 in freight costs were saved using this new system (AM. D.Q. Corp., 2008). Figure 1:10 below depicts IDQ's quarterly spending plotted against the weighted index of market prices of comparable products. The UPA was successful and brought a twenty-three percent cost savings to franchisees related to the protein and bread for the Iron Grilled Sandwiches; resultantly, DQ has plans to continue monitoring distribution margins (AM. D.Q. Corp., 2008).

IDQ realized they were losing market share because a value offering was lacking on the menu. A more permanent value menu was needed in several provinces because DQ had the highest prices as a quick service restaurant in comparison to its competitors. In July 2008, Dairy Queen Canada proceeded with the Sweet Deals value menu that allows customers to tailor up to 20,450 different combinations with a tiered pricing structure, see Figure 1:11 below for a sample Sweet Deals menu. Cheeseburgers make up the majority of the Sweet Deals with chicken wraps as the runner-up. Stores in the United States and Canada have reported that Sweet Deals make up from six to twenty

percent of total sales, with one store reporting his customer count per day increased by forty-six percent (World of DQ, 2009).

Figure 1:10 IDQ Actual Cost Spending vs. Related Market Prices<sup>10</sup>



DQ’s marketing team has already begun multiple public relations and marketing efforts to drive traffic and sales, generate press coverage, via national print and TV advertising as well as Web 2.0 marketing including blogs and social media sites to reinforce DQ’s brand image. The Sweet Deals menu is critical for IDQ’s success during uncertain economic times and has provided what consumers want is more value of quality food for less money. The Sweet Deals menu has been thoroughly tested and franchisees are obtaining increased number of transactions, higher average check prices along with lower costs of goods sold (COGS) which is adding value to both consumers and operators (World of DQ, 2009).

<sup>10</sup> AM. D.Q. Corp. (2008). DQ 2008 Pride and Unity Report. International Dairy Queen, Inc. Actual values removed for confidentiality.

Figure 1:11 DQ Sweet Deals Menu<sup>11</sup>



### 1.3.3.3 Strategic Fit Grid

The fast food industry as a whole is inclined towards a more cost-based strategy; however, IDQ's strategic fit adapted from Ed Bukszar (2009), is summarized in Table 1:1 below. IDQ has a few differentiated dimensions that make it difficult to compete effectively. The IDQ's headquarters is based in Minneapolis, Minnesota and essentially all research and development, and decision making for the entire franchise is determined by the head office. Dairy Queen Canada is based in Ontario and monitors the nation's restaurants through regional consultants. Decision-making is less autonomous and the structure is centralized for any high-level governing aspects of the franchise. Franchisees

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<sup>11</sup> World of DQ. (April 2009). What's Your Deal? *World of DQ*, April 2009, pp. 14-16.





suppliers are regional or subject to commodity prices. The fragmented supply chain results in higher costs since DQ’s buyer power is reduced.

IDQ historically maintained a differentiation strategy but they have not been very successful because of loss of market share due to their higher product costs. They are slowly shifting their focus towards a cost strategy but drastic restructuring changes are needed to take advantage of economies of scale and other cost-based functions to be competitive. The current mixed strategy is problematic for IDQ since they are unable to outcompete rivals due to their high fixed costs.

### 1.3.4 IDQ Size

A phone interview on June 18, 2009 with Dave Acton, Area Vice President of Dairy Queen Canada indicated the most recent data for the number of DQ stores globally summarized in Table 1:2 below. The number of DQ stores has grown to 5,862 units worldwide, of which, 624 are in Canada.

*Table 1:2 June 18, 2009 Breakdown of DQ Stores Globally*

	<b>DQ Brazier</b>	<b>Grill &amp; Chill</b>	<b>Treat Centers</b>	<b>Subtotal</b>
<b>Canada</b>	434	70	120	624
<b>U.S.</b>	3773	433	425	4631
<b>International</b>	367	20	220	607
<b>Subtotal</b>	4574	523	765	5862

According to Euromonitor International, DQ’s 2008 brand share, or the amount of dollars a consumer spends on a particular brand in comparison to its competitors, was 0.7 percent for consumer foodservice value in Canada. As Table 1:3 shows below, DQ’s market share is small in comparison to its largest competitors and substitutes. Tim

Hortons has the largest market share at 9.3 percent and McDonald’s holds a 6.1 percent share (Euromonitor International, 2009). A more detailed analysis of DQ’s competitors will be conducted in Section 2.1.5 of Porter’s Five Force analysis of competitors and substitutes.

*Table 1:3 Brand Shares - Foodservice Value RSP % Breakdown<sup>12</sup>*

<b>Company Brand</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Tim Hortons</b>	8.5	9	9.3
<b>McDonald’s</b>	5.8	5.9	6.1
<b>A&amp;W</b>	1.3	1.4	1.5
<b>Wendy’s</b>	1.1	1.1	1.1
<b>Dairy Queen</b>	0.8	0.7	0.7
<b>Burger King</b>	0.7	0.7	0.6

#### **1.4 Problems Facing ABC Holdings**

A strategic plan is needed for the owners of ABC Holdings, Jay is past the age of retirement. The corporation is a parent company to two Dairy Queens (DQ) located in a small city in Northern Canada. Although the restaurants are very successful, many problems hinder a smooth transition either to sell the restaurants to an independent buyer or to transfer each location to his children. Jay has been resisting any changes with the restaurants for many years and has troubles releasing some of his personal control of the business.

There is no clear focus on the future of the organization since Jay has been satisfied to keep things as they are, without making any major changes to the stores. Neither store has any debt on either the land nor building therefore business has remained

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<sup>12</sup> Euromonitor International (2009). Consumer Foodservice: Euromonitor from trade sources/national statistics. Retrieved June 12, 2009 from <http://www.euromonitor.com>

very profitable. International Dairy Queen (IDQ) has been pressuring Jay to either modernize, that is, give the stores a 'facelift' or completely upgrade the DQs to a Grill & Chill concept in order to align his stores with IDQ's changing strategy of value-added service. However, he has been able to stall IDQ's suggestions as he has been a strong franchisee with exclusive rights to the city. If Jay were to transfer the stores to his adult children, IDQ would most likely require upgrades to the stores before new franchise agreements could be signed. In addition, not one of Jay's children would have enough capital to purchase either of the stores without a leveraged buy-out and Jay co-signing the loan.

Another ongoing problem has been the lack of trust and infighting within the family. A common problem indicative of family-owned companies is the lack of a clear direction and purpose for the business. Although two of his kids have been managing each store for many years, Jay has not allowed them access to the financial performance of the company, thus it has hindered their ability to manage effectively. Disagreements arise as to how the stores should be managed, although Jay no longer directly operates the stores on a daily basis, he countermands any decisions to change how the stores are operated. The organization overall is one of complacency where the employees and management are happy to maintain the status quo and perform the daily routine without any regard to improve operating performance.

#### **1.4.1 Decision Criteria**

Management preferences have a very strong influence over any decisions made for business. Ultimately, nothing will happen unless Jay decides it is time to retire and sell the business either to his children or to a third party. Another factor to the decision

making process is whether the children would want to take over the restaurants. The expense for the children to buy the restaurants, in addition to the cost of renovation may not make it worthwhile when compared to the option of selling the stores outright to a third party. An additional factor that may influence Jay's reluctance to make any changes is the depressed economy; it is not a seller's market in this current economic recession and may be better to wait until the value of his restaurant and land rises.

## **2: External Analysis of the Canadian Fast Food Industry**

The Canadian fast food industry had over \$19 billion in sales in 2007, which was a four percent growth from the previous year. In 2007, there were a total number of 33,727 fast food outlets in Canada, a one percent increase from 2006 (Euromonitor, 2008). According to the CRFA, limited service restaurants account for thirty-two percent of the Canadian foodservice industry's market share, these include quick service restaurants, cafeterias, food courts and take-out delivery stores (CRFA, 2009). The fast food industry is not as affected by tourism trends and is more reliant upon the general population for its largest consumer group. One of the major drivers for growth for this industry is due to Tim Horton's as Canada's largest fast food outlet (Euromonitor, 2008).

### **2.1 Industry Analysis – Porter's Five Forces on the Northern Canadian Hamburger Fast Food Industry**

In 1979, Michael Porter a Harvard Business School professor wrote a famous article that outlines a framework for industry analysis to help determine an industry's attractiveness. A competitive strategy can then be developed after examination of five forces that influence the structure and profitability of an industry. Porter's Five Forces model entails the identification and understanding of the structural characteristics of industries and the forces that influence the behaviour of the firms (Bourgeois et al, 1999).

The Five Forces are:

- 1) The Threat of New Entry

- 2) The Power of Suppliers
- 3) The Power of Buyers
- 4) The Threat of Substitute Products
- 5) Rivalry

### **2.1.1 The Threat of New Entry – High Threat of Entry**

According to Porter, if rivals can enter an industry easily, then it would increase competition and reduce profitability. A few of the major barriers to entry are capital requirements, brand identity or product differentiation, economies of scale, switching costs, and access to distribution channels.

#### **2.1.1.1 Capital Requirements – Low entry & exit costs**

The fast food industry is dominated by large franchises that have procedures and financial requirements in place for franchisees to easily enter new markets. The capital requirements can be as little as \$200,000 for a mall location, to \$750,000 for a stand-alone restaurant. Capital requirement costs can be even lower if the franchisee leases the land rather than purchases the land for the store. The support network provided by chain headquarters is quite extensive, reducing the start-up costs for their franchisees. Franchise headquarters have the resources to conduct market research to determine prime locations for entry. Franchisors also have pre-planned architectural plans and interior design plans in place therefore there is little to no such cost for a franchisee to set up a restaurant. Distribution channels and supply chains are established throughout the nation and it would be relatively easy to enter a new area. Legal fees and contracts are prepared and maintained by franchise operations teams therefore franchisees do not have to

contend with high legal fees. Project co-ordination and a time-line is pre-planned for construction, equipment installation, training, and marketing are all support services the franchise has in place which in turn reduces entry costs. New franchisees also have the tendency to be the primary operator/manager for their stores; therefore they will have lower labour costs at the outset.

Exit costs are also low since it is easy for a franchisee to sell their restaurant or in some cases, the franchisor has a recruiting program for applicants who wish to take over a restaurant. Some franchises, like McDonald's prefer to own the building and do not allow franchisees the option to own the building, therefore entry and exit costs are further reduced. The low costs of entry and exit along with the ease of entry from franchise support make the industry attractive for new entrants especially in a market with good opportunities and room for more competitors.

Fast food restaurants not associated with any franchise conglomerate may have higher entry costs since they will not have the advantage of access to the resources provided by franchisors. They will also not have access to larger economies of scale of the distribution networks and the brand reputation of the large chains. However, independent restaurants have the flexibility and freedom to choose their capital assets such as the building and equipment. It is still relatively easy for an independent restaurant to enter a new market since the scale of their operation can be small and costs are minimized. For example, a small restaurant that leases its building has relatively small capital requirements in comparison to a franchisee who wishes to own the land and building.



### **2.1.1.2 Brand Identity or Product Differentiation – Moderate Barrier to Entry**

Brand identity is very important in the fast food industry in order to create product differentiation to allow slight price differences among the chains. Reputational capital is a key factor for a chained restaurant to enhance consumer perceived value since it aids the success of a store if consumers in the market are already familiar with the brand. The expectation of product quality, consistency and service is important for first impressions to reinforce the acceptance of a new entrant from a consumer's standpoint. All major chained stores are familiar with competing in the heavily saturated foodservice market; therefore they require aggressive marketing strategies. Most franchises charge a franchise fee that can range from four percent to 12.5 percent of gross sales, which is the payoff for a franchisee to capitalize upon the reputational capital fast food corporations create. In addition to franchise fees, many chain restaurants charge marketing fees to maintain regional, national and global advertising campaigns.

One disadvantage an independent restaurant suffers from is the lack of brand awareness and reputational capital to utilize. The marketing budget will be very small in comparison to the franchises therefore awareness of the new entrant will be somewhat limited. Also, many consumers who are not familiar with an unbranded foodservice establishment may be apprehensive for trying a new restaurant.

A key success factor for fast food restaurants is the ability to satisfy customers by providing a menu that is attractive and satisfies their needs and cravings. By offering a wide variety of items on the menu including healthy, fresh food, restaurants appeals to more customers. Restaurants need to be flexible and adaptable to market trends. The ability to market food products and create brand loyalty is key because products like

burgers are homogeneous or similar in nature therefore fast food restaurants spend a lot of effort and resources to differentiate their products. It is also key for customers to perceive they are getting added value and quality with their food which further enhances customer satisfaction and retention. One thing that every franchise emphasizes with their training and product preparation and specifications is to ensure food consistency across all their chains, therefore customer expectations can be satisfied no matter where they visit one of their franchises.

### **2.1.1.3 Economies of Scale – Moderate Barrier to Entry**

Chained restaurants benefit from economies of scale concerning their supply, distribution, marketing as well as learning economies that independent restaurants do not have access to at lower costs. Economies of scale are reduced costs per unit because production is large enough to spread costs over a larger scale. Chained restaurants are able to consolidate their supply and distribution network over large regions so they are able to benefit from lower costs and increased operational efficiencies. They are better able to reach a minimum efficient scale (MES) in order to produce at a low average unit cost, which in turn lowers the long-run average costs of the organization.

A key success factor for fast food restaurants is to operate with low costs because their products are homogeneous and consumers are price sensitive. Although franchises place a lot of effort to differentiate their brands, fast food customer's demand for their products will vary according their price. Therefore, if a restaurant consistently has higher prices for a hamburger, then a customer will prefer to buy that hamburger at a different store at a lower price if they perceive their quality is similar.

#### **2.1.1.4 Switching Costs – Low Barrier to Entry**

Consumers have no switching costs for eating at different fast food restaurants. If a new incumbent enters the market, customers can easily dine at the new restaurant. Convenience is a large factor that determines where a person will eat, therefore location, convenience, fast service, consistent food quality are all assets that will attract both regular and impulse customers. A drive-thru in a convenient high traffic location is an asset that would be beneficial for a new entrant to have in order to encourage consumers to buy their food. If a new entrant is able to locate in an ideal location, there is a good opportunity for them to enter the market.

#### **2.1.1.5 Access to Distribution Channels – Low Barrier to Entry**

Every major restaurant chain has their own distribution network or contracts with major distribution suppliers. The ability to purchase in large quantities is an asset to reduce costs because it enables resources to be purchased at lower prices. These include food products such as meat, produce, and dairy as well as paper products for wrappings purchased through established distribution networks. It is also easy for individual restaurants not affiliated with an established chain to access goods from already established distribution networks. Companies such as Sysco, Sunspun, Bridge Brand and Loblaws are large food distributors already supply many large and small restaurants in Northern Canada. The fast food industry is a cost sensitive industry, therefore in the long run, it is advantageous to have access to a reliable, consistent supply that is cost effective. Smaller restaurants do not have significant buyer power in comparison to the larger chains, therefore they will tend to have higher food costs.

#### **2.1.1.6 The Threat of Entry - Conclusion**

Overall, the barrier to entry is not very significant to prevent larger chained restaurants because they have larger brand awareness and marketing budgets as well as access to larger distribution networks with lower costs. Smaller restaurants are able to enter the quick service sector relatively easy as well, however they may have a cost disadvantage with regards to supply costs. On the other hand, some of their operating costs will be lower in comparison to franchises since they do not have to pay monthly franchise and marketing fees. They are also not required to adhere to corporation standards and procedures for production and promotions. If the foodservice industry in the Northern Canadian city appears profitable, then it would be relatively easy for entrants to establish a restaurant in the market. There are no significant barriers to entry that would prevent entry however, a key success factor would be to secure a site that would be located in an area with optimal traffic. Firms with additional financial capital would be better able to afford prime real estate locations that have a higher chance of success.

#### **2.1.2 The Power of Suppliers – Moderate to High Power**

According to Porter, if suppliers in a particular industry have significant power, then they will be able to extract higher prices for critical components, which reduce the industry's average profitability. In general, two factors determine the strength of supplier power. The first is if there are only a few suppliers for a particular product relative to a large number of buyers. Therefore, demand for the product is higher than the supply, which results in the ability for suppliers to charge premium prices for their crucial good. The second is if the supplier has control over an important product, then they will have

greater power in general (Bourgeois et al, 1999). The main inputs for a fast food restaurant are labour, food supplies, beverage supplies, and equipment. Many of the larger chains have reduced the hold their suppliers have by vertically integrating and distribute their own proprietary supplies to their franchisees.

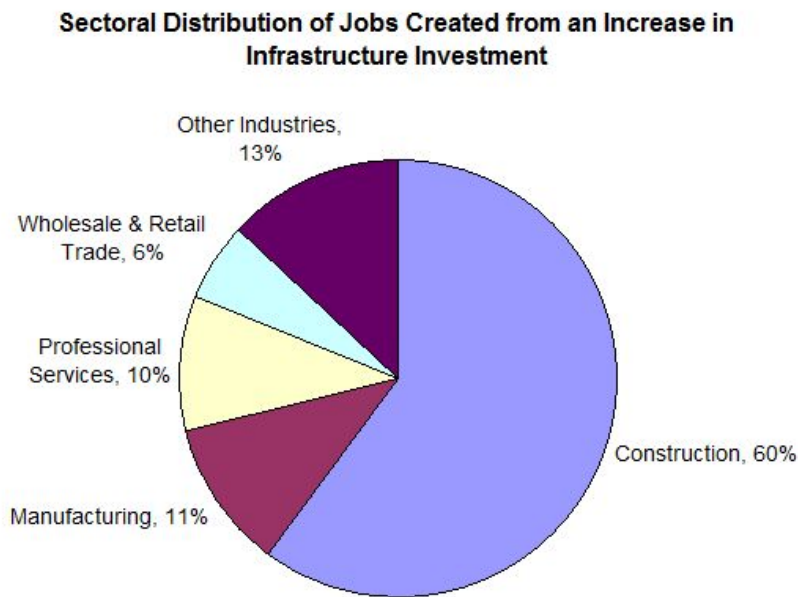
#### **2.1.2.1 Labour – Moderate-low Power**

In 2006, the province was in the middle of a severe labour shortage, and analysts estimated there was a shortage of 100,000 workers over the next ten years (McGinnis, 2006). It was a very difficult period for many years for small businesses including restaurants. The shortage was more prevalent in the more remote rural areas of the province because firms not only had the difficulty of finding employees, but they had to pay a relatively higher wage to people occupying low skilled positions (The Daily, 2006).

The situation changed dramatically since the recession. The unemployment rate in the United States reached a twenty-five year high of 9.4 percent with a loss of over 6.0 million jobs while the Canadian unemployment rate rose to 8.4 percent in May 2008 (Canada's Economic Action Plan, 2009). In contrast, the unemployment rate in the province was 6.6 percent; therefore, the supply of labour in the province was not as readily available as the rest of the country. The government hopes that its policies and action plan will stabilize and slowly recover the Canadian economy for the second half of 2009. One of the Action Plan's aims is to create or preserve 190,000 jobs through innovations with the Employment Insurance (EI) system, a Home Renovation Tax Credit and many federal infrastructure projects to upgrade bridges, roads and buildings. As seen from Figure 2:1 below, the majority of jobs, sixty percent, were created in the

construction sector and the remaining jobs were in industries that support the construction industry.

Figure 2:1 Jobs Created from Infrastructure Investment Increase<sup>13</sup>



In terms of the strength of supplier power for labour, the power changed from high in 2006 to moderate-low in 2009. During the recession, restaurants are able to find enough employees however, as the economy gains strength, then labour that is more skilled will leave the foodservice industry for higher paying jobs that will tilt the power back to labour supply strength.

### 2.1.2.2 Food Supplies – Moderate Power

As stated in Section 2.1.1.5, Access to Distribution Channels, there are several large food distribution firms in Canada. Such as Sysco, Sunspun, Bridge Brand and

<sup>13</sup> Canada's Economic Action Plan. (June 5, 2009). *Economic Climate*. Retrieved from <http://www.actionplan.gc.ca/eng/feature.asp?pageId=114>

Loblaws that supply both small independent restaurants and large restaurant chains. Many of the franchised fast food corporations either negotiate contracts with these distributors on a national or regional level to supply a large number of restaurants. Other franchises negotiate with producers directly to make proprietary products, for example, frozen burgers that are exclusive to each chain, and then delivered via their own distribution channels or through companies like Sysco. McDonald's has been very successful as a low cost operation due to its size and buyer power to extract lower prices from its suppliers as well as vertically integrating a large part of their supply chain with their own storage and distribution network.

Restaurants in the more remote rural areas of Canada have limited flexibility concerning their food deliveries as compared to the larger urban Canadian cities from food distributors like Sysco since their storage facilities are near the denser urban cities. Deliveries are made once or twice a week therefore stores must anticipate inventory levels for goods in advance just in case there are shortages at the warehouse or if the transport truck breaks down. In addition, transport costs can be higher for smaller deliveries because transport/gas fees of up to \$150 per delivery is charged if an order is under a minimum amount. Smaller, low volume restaurants have cost disadvantages because they do not have the bargaining power to negotiate lower prices with food producers and distributors.

The province is limited to three fluid milk processing companies: Dairyland (Saputo), Parmalat, and Lucerne. Therefore, restaurants like Dairy Queen have little bargaining power with Dairyland over the price of milk for their ice cream. Other commodities like beef are also subject to market rates and prices vary. Increasing costs

of gas and electricity have increased the prices of both dairy and beef, which is passed along to restaurants and consumers. Smaller restaurants are at a big disadvantage in comparison to large corporations like McDonald's since they are able to enjoy lower costs spread over many stores.

### **2.1.2.3 Beverage Supplies – High Power**

Pepsi and Coca-cola are very powerful beverage suppliers. Fast food restaurants only have a choice between the two firms. Some franchises deal exclusively with either Pepsi or Coca-cola on a national level, while other franchises allow the franchisee to contract either company for their restaurant. Both Pepsi and Coca-cola are very competitive with one another and are constantly struggling to increase their market share. Both companies offer higher volume restaurants incentives and rebate to sell their products however; restaurants have little bargaining power on their pop and juice prices.

### **2.1.2.4 Supplier Power – Conclusion**

Individual fast food restaurants have low control over many of their product inputs and are subject to the prices suppliers dictate. A key to success for fast food restaurants is to keep costs low in order to have lower product prices. It is advantageous to be a part of a larger franchise in order to capitalize on economies of scale and higher bargaining power to negotiate lower food/beverage prices.

### **2.1.3 Buyer Power – High Power**

According to Porter, powerful buyers can make an industry less attractive and reduce profitability since they can demand price concessions for products and services. If there is a relatively low concentration of buyers to suppliers, then buyers have greater



power. In addition, if the product supplied is not exclusive or proprietary then buyers have more power because they have more choices of which supplier to use. The buying power of one individual customer at a fast food restaurant is quite low but the combined power of many consumers is high. Low switching costs strengthen buyer power in fast food restaurants because if consumers are dissatisfied with one store they can easily avoid that store. Although fast food consumers are not collectively purchasing and coordinating their restaurant spending, many factors will influence where they eat. Convenience, speed, location, consistency and quality of food and service are all characteristics that buyers demand from all fast food outlets. If a restaurant consistently fails to provide some services that are not on par with a buyer's expectation, then the store will lose sales.

The primary method that fast food restaurants use to mitigate buyer power is to differentiate their brand and create value for the consumer. Fast food consumers are price sensitive; therefore, restaurants differentiate their menu items to appeal to different tastes, cravings and impulse purchases in hopes of creating brand loyalty to their 'favourite' foods and treats. Canadian consumers are also very time sensitive concerning their fast food purchases. Drive-thru and quick in-store services are vital to appeal to customer needs. Restaurants need to be flexible and adapt healthier menu options with lower trans fat foods are also important trends to monitor.

The growing baby boomer demographic that will grow to thirty-four percent of the Canadian population by 2020 will control 50.7 percent of the nation's total gross income (Euromonitor International, 2009). A key factor is to appeal to the high buyer power of this age group since their influence will increase over the next ten years. A&W

has specifically catered to this target group and has successfully gained fourteen percent market share in 2008 as revealed in Table 2:2 in section 2.1.5 Competitive Rivalry below.

#### **2.1.3.1 Buyer Power – Conclusion**

The old adage ‘location, location, location’ is vital to the long-run success of any restaurant. Consumers have high expectations with the type of food quality and service but more importantly, it must be fast and convenient. Fast food restaurants have high competition and are subject to consumer trends, dietary health concerns and hard economic times, therefore they must work hard to attract and maintain diners to their stores.

#### **2.1.4 The Threat of Substitute Products – High Threat**

Porter’s model indicates if substitute products or services are readily accessible then firms in the industry will experience lower average profitability. The degree to which the substitute can replace a product also accounts for the extent of its threat to the existing firms in the industry.

##### **2.1.4.1 High Number of Substitute Food Service and Products**

There are many firms that offer food products and services but they are in different foodservice segments. Figure 1:5 QSR Segments lists several substitutes such as convenience stores, doughnut shops, coffee shops, ethnic, sandwich and bakeries. Their relative strengths within the foodservice industry are shown in the figure. These stores offer quick meals and snacks; however, their menus offer items that differ from the average hamburger fast food restaurant. Figure 1:4 Canadian Restaurant Trends lists other restaurants segments like fine, casual, retail and family dining. These restaurants

may offer similar food items as hamburger fast food restaurants but the service style would differ, for example, a sit down family restaurant may serve burger and fries, however it has a much longer wait time with a full dining experience versus picking up value meal at a fast food drive-thru. A key reason why substitute restaurants are so successful is that they are able to differentiate into their varied niches. One restaurant in particular, Tim Hortons, has been able to capitalize on many key market factors.

#### **2.1.4.2 Tim Hortons**

Although there are many available substitutes the quick service sector dominates with 60.1 percent of the dollars spent by consumers for the total Canadian foodservice industry. Out of the quick service segment, the hamburger category makes up the largest portion with 28.4 percent. Table 2:1 below represents a study by CREST or Consumer Reports on Eating Share Trends in conjunction with NPD Group. It reveals the percentage share of dollars per restaurant in a twelve month period in 2008. Tim Hortons is a significant substitute competitor with 27.4 percent share of dollars, and is the major driver of growth in the quick service segment of the industry (CREST, 2009). Although they do not share any core menu items with QSR hamburger places, they are capturing a larger portion of the market each year. More than fifty percent of Tim Horton's revenue derives from coffee sales (Euromonitor, 2008). Tim Horton's popularity is due to their ability to optimize on several key success factors. First, they have over 2800 conveniently located stores all over Canada and many of them have a drive-thru. Second, they are capturing the growing breakfast trend. Third, they are capitalizing on the healthier eating trend with many of their menu items, such as muffins, soup, sandwich

and wraps. Fourth, their coffee is their major driver for success, consumers want good coffee with their breakfast or lunches.

Table 2:1 Top Canadian QSR Operators % Share of Dollars, 12 me Nov'08<sup>14</sup>

Top Canadian QSR Operators % Share of Dollars, 12 me (months ending) November 2008		
Restaurant	% Share of Dollars	PCYA (% change vs. year ago)
<b>Substitute Restaurants</b>		
Tim Hortons	27.4%	7%
Subway	7.2%	7%
QSR Independent	4.3%	-11%
KFC	3.9%	3%
Starbucks	3.4%	12%
Pizza Pizza	2.7%	5%
<b>Direct Competitor Restaurants</b>		
McDonald's	17.1%	5%
A&W	4.3%	9%
Wendy's	3.7%	4%
Dairy Queen	2.7%	3%
Total QSR Dollars: \$16,874,080,000		
PCYA = +5%		

### 2.1.4.3 Threat of Substitute Products – Conclusion

The foodservice industry is very large and has many different types of products and services. Hamburger QSR are losing market share and profitability to a significant substitute competitor, Tim Hortons. In order to reduce the high threat, hamburger fast food restaurants must further differentiate and diversify by offering healthier menus, include breakfast options, and have better coffee. Fast food chains must also continue to optimize existing strategies such as low cost operations, branding, and having convenient locations.

<sup>14</sup> CREST. (March 2009). *BC Operators Association Report*. Retrieved June 10, 2009 from <http://www.dairyqueen.net>

### **2.1.5 Competitive Rivalry – Very High**

When there exists a significant rivalry among firms in an industry, there is a reduction in the average industry profitability because competition drives down prices or increase costs when firms must match features of their products and services to their rivals. Also, when the growth rate in an industry declines, then rivalry increases as firms compete heavily to maintain or take more market share from each other. Another reason rivalry is high in an industry is if there is excess capacity, that is firms overproduce and therefore the excess supply results in lower prices and profits. The rivalry in the fast food industry is very high because the market is mature and saturated with many competitors. Competition is further enhanced because of the economic recession and consumer spending has tightened. In addition, the increasing threat of a strong substitute competitor, Tim Hortons, who has captured larger portions of the fast food market, is intensifying industry competition. It is interesting to note from Table 2:1 above, that QSR independent restaurants have negative eleven percent growth from the previous year, this is likely due to lack of the ability to create value with brand enhancement and can not be competitive with higher product and distribution costs.

#### **2.1.5.1 Top Competitors in Canadian Hamburger Quick Service Restaurants**

Table 2:2 below, shows the CREST study results for the top Canadian hamburger QSR operator's percent share of dollars for 2008. The average percent change versus the same period a year ago (PCYA) for the hamburger quick service segment is three percent. McDonald's has the largest share at 55.9 percent with a growth of two percent. A&W has the second largest share at 12.2 percent with eight percent growth; Burger King also shares an eight percent growth increase from the previous year. Dairy Queen

has the fourth largest percent share of dollars at 9.3 percent; however, they are below the industry PCYA average with only one percent growth. Currently, there are no Harvey's restaurants in the same region as ABC Holdings, therefore only a brief discussion of their firm will be conducted.

*Table 2:2 Top Canadian QSR Burger Operators % Share of Dollars, 12 me Nov'08<sup>15</sup>*

Top Canadian QSR Burger Operators % Share of Dollars, 12 me (months ending) November 2008				
Restaurant	% Share of \$ National	PCYA National	% Share of \$ *Provincial	PCYA *Provincial
Total QSR Traffic	946,770,000	3%	139,746	0%
McDonald's	55.9%	2%	46.1%	-3%
A&W	12.2%	8%	21.4%	14%
Wendy's	10.8%	4%	10.8%	-1%
Dairy Queen	9.3%	1%	15.0%	-10%
Burger King	7.4%	8%	4.5%	0%
Harvey's	3.3%	-4%	0.9%	0%
PCYA (percent change vs. year ago)		*Actual province kept anonymous		

### 2.1.5.2 McDonald's Corp

McDonald's is the global leader in the burger fast food sector, with 31,377 outlets in 118 countries (Euromonitor International, 2009). McDonald's employs over 1.5 million people that serve more than forty-seven million customers every day. In Canada, there are over 1,400 McDonald's. The ongoing monthly franchise fee is four percent of gross sales in addition to rent that is a percentage of gross sales (McDonald's, 2006). Their diverse geographic presence is one their strengths because it makes them less reliant on sales from the United States as compared to their competitors. Their biggest strength is their large economies of scale that grants them high bargaining power with

<sup>15</sup> CREST. (March 2009). *BC Operators Association Report*. Retrieved June 10, 2009 from <http://www.dairyqueen.net>

suppliers and control over its franchisees. McDonald's forward and backward integrated along its supply chain, it operates over forty distribution centers in the U.S. that supply meat, produce, baked goods, promotional products, training and development products, chemical and employee temp services (Euromonitor International, 2009). In 2007, McDonald's created a store within a store concept with the McCafe brand name that potentially added US\$140,000 revenue per outlet. McDonald's strategy was to target coffee consumers who could no longer afford Starbucks but still wanted specialty coffee drinks. In 2008, McDonald's further strengthened its key breakfast sales by launching their breakfast burrito and premium drop coffee.

#### **2.1.5.3 A&W**

A&W has almost 700 stores in Canada that employed 21,000 people with \$638.7 million net sales in 2007. A&W charges a 2.5 percent of net sales for franchise fees with an additional 2.5 percent for national advertising (A&W, 2009). They are the second largest burger chain franchise and has slowly improving its market share by revamping its menu and redesigning its restaurants. A&W also distributes its root beer in cans and bottles throughout Canada through an independent bottler licensed to manufacture and distribute the drinks to retail grocery stores. A&W has chosen to position itself to target the baby boomer generation as well focussing on its drive-thru business for the breakfast and lunch market segments (Euromonitor International, 2008).

#### **2.1.5.4 Wendy's /Arby's Group**

Worldwide, there are over 6,600 Wendy's stores and 3,750 Arby's stores in twenty-two different countries with approximately 70,000 employees. Franchise

royalties are four percent of gross sales with four percent for advertising (Wendy's/Arby's Group, 2008). In December, 1995, Wendy's merged with Tim Horton's and by October 2006 they spun off Tim Horton's in order to strategically focus on burgers. Wendy's struggled financially with stagnant same-store sales due to heavy reliance on the U.S. market since ninety-five percent of their outlets are based in North America and could not out perform against McDonald's and Burger King. Wendy's supply chain operations is partially vertically integrated with its own bakery subsidiary that supplies buns to its company and franchise operated restaurants. In general, they do not sell food or supplies directly to their franchisees, but utilizes a distribution program that allows for volume purchasing arrangements with independent distributors. Approved suppliers then store and distribute the products to the various local restaurants (Euromonitor International, 2008).

Wendy's strategic objectives are to focus solely as a burger fast food chain with its 'fresh, never frozen' beef campaign that emphasizes freshly made products. They are also attempting to diversify their menu. Wendy's tested a breakfast menu in 2007 with twenty to thirty percent of its restaurants and introduced Javaccino coffee and specialty drinks. Wendy's differentiation strategy is to emphasize healthy eating, old-fashioned values and traditional food (Euromonitor International, 2008).

#### **2.1.5.5 Burger King**

Burger King has more than 11,800 restaurants in seventy-five countries, with 300 stores in Canada. Franchise royalties are four percent with an additional four percent for advertising (Burger King Corp, 2009). Burger King is the second largest burger fast food chain in the world with sixty-three percent of its outlets in the U.S. and plans to expand



its international outlets to forty-five percent in the next five years. Burger King's strategy is not clear and attempts to focus on contradictory trends for premium, indulgent fast food at a value price with healthier products. They are reliant on their scale economies and large advertising budget and essentially chasing McDonald's for sales both within the U.S. and globally. Burger King is targeting its 'SuperFans' or customers that eat nine or more times a month at burger fast food stores. They implement a 'barbell menu strategy' that combines limited time product launches that include an indulgent, a value item and a value breakfast item on their menu (Euromonitor International, 2009). As part of their international branding plan, they have introduced premium and localised burgers that cater to different countries. They have also introduced a premium coffee line, BK Joe (Euromonitor International, 2009).

Burger King does not own its own distribution facilities and they require their franchisees to purchase from approved supplier lists in order to guarantee quality, price and consistency of products. Burger King operates an independent purchasing cooperative, US. Restaurant Services Inc. (RSI), formed in 1992 to increase their purchasing power for food, equipment and promotional items as well the distribution manager for U.S. and Canadian franchisees (Euromonitor International, 2009).

#### **2.1.5.6 Harvey's**

Harvey's is an entirely Canadian franchise that started in 1959 in Richmond Hill, Ontario. The franchise has approximately 300 locations in Canada, Harvey's is owned and supported by Cara Operations Limited who also owns Swiss Chalet, Kelsey's, Monatana's and Milestone's in Canada. Harvey's franchisees are able to utilize Cara's scale economies with regards to marketing, product development, purchasing, real estate

and IT. Harvey's royalty fees are an ongoing weekly five percent of gross sales, in addition to a four percent advertising fee and ongoing operating costs and rental fees (Harveys.ca, 2009).

#### **2.1.5.7 Regional/Provincial Competitors**

The small Northern Canadian city has a population of 50,000 and main economic drivers for the city are oil and gas, agriculture and forestry. The city was enjoying a rich economic boom until the recent global recession and drop oil prices. The burger fast food market saturated in the city, which has, four McDonald's, one Burger King, two Wendy's, two Dairy Queens, one A&W. For other substitute fast food competitor there are two Tim Hortons, one Arby's, four Subways, one Orange Julius, two KFC, one Extreme Pita, two Pita Pit, one Mr. Sub, two Taco Time, one Taco del Mar, and two Quiznos (Allpages.com, 2009).

An interview on June 15, 2009 with a multi-unit franchise owner who wishes to remain anonymous gave his insight on the fast food industry in the province. As an owner of several Wendy's, Arby's and Dairy Queens throughout the province he indicated that up until the recession he was experiencing growth between eight to fourteen percent among his stores, however during the recession sales have fallen flat and now has close to zero percent growth. A combination of hard economic times with a saturated industry within the city has shrunk the overall profitability and increased the rivalry among all the restaurants. His insight with the industry is inline with CREST's survey for 2008 from Table 2:2. On a provincial level, there was no growth in 2008 for consumer dollars spent on burger quick service restaurants, but DQ did badly with minus ten percent loss in growth from the previous year. McDonald's lost three percent and

Wendy's lost one percent while A&W did well by capturing all the lost sales from its rivals with a fourteen percent increase.

Table 2:3 below is a summary of a CREST customer satisfaction survey for burger quick service restaurants in Western Canada in 2009. The table identifies four major categories of key success factors, Service, Food, Environment and Price/Value. Each category can be further broken down. Service entails factors such as pleasantness, fast/efficient, response, and speed of service. Food includes factors like taste, quality, freshness and variety of menu items. The Environment category encompasses items such as cleanliness, convenient location, and atmosphere. The last category of Price/Value includes value, affordability and portion size. A&W did very well and scored as top performers in every category while DQ did badly in every category except for food quality, taste and freshness.

DQ has many weaknesses especially concerning Service pleasantness, speed and customer response to problems. DQ scored very badly for value and affordability which is most likely the primary reason why the franchise has been losing market share. Another weak factor for DQ is the atmosphere, this is due to the resistance of franchisees unwilling to modernize their stores and update their service styles to the Grill & Chill, which would increase efficiency, speed and atmosphere. A newly renovated store also changes the perception of the cleanliness of the store since outdated worn interiors and exteriors are refreshed. DQ's many weaknesses are opportunities for many changes to optimize on the key success factors that in turn satisfy customers to increase revenue.

Table 2:3 Western Canada CREST Customer Satisfaction Survey, YE Nov 2008<sup>16</sup>

Western Canada CREST Customer Satisfaction Report, Year Ending Nov. 2008					
	Mean	DQ	A&W	McDonald's	Wendy's
Service	42	38	48	38	44
Pleasant Service	43	40	49	40	42
Fast/Efficient	43	34	49	40	48
Accurate	57	57	63	53	56
Valued Customer	31	28	36	25	33
Service Speed (after order)	44	38	49	40	48
Responds to Problems	34	29	39	32	36
Length of Wait (before order)	42	39	49	37	43
Food	46	47	50	37	50
Temp of Food	47	48	51	39	50
Food Taste	48	51	54	36	51
Prepared as I like	46	46	51	38	49
Quality Food	43	45	48	33	48
Food was fresh	47	50	52	37	51
Variety of Menu Items	44	44	44	39	52
Environment	40	38	45	36	40
Clean Restaurant	40	36	46	34	44
Kid Friendly	41	41	42	39	41
Convenient Location	52	52	57	52	48
Atmosphere	30	27	34	27	34
Clean Washroom	36	36	43	30	34
Price/Value	38	31	42	40	41
Good Value	37	28	41	40	40
Affordable	37	26	40	44	39
Portion Size	41	40	45	36	45
		<b>Top Performers</b>	<b>Bottom Performers</b>		

### 2.1.5.8 Competitive Rivalry – Conclusion

The burger fast food market is a very mature saturated industry with many strong competitors, which has become even more competitive with the recession. McDonalds and other global chains that have larger economies of scale benefit with lower costs. The chains that have been able to follow consumer trends have been able to take advantage of

<sup>16</sup> CREST. (March 2009). *BC Operators Association Report*. Retrieved June 10, 2009 from <http://www.dairyqueen.net>

being early movers in the burger fast food industry. Trends such as breakfast, premium coffee, value menu items and healthier menus are all items that many of the chains are starting to adopt. One of the reasons why McDonald's and A&W are first and second largest in market share is because they were able to capitalize as early movers for the breakfast trends.

Dairy Queen has been losing market share over the years and it is especially difficult since DQ's strategy has not been cost focussed in the past. DQ's direct competitor's main source of business is burgers and food, while only thirty-six percent (Figure 1:9) of DQ's revenue is derived from food versus sixty percent from treats. DQ's competitors are slowly encroaching and copying many of DQ's treats, McDonald's carries sundaes, cones and flurries, and Wendy's new product are their Frosty Shakes. For the moment, McDonald's is focussing on competing with Starbucks with their premium coffee line and McCafe expansion.

#### **2.1.6 Porter's Sixth Force – Chance**

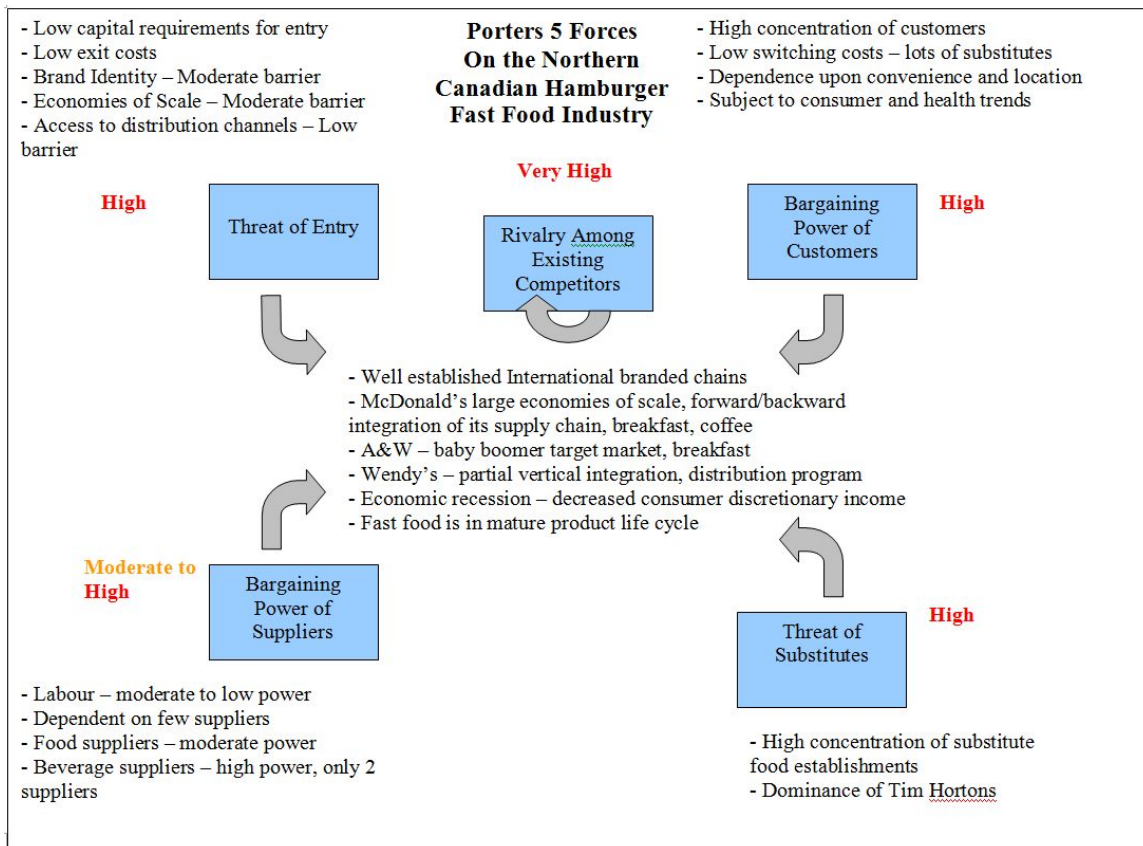
On occasion, other forces influence the structure and profitability of a firm that is attributed to chance. Jay of ABC Holdings is over seventy years old and wishes to retire. Perhaps his stores' poor performance is not entirely due to the recession, since Jay has not been directly managing them for many years. Agency issues arise where managers may not have the owner's best interest at heart when managing the store. Vital decisions and the direction of the store operations may not be as efficient as it should be, therefore costs are higher or quality of food and service suffers. Jay has also been putting off many store upgrades to modernize the store to keep them aligned with IDQ's branding strategy.

There is also the chance that Jay's children may step up and take over the business or a buyer with a fair price will make an offer Jay will not refuse.

### 2.1.7 Industry Attractiveness

The overall effects of the Five Forces upon the fast food industry in Northern Canada do not create a very attractive industry. Low barriers to entry, moderate to high power of suppliers, high buyer power, high number of substitute restaurants and very high rivalry, are not conducive for a favourable environment to compete. Conditions are further exasperated with the economic recession and consumer's decreased budgets for discretionary funds. Figure 2:2 below is a summary of Porter's Five Force Analysis.

Figure 2:2 Porter's 5 Forces Summary



### 2.1.8 Summary of Key Success Factors (KSF)

Porter’s Five Forces analysis has revealed several key factors for success for a burger quick service restaurant, which are rated in Table 2:4 below. They include economies of scale for supply and distribution networks in order to reach a minimum efficient scale (MES). Costs are reduced since supplier power can be mitigated with the franchises higher buyer power. Reputational capital is important to create consumer value for loyalty and repeat business. Reputational capital, created through product differentiation creates ‘added value’ with price and quality of food and service. Convenience is also another key success factor, fast food restaurants need to be located in easily accessible, high traffic locations with a drive-thru. Quick service is a necessity for the time conscious consumer especially during breakfast and lunch periods. Other key success factors that cater to growing consumer trends and needs are breakfast, premium coffee and healthy menu choices.

*Table 2:4 Key Success Factors- Relative Level of Importance*

High	Medium	Low
Convenience/Location	Menu Variety	Environment, clean
Price	Breakfast	Pleasant Atmosphere
Reputational Capital/value	Coffee	Target Baby Boomers
Service, Fast/Efficient	Healthy Menu	
Food Quality, Freshness		
Economies of Scale		

### 2.1.9 Competitive Analysis

ABC Holding’s DQs regional competitors outlined earlier in Section 2.1.5.7 were listed as A&W, McDonald’s, Wendy’s and Burger King. Based on the Five Force Analysis, the Crest customer survey in Table 2:3 and other sources, the key success factors are listed from most important at the top to less important at the bottom in Table

2:5 below. Each company is rated on a five-point scale for their strength with each factor. A score of one means strong and five equals weak (ie. 1=weak; 5=strong).

As seen from the table, A&W is strong with many KSF including value, service, food quality, breakfast, coffee, clean environment and targeting baby boomers. A&W's strengths are factors that accounts for their success and ability to capture a larger portion of the burger share dollars of fourteen percent change in November 2008 versus the previous year from Table 2:2. DQ's poor performance of negative ten percent share of burger dollars from November 2007 to November 2008 is inline with how weak DQ's position for the majority of the KSF in comparison to its competitors.

*Table 2:5 Competitive Analysis*

<b>KSF (Rating 1 to 5, where 1 is worst, 5 is best)</b>	<b>DQ</b>	<b>A&amp;W</b>	<b>McDonald's</b>	<b>Wendy's</b>	<b>Burger King</b>
<b>Convenience/Location</b>	3 - O	2	5	4	1
<b>Price</b>	1 - O	4	5	3	2
<b>Reputational Capital/value</b>	1 - O	5	4	2	3
<b>Service, fast/efficient</b>	3 - O	5	2	4	1
<b>Food Quality, freshness</b>	5 - T	4	1	3	2
<b>Economies of Scale</b>	1 - O	4	5	3	2
<b>Menu Variety</b>	4 - T	3	2	5	1
<b>Breakfast</b>	1 - O	4	5	2	3
<b>Coffee</b>	1 - O	4	5	2	3
<b>Healthy Menu Options</b>	4 - T	1	3	5	2
<b>Environment, clean</b>	2 - O	5	1	4	3
<b>Pleasant atmosphere</b>	2 - O	5	1	4	3
<b>Target Baby Boomers</b>	3 - O	5	2	4	1
<b>Total</b>	31	51	41	45	27
O = Opportunity      T = Threat					

#### 2.1.10 KSF – Threats

The competitive analysis in Table 2:5 above revealed three main threats to DQ's competitiveness.



- **Food Quality, freshness** – DQ rated high on the customer satisfaction survey for the quality of the food and its freshness. It is important that DQ maintains its high standards and closely monitors their stock turn around so that food products do not remain in storage too long.
- **Menu Variety** – For the moment, DQ is able to offer a wide menu variety because a large treat menu supplements its food products. Franchisees have no control over its menu variety and must rely on headquarters to constantly innovate and introduce new menu items following market trends. Competitors are continually expanding their ice cream dessert products. For instance, Wendy has recently introduced their hand-spun Frosty® shakes. Although Wendy's does not have the variety of flavours that DQ offers, they are a threat because they are encroaching on DQ's core competency of ice cream treats.
- **Healthy Menu Options** – Franchisees have little control over their menus. Therefore, there is reliance upon IDQ to monitor health trends and adapt core menu changes when the need arises.

#### 2.1.11 KSF - Opportunities

DQ is lacking in quite a few areas, which are the reasons why DQ has been losing market share to its competitors.

- **Convenience/location** - The key success factor of convenience/location can be remedied if Jay or his kids decide to open a third DQ in a prime location. The question is whether Jay really wants to take on the responsibility of a third store at this stage of his life, or if his children want to purchase the stores in addition to

building a new one. Perhaps as a long-run solution, a third location will be considered, but for the moment, the scope of this paper will only cover the two stores.

- **Price** - In comparison to its competitors, IDQ has been very slow to adopt a value priced menu. This mistake has been costly with the franchise's lost market share.

Table 2:6 below shows a tentative breakdown of how successful the Sweet Deals menu was in March and April of 2009. Sweet Deals accounted from 9.26 percent to 14.7 percent of store sales, which indicates that consumers are enjoying the flexibility and value with the menu that will add to DQs brand reputation and its ability to keep its customers coming back. The long-run success of the Sweet Deals menu will require close monitoring of the COGs and IDQ's ability to keep product costs in check.

*Table 2:6 Sweet Deals Sales March & April 2009<sup>17</sup>*

Sweet Deals by Region – 2009 March & April Sales (Based on 50 polled stores)					
	Maritimes	Ontario	Sask.	Alberta	B.C.
March					
Qty Sold	27.21%	28.89%	-7.85%	-7.47%	-3.85%
COGs	-1.03%	-2.51%	-0.51%	-1.35%	-0.60%
SD% Sales	13.64%	9.26%	13.42%	11.57%	11.15%
April					
Qty Sold	8.96%	-8.67%	22.83%	13.63%	6.95%
COGs	0.83%	0.40%	0.69%	-0.16%	-0.24%
SD% Sales	14.70%	9.15%	13.89%	12.42%	11.53%

- **Reputational Capital/value** – DQ allocates a budget of five percent of monthly gross sales towards advertising. The majority of this budget funds IDQ's national

<sup>17</sup> CREST. (March 2009). *BC Operators Association Report*. Retrieved June 10, 2009 from <http://www.dairyqueen.net>

advertising campaigns that include television and radio ads, as well as promotional material such as posters and coupons. IDQ also requires each franchisee to market locally with advertising and sponsorships. IDQ then reimburses each franchisee for the local advertising budgets. Since Jay has stepped away from the day-to-day operations of the store, the managers have been advertising minimally within the community. There is an opportunity for Jay' managers to step up and be more involved with the community. However, without the proper incentives for the managers to promote the store, nothing will change.

- **Service fast/efficient** – Jay' DQs are limited at their current capacities unless renovations and upgrades are done. If the stores are upgraded to the Grill & Chill design, then it improves service efficiency. There is also an opportunity to revamp the drive-thru system to be more efficient if the stores are renovated.
- **Economies of Scale** - Jay has limited control over some of the key success factors such as the distribution network since his two stores are the only DQs in the region, Saputo is the only dairy supplier he can use for his ice cream and therefore is subject to their prices. In the past, Sysco used to be the main distributor for DQs in the province; however, they dropped the contract because as a whole, the volume was too low for them to keep DQ as a client. After quick negotiations with IDQ, Sunspun took over the provincial DQ account however, the smaller company was more expensive and delivery was sporadic because their trucks broke down or they would have issues with their distribution center with how they packed the products in the truck since goods were often damaged. Currently, Bridge Brand a Gordon Food Service company is distributing DQ products and they are providing better prices and

services in comparison to Sunspun. Jay also has little control over his cost of goods (COGs) from IDQ since he is obligated to purchase DQ products, therefore he must rely on IDQs ability to negotiate with suppliers for better prices.

- **Breakfast** - Jay's ability to offer breakfast at his DQs is somewhat limited because the franchise has not adopted the national breakfast menu. He maybe able to offer limited items and advertise locally to promote breakfast, however without a national marketing campaign it would be more difficult for consumers to associate DQ with breakfast.
- **Coffee** - The issue of coffee as a KSF can be temporarily remedied on a local level because the coffee at Jay's stores is a low/mid grade coffee sourced from an independent distributor. Jay can easily tell his manager to source a more premium coffee and market it on a local level, however IDQ would have to adopt a national coffee program and develop a premium coffee line of products that would hopefully integrate the treat aspects of DQ in order to differentiate it from competitors.
- **Clean Environment** – Both of Jay' DQs are showing their age, one was renovated in 1998 and another built in 2001. The walls, fixtures, tables, chairs and equipment are no longer in pristine condition, therefore the restaurants may not be perceived as 'clean' as they could be. Re-painting the building only attributes to a cosmetic change therefore there is further incentive for Jay to upgrade his restaurants to the Grill & Chill concepts.
- **Pleasant Atmosphere** - There are also additional opportunities to improve DQ's service and brand image if Jay either modernizes or converts his stores to the Grill &

Chill concept. It would be in his best interest to improve the old dated atmosphere of his stores to improve customer satisfaction and to create ‘added value’ with the self-serve pop stations and expedited seated quick service style format.

- **Target Baby Boomers** – IDQ’s target demographic age groups are adults between eighteen to forty-nine years old and children between two to eleven years old. (AM. D.Q. Corp., 2009). IDQ is not taking advantage of the growing baby boomer population; therefore, the opportunity to capitalize on this key success factor is missed. Jay’ ability to attract the baby boomer population is restricted without a national marketing campaign to support him.

## 2.2 Alternatives

- 1) The first alternative is for Jay to arrange leveraged buyouts for his stores with his children, Kim and Ross. The additional costs to upgrade the stores will have to be taken into account as part of the purchase price as well as the opportunity costs for when the stores are closed for business during the upgrade. Another condition would be if Kim wishes to implement a breakfast strategy, then would enough customers adopt DQ as part of their breakfast routine to offset the costs for an additional early morning shift and the local regional marketing to promote it. If the return on investment does not seem viable with the costs associated with the sale and if the organization's internal capabilities are not inline with the strategy, then it may be better to sell the stores instead.
- 2) A second alternative would be for Jay to sell both stores to an independent third party.

### **3: Internal Analysis – Diamond-E Framework**

The Diamond-E model is a strategic analysis tool that helps determine the viability of a strategy with its relationship with critical structural variables. It analyses whether a company's strategy is consistent or aligned with the environment, and the internal capabilities of a company with its resources, organization and management preferences (Crossan et al, 2005). Section 2: External analysis outlined the environmental conditions that Jay's Dairy Queens operate. The following sections will discuss the internal capabilities of ABC Holdings and if it aligns with the proposed alternative strategies.

#### **3.1 Management Preferences**

Jay purchased his first small DQ in 1980; by 1987, he demolished the little store and built a larger 3,300 square foot stand-alone DQ Brazier store. A few years later, a drive-thru was added onto the building that resulted in a significant increase in sales. In 1998, a second 3,000 square foot DQ Brazier was built. Both stores performed remarkably well over the years despite the long cold Northern Canadian winters and seasonal ice cream treat sales.

##### **3.1.1 Preferences**

After almost thirty years of operating his DQs, Jay is past the age of retirement and wishes his children would step up and take over responsibility of his stores. Jay prefers that his legacy with the stores be passed onto his children but is somewhat

apprehensive. His son wants to take over one of the stores; however, he does not want to purchase it, he expects it to be given to him. His daughter, Kim has moved away from the city and does not want to move back unless the leveraged buyout is favourable for her.

### **3.1.2 Decision Criteria**

Alternative two maybe more favourable for Jay since it will involve fewer family disputes and he would be guaranteed to receive a fair price for his stores and therefore better able to enjoy his retirement. Ultimately, the decision is up to Jay and what he feels is best for the family. There are also several personal reasons for why Kim is unwilling to move back to the city and operate the DQ.

### **3.1.3 Management Team**

It has been difficult for Jay to find reliable managers over the years. Ideally two managers each are needed for each store, however the labour shortages in combination with the cold winters has made it difficult to attract reliable people. Since DQ is open from ten am to eleven pm everyday and is only closed during Christmas and New Years, each manager works at minimum six days per week, with short breaks that result in more than sixty-five hour work weeks. Vacations are also very difficult to plan since store operations are highly dependent on the manager.

### **3.1.4 Leadership**

One other contingent before Kim would consider purchasing one of the DQs would be to find two trustworthy managers that would be willing to run the stores since she does not want to micro-manage the store on a daily basis. Another condition is for



the management team to take a more active role to market and promote the store within the community.

### **3.1.5 Gaps with Management Preferences**

There is a generational gap between Jay and his adult children with their perception of how to manage the stores. Jay has successfully operated his stores for almost thirty years and micro-manages every detail and decision. Disputes have arisen over the years because he expects his children to work thirteen hours a day, six days a week. Even on their days off, he expects them to go to work. Jay's lack of trust is also problematic because it is the main reason why he micro-manages the stores. The lack of transparency with the financials has hindered his managers from taking any initiatives to improve the stores' performance and to cut costs. Jay perceives that if his kids do not operate the stores the same way he has over the past thirty years, then they will fail, hence his apprehension to sell the stores his adult children.

### **3.1.6 Suggested Gap Bridging Solution**

If Jay decides to allow his children to purchase the stores, then he must be willing to release control entirely. A problem arises with this solution because Jay will ultimately be responsible for the leveraged buyout if either of his children fail to pay the bank and the franchise. As a result, Jay will use this power to influence key decisions with the stores, which will lead to more family disputes. The ultimate solution that would minimize family conflict is to consider Alternative 2 and sell the business to a third party.

## **3.2 Organization**

### **3.2.1 Structure**

The organizational structure within the DQ is informal with the owners as the central authority figures. There is a low degree of departmentalization and is monitored by one manager for each store who oversees all sections of the store. Jay's son manages the second DQ and up until recently, his daughter had managed the first store for quite a few years before moving on. The managers are responsible for every aspect of the store, from opening to closing. All human resource functions such as hiring/firing, scheduling, training, and payroll as well as operations and inventory management are some of the manager's duties. Jay must approve all major decisions regarding both stores before the managers can act upon them.

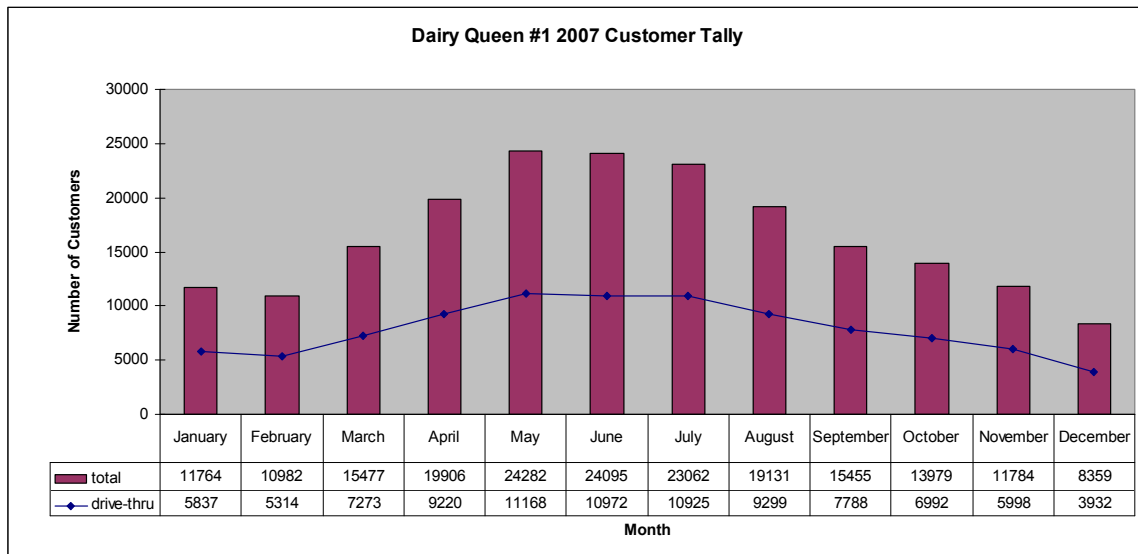
The routine responsibilities are spread throughout the supervisors and senior staff members. The store is organized into several main departments: the kitchen, drive-thru, cake department and the front counter area. The majority of the staff is cross-trained in several areas of the store in order to support 'busy' times in different areas. The staff at the DQ consists of a main core of senior full-time staff members, some who have been with the company for over twenty years. The DQ is also supported by a high turnover of part-time seasonal staff. The main priority for all of the staff is to provide quality but fast service to all customers, followed by their regular duties to maintain and operate the store.

### **3.2.2 Systems**

The location of the DQs is in Northern Canada where the long cold snowy winters can last up to seven to eight months. DQ is known for its ice milk treats so the

seasonality of its ‘busy’ season is dependent on the short summers for its main treat sales. Figure 3:1 below shows a summary from ABC Holdings sales records for the number of transactions per month for one of the DQs in 2007. The number of customers served per month ranges from a low of 8300 customers in December to 24,000 customers in June and July. During the busiest periods, the store can serve up to 120 customers per hour. DQ has built a long-standing reputation for its fast quality service because of its ability to service high volumes of customers during the summer months. As seen from the graph, on average forty-eight percent of the consumers are served through the drive-thru. The store is more than capable of serving the ‘busy’ summer capacity throughout the entire year. Perhaps an upgrade to the more food-centric Grill & Chill will provide additional food sales throughout the year and will mitigate the seasonal sales.

Figure 3:1 DQ #1 2007 Customer Tally



### **3.2.3 Organizational Culture**

If the DQs are upgraded to the Grill & Chill concept, then the staff should easily adapt to the new service style. Upgrades require no changes to the drive-thru service style; however, the two main changes apply to the in-store service style. First, employees no longer need to fill pop orders because they supply empty cups to customers who in turn fill their own pop before they sit down. Second, employees expedite food to the table, which does not take too much effort. This service style is more efficient and creates a positive value-added experience for customers.

It will be more problematic if Kim wishes to implement breakfast at DQ. It would involve creating a third shift and extra expenses with opening early with no guarantee of sales. Staffing costs alone is estimated to be around \$4,800 per month with a supervisor and two employees. According to correspondence with Dave Acton, Area Vice President of Dairy Queen Canada on June 29, 2009, there are less than ten stores in Canada that are currently carrying a breakfast menu, at one point, there were over one hundred stores with breakfast but it was proven not to be a profitable option. The addition of a third shift, extra equipment and the stress/strain on utilities and expenses do not justify the increase in sales. Breakfast sales are very value orientated with very slim profit margins. Mr. Acton also mentioned that breakfast sales were statistically insignificant which accounted for only 0.11 percent of last years sales for those stores that sell breakfast. It looks like it is risky to attempt breakfast sales for Jay's DQs especially since ninety percent of the DQs in Canada have failed to succeed with it.

### **3.2.4 Gaps with Organization**

The core staff and management are quite experienced and are set in their ways. It would not be too difficult to adopt the serving style of a Grill & Chill. However, there will be a lot of resistance if Kim wishes to open early for breakfast. The majority of the full-time staff already work several double-shifts per week and very few would want to wake up for an early shift, especially if they also work evening shifts. Perhaps over time, it is possible to hire enough people for the extra shift; however, two seasoned staff would need to transfer to the early shift in order to ensure the smooth operation of the store. This would have been very difficult when the province was experiencing a severe labour shortage, but it is possible to in the present conditions with the right incentives. As stated in the section above, staffing costs are estimated at \$4,800/month and it is unlikely that breakfast sales would offset the expenses. Conditions are not favourable for alternative one since according to Mr. Acton, it will not be a profitable venture, therefore Kim should reconsider her intent to serve breakfast at DQ.

## **3.3 Resources**

### **3.3.1 Human Resources**

Prior to the recession, it was difficult to find enough employees for all positions in both stores. The number of staff ranges from thirty full and part-time employees for each store during the winter, up to fifty during the summer. During the labour shortage in 2006 and 2007, employment agencies were utilized to find twenty-one employees from Eastern Canada and six international employees from Mexico and the Philippines. In addition, ABC Holdings purchased three houses to rent to these employees as well as

provide transportation daily to and from work. Jay was fortunate at this time to find a manager to run one of the stores, enabling his daughter to step away from the store to pursue her education. For the moment, the staffing situation at both DQs is under control however, a long-term solution is needed in light of Jay's desire to retire.

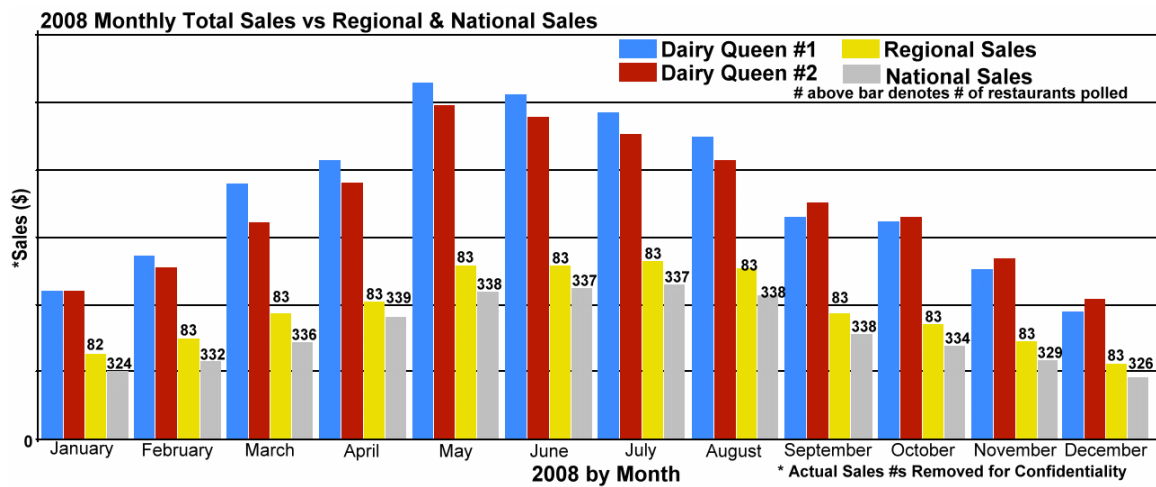
Dairy Queen Canada (DQC) has specific guidelines if a franchisee wishes to transfer ownership or change control of the daily operations of the store to immediate family members or to store managers. A transfer involves a lease, instalment sale, contract for deed, management agreement, or sale of stock (Champagne, 2007). No transfer fee is charged for transfers to immediate family members however, the seller must guarantee the financial obligations of the buyer for a minimum of three years. In addition, the franchise has the right to refuse any transfers if the buyer does not pass a background and credit check, readiness assessment, break-even point projection, personal interview, or management training. Transfer applicants must meet three financial requirements, they must have: 1) a net worth greater than fifty percent of the purchase price or \$75,000, 2) liquid assets greater than twenty percent of the purchase price or \$30,000 and 3) operating capital of \$25,000 or thirty-three percent of fixed and semi-variable expenses (Champagne, 2007). None of Jay's children qualifies for the financial requirements therefore Jay has to weigh the risk of guaranteeing his children's transfer versus selling the stores outright.

### **3.3.2 Operational Resources**

The remote location of the city prevents the ability for Jay's DQs to join other franchisees in order to form conglomerates, which collectively outsource replacement suppliers at a lower cost in comparison to the IDQ suppliers. As a result, the products are

at a slightly higher price in comparison to the DQs in the closest large city that is almost four hundred kilometres away. Sales for both DQs have consistently surpassed both regional, or all DQs in the Northwestern part of Canada and national or all DQs in Canada over the years. Figure 3:2 below is a comparison of both ABC Holding’s DQs for 2008, which shows that both stores steadily double the average sales of the majority of DQs in the nation. This indicates that the city can easily support a third DQ if Jay or his children choose to.

Figure 3:2 Monthly Total Sales 2008 vs. Average Regional & National Sales<sup>18</sup>

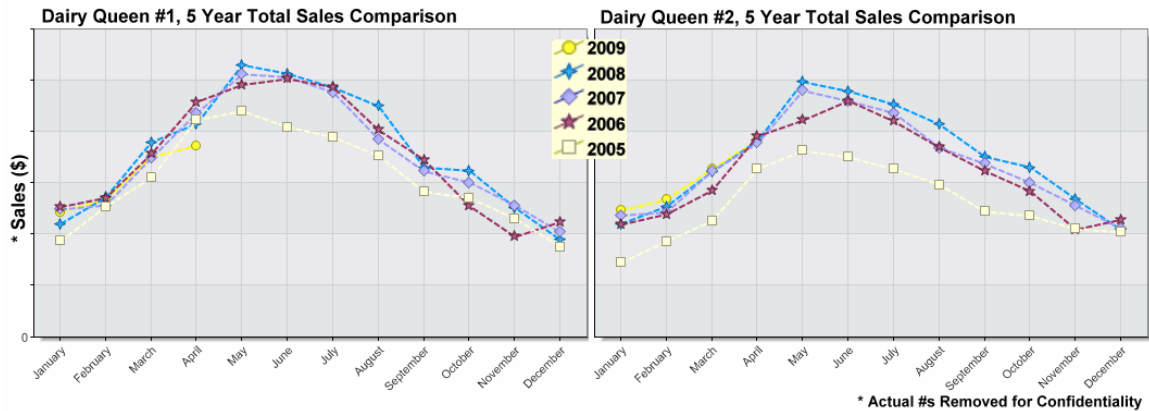


The five-year total sales for both DQs are portrayed in Figure 3:3 below indicate that growth has been nominal over the last few years. DQ#1 had a 0.45 percent increase in sales from 2007 to 2008 while DQ#2 had a 3.68 percent growth over the same period. Sales are expected to be similar or slightly less than the 2008 numbers even with the current recession. The sales at DQ#2 are more stable than DQ#1 because their

<sup>18</sup> AM. D.Q. Corp. (2009). My Stores: Monthly Total Sales vs. Average Regional & National Sales. Retrieved June 16, 2009 from <https://www.dairyqueen.net/en/Franchisee/MyStores/Pages/MyStoreReports.aspx?view=msales>

dependence on the seasonal ice cream sales is lessened since they have stronger food sales throughout the year.

Figure 3:3 Five Year Total Sales Comparison<sup>19</sup>



The 2008 sales by categories are exhibited in Figure 3:4 below. The red line is soft serve sales and the purple line is food sales. DQ#1 has much stronger ice cream sales in the summer but their food sales are noticeably lower than DQ#2 throughout the year. This indicates that an upgrade to the more food-centric concept of a Grill & Chill would place both restaurants in a much stronger position for food sales while still maintaining their soft serve sales.

### 3.3.3 Financial Resources

#### 3.3.3.1 Grill & Chill Remodel Costs

IDQ offers franchisees three choices of remodel costs, a base-level remodel that is estimated to be around \$223,285, a mid-level remodel at \$312,766 and a full-level remodel at \$447,706 (AM. D.Q. Corp., 2009).

<sup>19</sup> AM. D.Q. Corp. (2009). My Stores: 5 Year Sales Comparison. Retrieved June 16, 2009 from <https://www.dairyqueen.net/en/Franchisee/MyStores/Pages/MyStoreReports.aspx?view=5yrsales>



Figure 3:4 2008 Sales by Category<sup>20</sup>

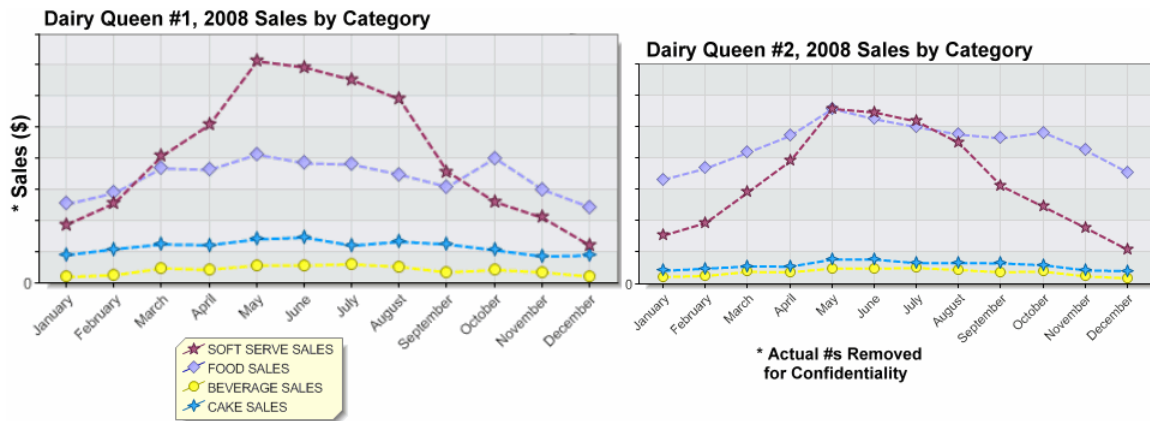


Table 3:1 below shows the building and equipment cost breakdown for the full-level remodel. A typical remodel takes approximately four to seven weeks depending on the extent of the remodel and construction progress. It is possible during the remodel that the store does not need to be entirely shut down, as the drive-thru can remain open during the interior construction. An estimate is that the store only needs to be closed for two weeks. Another assumption is that if the stores are going to be upgraded to the Grill & Chill concept, and then preference will be for a full-level remodel since it is undesirable to have further construction at a later date for further upgrades.

Table 3:1 Grill & Chill Remodel Costs<sup>21</sup>

Grill & Chill Remodel Costs		
Area	Building Cost	Equipment Cost
Exterior Remodel	\$179,107	\$49,346
Interior Remodel	\$168,141	\$51,112
Total	\$347,248	\$100,458
Grand Total	\$447,706	

<sup>20</sup> AM. D.Q. Corp. (2009). My Stores: Sales Categories and Product Usage. Retrieved June 16, 2009 from <https://www.dairyqueen.net/en/Franchisee/MyStores/Pages/MyStoreReports.aspx?view=salesprodcats>

<sup>21</sup> AM. D.Q. Corp. (June 4, 2009). Grill & Chill Remodel Costs. Retrieved June 16, 2009 from <https://www.dairyqueen.net/en/Franchisee/Facility/Pages/Remodel.aspx>

After the launch of the newly remodelled DQ Grill & Chill, an initial increase in sales for the first year is expected with a slight drop-off after the launch promotion period. The intent is for sales to remain at a higher level as compared to sales before the remodel. A cost analysis based on a modest ten percent return on investment with a target to re-cover the initial cost of investment of \$447,706 in addition to the opportunity cost of lost sales during the shutdown for the remodel of \$130,000 within five years after the remodel. A sensitivity analysis, Figure 3:5 below, was conducted to outline the best to worst case scenarios for the incremental sales increases that can be expected. Although the aim is for the more food-centric Grill & Chill to increase food sales, the ice cream sales will also increase as well since the remodelled restaurant will draw in more customers.

In the most-likely scenario, the discounted payback period was just over five years, which meets the five year goal to re-coup the remodel costs. In the worst-case scenario, it will take over nine years to payback the \$577,706 at a discounted rate. Once the decision is made to convert the DQ Brazier to a Grill & Chill then there is no turning back, there is a risk that it will not be successful. However, in light of the stagnating sales, seasonal dependency, and increasing competition from rivals it would be in the best interest to convert both DQs. In the best-case scenario, there is a potential for the investment costs to be regained in just over two years. Also, modernizing the DQ, addresses several key success factors such as improving convenience, increased perception of value of service, and brand reputation. Other key success factors such as distribution network and healthy menu options are mainly in the control of the franchise, which DQ Canada will continue to reduce cost of goods.

Figure 3:5 Grill & Chill Upgrade - Sensitivity Analysis

Grill & Chill Upgrade Sensitivity Analysis for One Store											
<b>Cost Analysis for DQ Modernization (Most-Likely Scenario)</b>											
Year	0	1	2	3	4	5	6				
Incremental Increase food sales (first year sales 15%, 10% after)		135,790	90,500	90,500	90,500	90,500	90,500				
Incremental Increase ice cream sales (first year sales 7%, 5% after)		86,150	61,500	61,500	61,500	61,500	61,500				
Modernization process	-447,706										
Lost Sales during construction	-130,000										
Total Cash Flow	-577,706	221,940	152,000	152,000	152,000	152,000	152,000				
Discounted Cash Flow	-577,706	201,764	125,620	114,200	103,818	94,380	85,800				
Payback	~4 years	(4 years and 0.9 months)									
Discounted Payback	~5 years	(5 years and 0.6 months)									
Discount Rate	10%										
IRR for 5 years	4.02%										
<b>Cost Analysis for DQ Modernization (Worst Case Scenario)</b>											
Year	0	1	2	3	4	5	6	7	8	9	10
Incremental Increase food sales (first year sales 10%, 6% after)		90,500	54,300	54,300	54,300	54,300	54,300	54,300	54,300	54,300	54,300
Incremental Increase ice cream sales (first year sales 5%, 3% after)		61,500	30,700	30,700	30,700	30,700	30,700	30,700	30,700	30,700	30,700
Modernization process	-447,706										
Lost Sales during construction	-130,000										
Total Cash Flow	-577,706	152,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000
Discounted Cash Flow	-577,706	138,182	70,248	63,862	58,056	52,778	47,980	43,618	39,653	36,048	32,771
Payback	~ 6 years	(6 years and 0.01 months)									
Discounted Payback	~ 9 years	(9 years and 0.6 months)									
Discount Rate	10%										
IRR for 5 years	-5.59%										
<b>Cost Analysis for DQ Modernization (Best Case Scenario)</b>											
Year	0	1	2	3	4	5					
Incremental Increase food sales (first year sales 20%, 15% after)		181,000	135,790	135,790	135,790	135,790					
Incremental Increase ice cream sales (first year sales 9%, 7% after)		110,770	86,150	86,150	86,150	86,150					
Modernization process	-447,706										
Lost Sales during construction	-130,000										
Total Cash Flow	-577,706	291,770	221,940	221,940	221,940	221,940					
Discounted Cash Flow	-577,706	265,245	183,421	166,747	151,588	137,807					
Payback	~ 2 years	(2 years and 1 month)									
Discounted Payback	~2 years	(2 years and 2.5 months)									
Discount Rate	10%										
IRR for 5 years	32%										

### 3.3.3.2 Action Plan for Grill & Chill Remodel

IDQ makes it easy for franchisees to upgrade or remodel their stores. Everything is planned out and provided for the store owners. Architectural plans, interior and exterior design plans, a construction schedule and a marketing plan for the roll-out of the

new restaurant. Table 3:2 below is an abbreviated outline of a remodel schedule for a full-level Grill & Chill construction.

Table 3:2 DQ Grill & Chill Full-level Remodel Construction Schedule<sup>22</sup>

<b>DQ Grill &amp; Chill Full-level Remodel Construction Schedule</b>								
<b>Week</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Preconstruction: Contracts signed, DQ/City Plans approved, Building Permit, Materials ordered								
<b>Phase 1: Exterior</b>								
Demolition/site work								
Chimney: Frame, stonework								
Roofing								
Exterior Finishes, lights								
Paint Exterior								
Awnings								
Equipment Delivery								
Exterior Signage								
<b>Phase 2: Dining Room</b>								
Demolish Dining & Restroom								
Dining Room								
Paint/replace ceiling grid								
Floor tile								
Paint, Interior Awnings								
Equipment delivery/install								
<b>Phase 3: Service Area</b>								
Demolish Service Area								
Frame Service Area								
Electrical, wall tile								
Front Counter								
Equipment Delivery/install								
Pop Machine Install								
Cash Register Install								
Menu board, signage								
<b>Phase 4: Project Closure</b>								
Professional Clean								
City & Health Inspection								
Punch List								
Turnover to Operators								

### 3.3.3.3 Valuation of ABC Holdings

The income capitalization approach is a common method of real estate valuation.

The analysis values income producing properties based on the relationship between the

<sup>22</sup> AM. D.Q. Corp. (2009). Construction Time Lines All Levels. Retrieved June 16, 2009 from <https://www.dairyqueen.net/en/Franchisee/Facility/Pages/Remodel.aspx>

capitalization rate with the net income the property produces. An estimate of a property's market value is based on the present value of future income from the property (Gaines et al, 1996). Appendix A has the assumptions and calculations for the land and property assessment. For confidentiality purposes, the breakdown of the final total values of the DQs, the land and the income stream of the lease are modified from actual values.

### **3.3.4 Gaps with Resources**

Human resources are weak in terms of upper management for the DQ. The employees, supervisors and managers are complacent and have not been encouraged to take any initiatives for the company because of the heavy reliance on Jay to make all the key decisions for the stores. Jay struggled for almost seven years before he was able to find another reliable manager to help alleviate some of the stress at the stores. If Kim were to purchase one of the stores, she would prioritize the hiring of at least two reliable managers to operate the store. She does not want to micro-manage the store even though her parents expect her to. Since Jay will be financially accountable for the leveraged buyouts, he will exert his control and pressure his children to operate the stores as he sees fit. Kim needs to judge if the risks with personal conflicts in combination with the financial risks outweigh the rewards of owning a DQ.

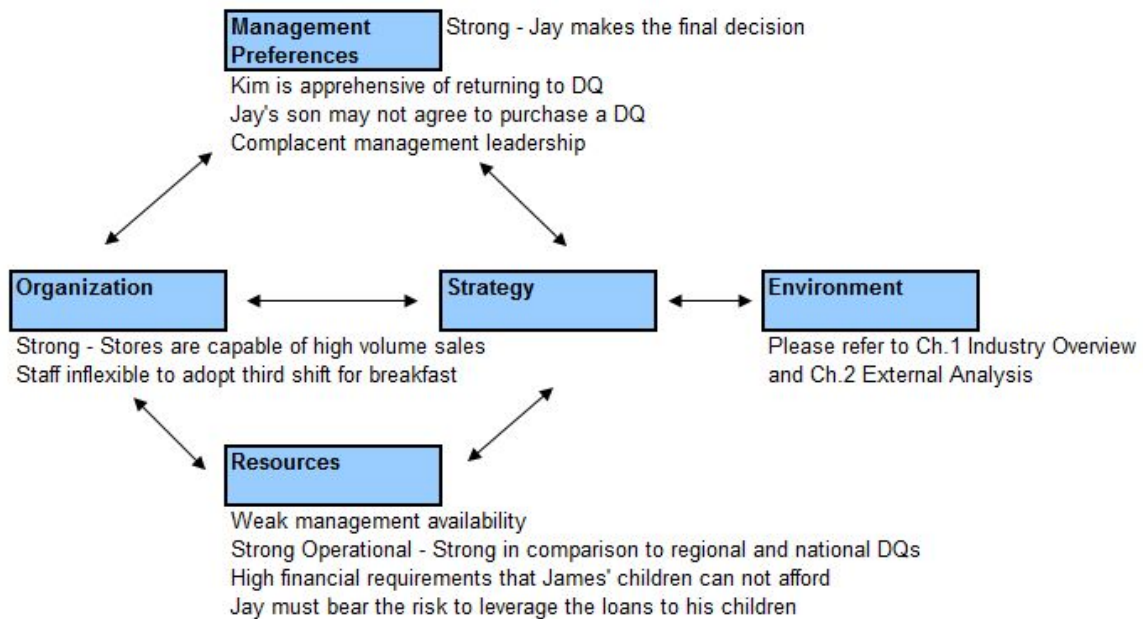
The operational resources are moderately strong for both of the DQs in comparison to regional and national DQs. Although growth has levelled off in the past few years, the relatively constant and predictable revenues are attractive. The differences with the food and treat sale fluctuations between the two stores make it apparent that it is ideal for DQ to increase their food sales to mitigate the seasonality treat sales. This

favours the first alternative to upgrade the stores to the Grill & Chill food-centric concepts.

The financial resources are not favourable for Kim to purchase one of the DQs and upgrade the store immediately. In essence, the cost of upgrading plus the opportunity costs, adds almost \$600,000 to the purchase price of the DQ. The upgrade costs would be absorbed better several years after the purchase of the DQ in order for the bulk of the purchase debt is paid down. Figure 3:6 below is a summary of the Diamond-E Framework strategic analysis for ABC Holdings.

Figure 3:6 Diamond-E Framework for ABC Holdings

**Diamond-E Framework for ABC Holdings**



## **4: Recommendations**

The recommendation for ABC Holdings is alternative two; sell both stores to an independent third party. The first alternative is not viable after the internal analysis of the company using the Diamond-E Framework. The motivations and expectations for Jay and his children greatly differ and they may not be able to resolve the differences and find a common ground concerning the future of the stores. Ultimately, one major factor is the fact that neither of Jay's children can afford to purchase the stores without burdening their father with the risk of leveraging the buyouts.

Conditions are also not favourable for Kim to buy one of the DQs since several of the KSF are dependant on IDQ. Kim has little power to influence factors such as distribution network and price due to high product costs. In addition, it is unlikely breakfast is an option because of the high failure rate. A premium coffee line is also unlikely to occur without the support of IDQ to rollout a marketing campaign. Kim also has personal wishes to avoid moving back to the city unless all her other options are not viable.

The external conditions are not favourable for restaurants because the fast food industry is a saturated mature market where firms in the industry compete heavily for market share. Competition is even fiercer due to the recession and consumers have smaller discretionary budgets. Porter's Five Forces analysis revealed that it is relatively easy for chained restaurants like Harvey's to enter the market because of their brand recognition, access to distribution channels and low switching costs for consumers. It is

also easy for the current chains to increase the number of stores in the city if they felt the market could support it. The analysis also revealed that one very strong substitute rival, Tim Horton's is dominating the Canadian fast food market with their strong breakfast and coffee sales.

DQ has been losing market share for several reasons. Firstly, the DQ brand is not associated with food/burgers therefore DQ sales are heavily reliant on seasonal ice cream sales. Second, DQ has always been on the high-end of the price scale, which is slowly being addressed by the franchise with the Sweet Deals value menu, and the implementation of programs to reduce product costs for Canadian DQs. Third, DQ has not been able to capture any of the breakfast or coffee market. This part of the recommendations may not be plausible because ninety out of the one hundred DQs in Canada failed to implement a profitable breakfast program. Lastly, many DQ operators, like Jay have been reluctant to take the risk and expense to upgrade their restaurants, which addresses many key success factor opportunities, such as value, service, and brand reputation.

#### **4.1 Sub-Recommendations**

The internal capabilities of both Jay's DQs are very strong with its operational resources even though sales have flattened; they still consistently outperform the regional and national sales averages. The organization of the DQs is a little top heavy where all key decisions are reliant upon Jay, and it is recommended that an incentive program to tie the manager's salary and bonus with the store's performance. Therefore, the manager would be motivated to look after the best interests of the store in lieu of relying on Jay. Another recommendation that can easily be adopted at a local level is to source a higher



quality coffee until IDQ decides to adopt a national coffee program. It is doubtful that since ninety DQs failed with the breakfast trial runs; then it is unlikely that IDQ will plan to implement a coffee program.

It is highly recommended that Jay upgrade his stores to Grill & Chills, if he decides not to sell them. It is unlikely that he would agree to the expense of the upgrade since it would tie-up many of his resources during a time when he is ready to retire. If he does sell the business, then it suggested that for the long-run success of the restaurant, then the new owner should upgrade the building. By doing so, it addresses several key success factor opportunities in addition to somewhat mitigating the seasonal ice cream sales with a more food-centric restaurant.

One final solution to Jay's problems would be for him to keep the land but sell the building and franchise. This way, he will still receive a steady monthly income stream from the lease and it will lesson the capital demand requirements for his children to buy the restaurants. Perhaps his children can use the costs of upgrading the stores to a Grill & Chill to be a part of the negotiation for the price of the final value of the building. Ultimately, nothing will change with ABC Holdings unless Jay decides he wants to sell the business. His management preference style is the overriding key to any decisions made regarding the company.

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## **Interviews**

- Phone Interview with Dave Acton, Area Vice President, Operations Western Canada, Dairy Queen Canada on June 18, 2009
- Interview with John Smith (name changed for confidentiality), multi-unit franchise owner on June 15, 2009