

BURGER KING® South Africa Investment Opportunity

CONFIDENTIAL AND PROPRIETARY INFORMATION
OF BURGER KING CORPORATION

Business Model Analysis

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BK Business Model



Company Perspective

Customer Perspective

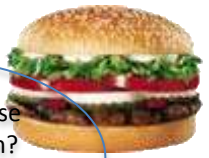
Efficiency

Value

Company Perspective		Customer Perspective		
KP (Key Partnerships) BK Europe Property management group (e.g. JHI) Supply chain partners: food, drink, transportation HR/training/brokers Outsource partners	KA (Key Activities) Property management Supply chain, In-store management, customer relations, "flipping burgers" KR (Key Resources) Physical: buildings, equipment, stock IP: BK processes, BK brand, prop partnerships Human: Ops, fin, training (HR) Financial: Equity and debt	VP (Value Proposition) Convenience, flame grilled, brand Friendly environment with play area Play area with special party catering Wi-Fi, business meeting area	CR (Customer Relations) Focus on customer acquisition and customer retention – key driver CH (Channels) Direct channel (own stores) Franchise stores as additional channel	CS (Customer Segments) Mass Market Families Kiddies Parties Business People
C\$ (Cost Structure) Cost sensitive (high), both fixed and variable costs Rising meat costs KA: rent, cogs, advertising KR: asset depreciation, BK royalties, labour, G&A		R\$ (Revenue Streams) Meal sales, one-time transactions (vs. recurring sales), fixed menu pricing Party sales		



BK Business Model Questions



How do you increase customer retention?
Do you target each segment?

What content partners would be interested in being part of BK?

Does our one model serve all customer segments? What are our critical A & R?

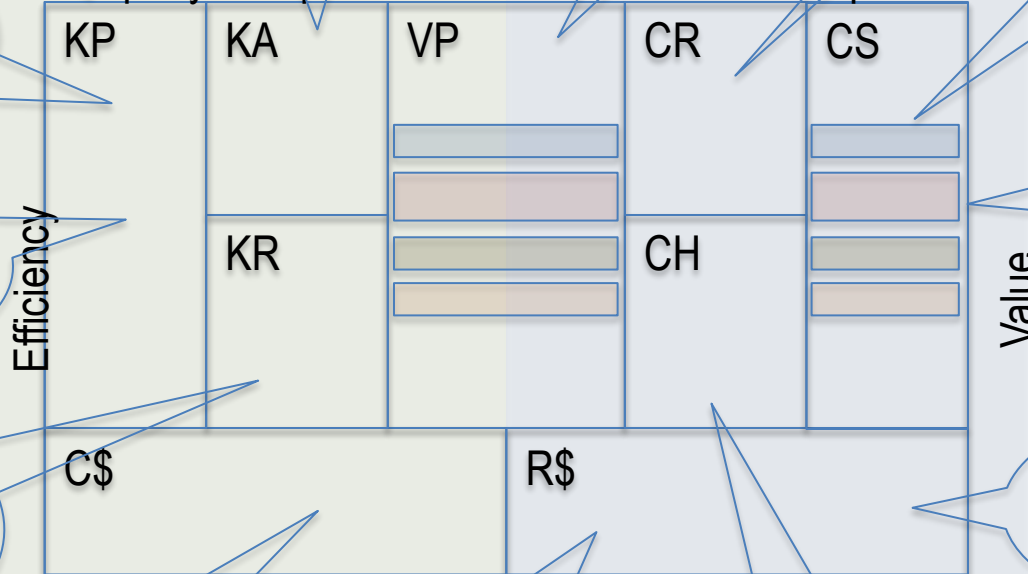
Will customer segments pay for the value propositions? Is value enough?

Do we have different customer segments?

How to effectively manage the property and supply chain partnerships? Multiple partners for each?

Company Perspective

Customer Perspective



Which key partnerships are we missing or need? Which partnerships will max our effectiveness?

Does each segment need a separate value proposition?

What synergies do we create between activities, resources and channels to serve customer segments at once?

Should we serve one or more customer segments at no cost to attract others?

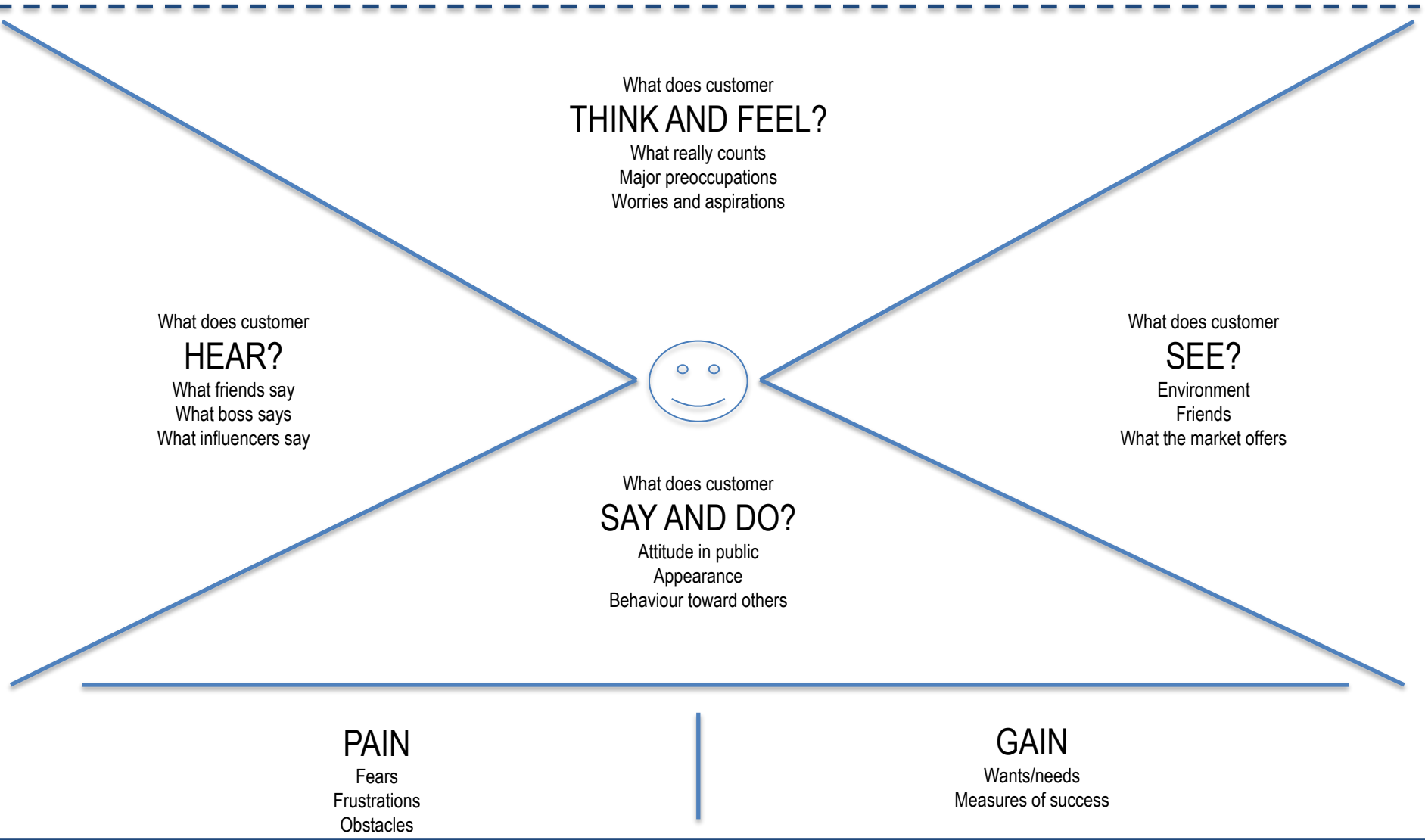
How do we minimize costs?

Any possible alternative revenue streams?

What channel split will be serve the customer?



Customer Insights (empathy map)-TBD





Market Analysis



Market issues

TBD



Market segments

TBD



Needs and demands

TBD



Switching cost

Taste, convenience, (possibly) price, (possibly) brand binds the customer to BK. There is *zero* switching cost. It is easy to find and purchase a similar offer. Brand is important, but *will not* affect the purchase decision.



Revenue attractiveness

What customers are willing to pay to be determined. It can be accepted that they will be willing to pay prices similar to other vendors. Customers will be able to find cheaper products.



Critical success factors

- Price
- Financial position
- Consumer loyalty
- Advertising
- Product quality
- Innovation
- Market share
- Management
- National expansion
- TBD...(additional items?)





Competitive Analysis



Suppliers

- Expected to be very powerful due to few suppliers in the market
- *Could be easy* for suppliers to substitute between different fast food chains
- Vertical integration is possible, but difficult at first. It is an option later
- Capital providers have high bargaining power

Compliments

- Compliment suppliers would exist in the form of Hollywood movie toys (and *possibly* other South African opportunities?)

Bargaining power of suppliers – **HIGH**

Bargaining power of compliments – **HIGH**

Threat of new entrants – **MODERATE**

Potential Entrants

- Very capital intensive
- Brand recognition will be a challenge for new entrants
- Labor, supply chain, cost challenges for any new entrant
- Retaliation /predatory pricing very realistic – high price competition
- Most international competitors already in market

Industry Competition – **VERY HIGH**

- Many different direct competitors
- Compete on national, regional, and local level
- Lead marketer has lead revenue. Marketing spend can drive revenues up, but will correspondingly increase costs
- Cultural issues with chicken sales to compete
- Breakfast market now very competitive

Substitutes

- Sit-down restaurants
- Home meals
- Healthy alternatives
- Competitive vendors, e.g. McDonald's, Steers, KFC, etc.

Bargaining power of buyers – **MODERATE**

Threat of substitutes – **VERY HIGH**

Consumers

- Consumers pay the price products are listed at
- If customers are not satisfied with price they will purchase from competition



STEEP Analysis



Social

Social trends are continuously moving and changing across the globe. There is a growing social conscious amongst customers. BK must be socially responsible and actively promote social responsibility.



Technological

Technology could help BK to minimize the space/distance between BK and customers. Technology could also help customers *interact* with customers, e.g. orders, feedback, suggestions, loyalty, etc. Key technological resources would include social networks.



Environmental

Environmental awareness plays an ever increasing role in the mind of the modern consumer. BK should prepare itself to support customers who are *green conscious*, e.g. support club/reward club for *green projects/customers*



Economic

Economic conditions world-wide have been under pressure the last couple of years. With β of 0.60-0.65 recessions and booms have a *limited* effect on burger sales.



Political

BK might experience regulatory/legislative pressure to comply with healthy (anti-obesity) food measures. This could require adjustment of value proposition/food alternatives. BK could consider already creating food options in preparation.





Macroeconomic Analysis



Global market conditions

Global economic conditions is down, but β shows that industry can sustain itself in times of downturn. GDP growth rate is down in RSA and being adjusted down, unemployment is up. This does pressure expansion plans for all players in the market.



Capital markets

It is challenging to raise capital to fund the deal at the moment. Private equity is cautious of *greenfield* operations. Limited venture capital providers in RSA. Banks unlikely to finance the BK deal.



Commodities and other resources

Current meat market conditions is not favorable. The price of meat is rising. The same applies to electricity, which is rising far above the inflation rate. Attracting the right resources to the business is a challenge. Keeping them even bigger. Human resources are expensive and increasing, often faster than the inflation rate.



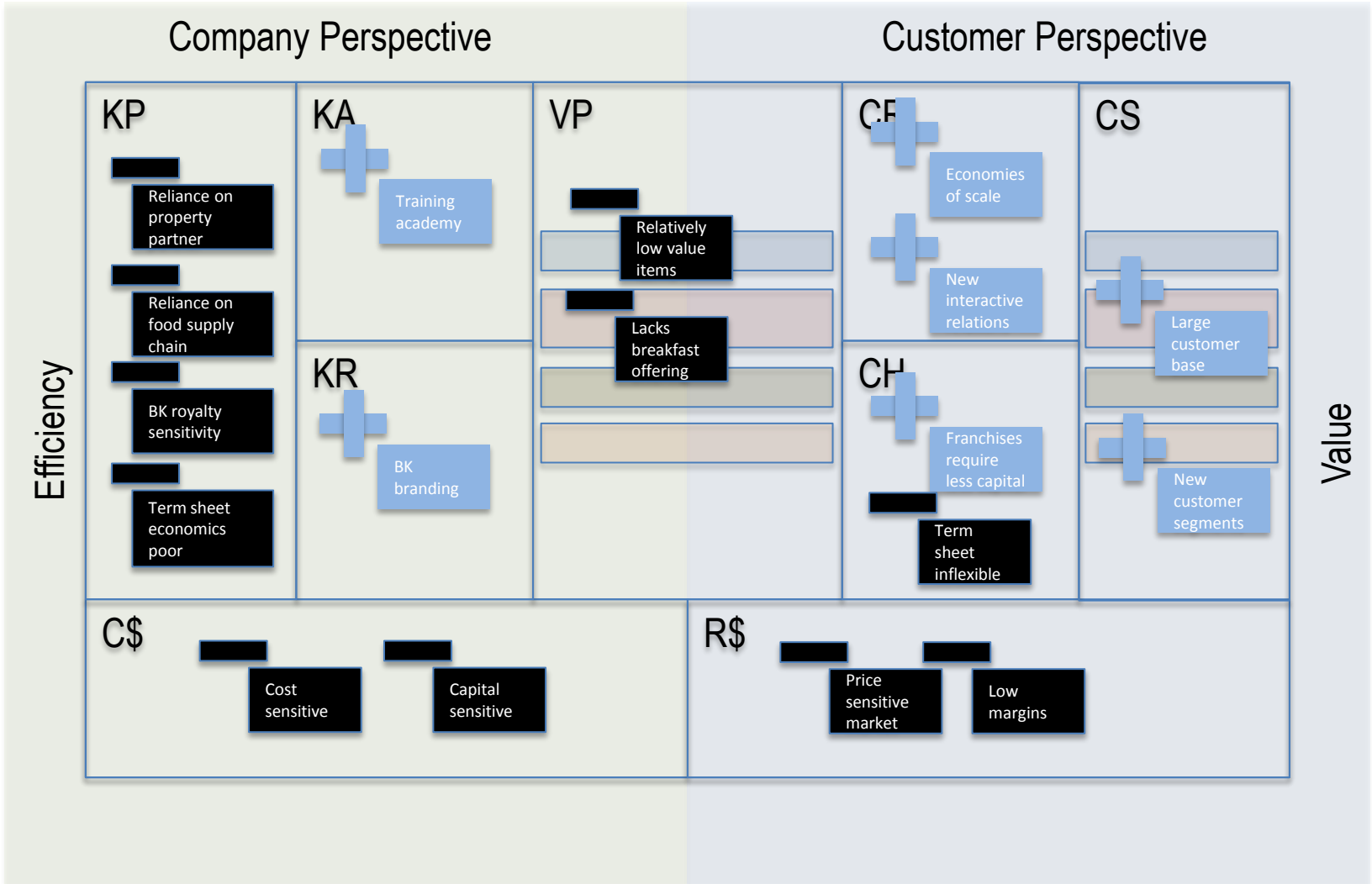
Economic infrastructure

Corporate tax rate is average to high. Public service organizations are poor and productivity and efficiency low. In order to find properties, zone properties and start trading takes exceptionally long. Public services like electricity, water, etc. could prove to be hurdles to overcome.





Big Picture Assessment





Value proposition assessment



Our value propositions are well aligned with customer needs



Our value propositions and customer needs are misaligned

Our value proposition have strong network effects



Our value proposition have no network effects

There are strong synergies between our products and services



There are no synergies between our products and services

BKs customers are very satisfied



BK has frequent complaints



Revenue assessment



BK benefits from strong margins



Revenues are predictable



BK has recurring revenues and frequent repurchases



Revenue streams are diversified



Revenue streams are sustainable



BK collect revenue before incurring costs



BK charge for what customers are really willing to pay for



BKs pricing mechanisms capture full willingness to pay



BK benefits from strong margins



Revenues are unpredictable



BKs revenues are transactional with few repeat purchases



BK depends on a single revenue stream



Revenue sustainability is questionable



BK incurs high costs before collecting revenue



BK fails to charge for things customers are willing to pay for



BKs pricing mechanisms leave money on the table



Cost assessment



BKs costs are predictable



Cost structures are correctly matched to the business model



BKs operations are cost-efficient



BK benefits from economies of scale



BKs costs are unpredictable



Cost structures are business model are poorly matched



BKs operations are cost-inefficient



BK enjoys no economies of scale



Infrastructure assessment



BKs key resources are difficult for competitors to replicate



Resource needs are predictable



BK deploys Key Resources in the right amount at the right time



BKs key resources are easily replicated



Resource needs are unpredictable



BK has trouble deploying the right resources at the right time

BK efficiently execute Key Activities



BKs Key Activities are difficult to copy



Execution quality is high



Key Activity execution is inefficient



BKs Key Activities are easily copied



Execution quality is low

Balance of in-house versus outsourced execution is ideal



BK executes too many or too few activities themselves

BK is focused and works with partners when necessary



BK enjoy good working relationships with Key Partners



BK is unfocused and fails to work sufficiently with partners



Working relationships with Key Partners are conflict-ridden



Customer Interface assessment



Customer churn rates are low



Customer churn rates are high

Customer base is well segmented



Customer base is un-segmented

BK is continuously acquiring new customers



BK is failing to acquire new customers

BKs Channels are very efficient



BKs Channels are very inefficient

BKs Channels are very effective



BKs Channels are very ineffective

Channel reach is strong among customers



Prospects fail to notice our channel

Channels are strongly integrated



Channels are poorly integrated

Channels provide economies of scope



Channels provide no economies of scope

Channels are well matched to customer segments



Channels are poorly matched to customer segments



Customer Interface assessment (cont.)



Strong customer relationships



Weak customer relationships

Relationship quality correctly matches Customer Segments



Relationship quality is poorly matched to Customer Segments

Relationships bind customers through high switching costs



Customers switching costs are low

BKs brand is strong



BKs brand is weak



Assessing Model Threats



Value Proposition Threats

Are substitute products and services available

1 2 3 4 5

Do competitors offer better price or value

1 2 3 4 5

Cost/Revenue Threats

Are our margins threatened by competitors?

1 2 3 4 5

Does BK depend excessively on one or more revenue streams

1 2 3 4 5

Are revenue streams likely to disappear?

1 2 3 4 5

Are there costs threatening to become unpredictable?

1 2 3 4 5

Are there costs (what are they?) that grow faster than revenue?

1 2 3 4 5

Infrastructure Threats

Could we face a disruption in the supply of certain resources?

1 2 3 4 5

Is the quality of our resources threatened in any way?

1 2 3 4 5

What Key Activities might be disrupted?

1 2 3 4 5

Is the quality of BKs activities threatened in any way?

1 2 3 4 5

Is BK in danger of losing any partners?

1 2 3 4 5

Might BKs partners collaborate with competitors?

1 2 3 4 5

Is BK too dependent on certain partners?

1 2 3 4 5



Assessing Model Threats (cont.)



Customer Interface Threats

Could our market be saturated soon? 1 2 3 4 5

Are competitors threatening BKs market share 1 2 3 4 5

How likely are customers to defect? 1 2 3 4 5

How quickly will competition intensify? 1 2 3 4 5

Does competitors threaten BKs Channels 1 2 3 4 5

Are Channels in danger of becoming irrelevant? 1 2 3 4 5

Are any customer relationships in danger of deteriorating? 1 2 3 4 5



Assessing Model Opportunities



Value Proposition Opportunities

Could BK better integrate its products or services?

1 2 3 4 5

Which additional customer needs could we satisfy?

1 2 3 4 5

What complements to or extensions of our value proposition is possible?

1 2 3 4 5

Cost/Revenue Opportunities

Can we replace one-time transaction revenues with recurring revenues?

1 2 3 4 5

What other elements would customers be willing to pay for?

1 2 3 4 5

Do we have cross-selling opportunities either internally or through partners?

1 2 3 4 5

What other revenue streams could we add or create (e.g. partnerships)?

1 2 3 4 5

Can we increase prices?

1 2 3 4 5

Infrastructure Opportunities

Could we use less costly resources to achieve the same results?

1 2 3 4 5

Which key resources could be better sourced from partners?

1 2 3 4 5

Which Key Resources are under-exploited?

1 2 3 4 5

Do we have unused IP of value to others?

1 2 3 4 5

Could we standardize some Key Activities?

1 2 3 4 5

How could we improve efficiency in general?

1 2 3 4 5

Would IT boost efficiency?

1 2 3 4 5

Are there outsourcing opportunities?

1 2 3 4 5

Could greater collaboration with partners help us focus on our core business?

1 2 3 4 5

Are there cross selling opportunities with partners?

1 2 3 4 5



Assessing Model Opportunities (cont.)



Infrastructure Opportunities (cont.)

Could partner Channels help us better reach customers?

1 2 3 4 5

Could partners complement our Value Proposition?

1 2 3 4 5

Customer Interface Opportunities

Can we benefit from a growing market?

1 2 3 4 5

Could we serve new customer segments?

1 2 3 4 5

Could we better serve our customers through finer segmentation?

1 2 3 4 5

How could we improve channel efficiency and effectiveness?

1 2 3 4 5

Could we integrate our channels better?

1 2 3 4 5

Could we find new complementary partner channels?

1 2 3 4 5

Could we increase margins by directly servicing customers?

1 2 3 4 5

Could we better align Channels with customer segments?

1 2 3 4 5

Is there potential to improve customer follow-up?

1 2 3 4 5

How could we tighten our relationships with customers?

1 2 3 4 5

Could we improve personalization?

1 2 3 4 5

How could we increase switching costs?

1 2 3 4 5

Have we identified and 'fired' unprofitable customers?

1 2 3 4 5

Do we need to automate some relationships?

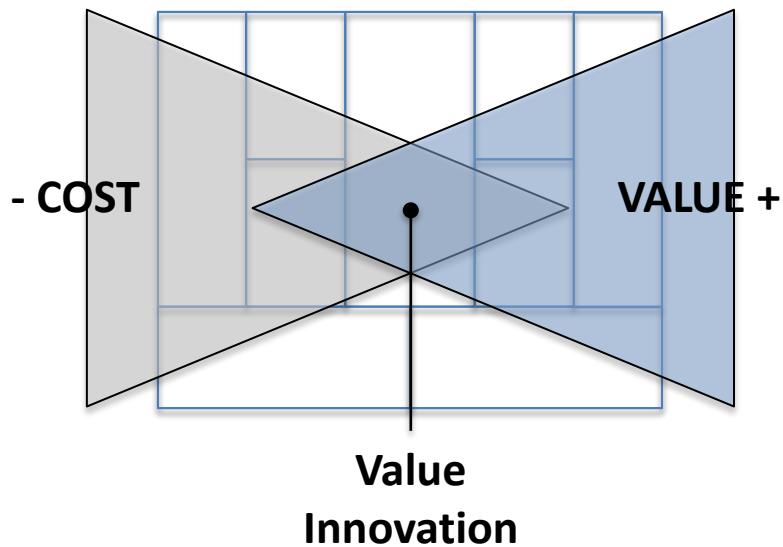
1 2 3 4 5



Blue Ocean



Blue Ocean is used to question the Value Proposition and business model, as well as explore new customer segments



ELIMINATE

Factors to eliminate that the industry has long competed on

RAISE

Factors that should be raised well above the industry standard

REDUCE

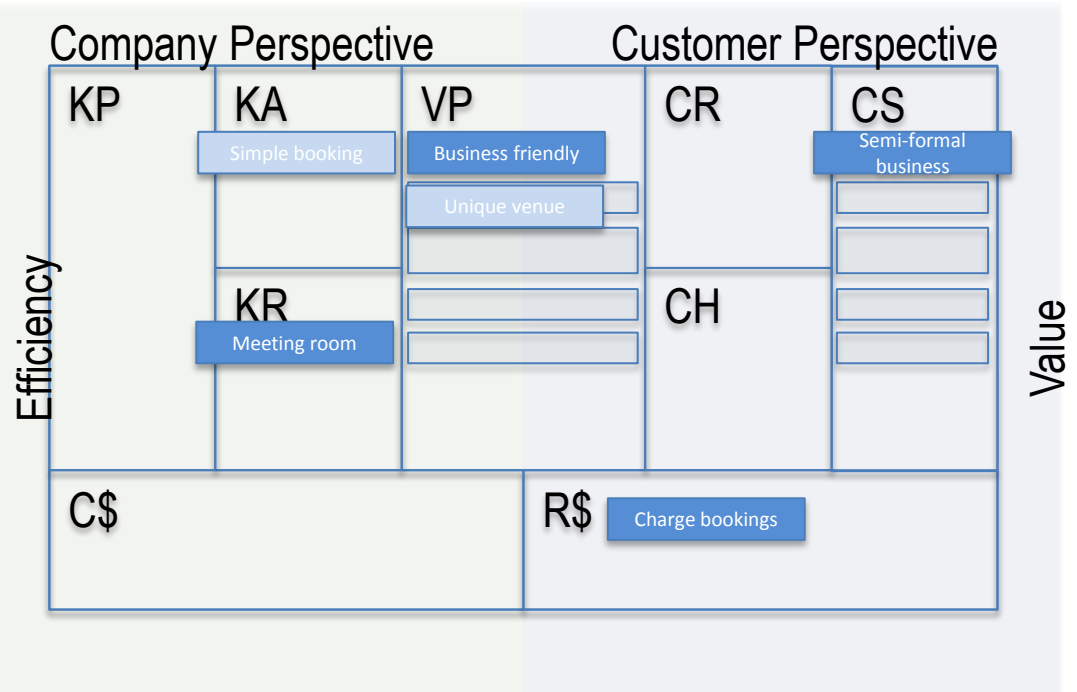
Factors that should be reduced well below the industry standard

CREATE

Factors that should be created that the industry has never offered



Blue Ocean



- ELIMINATE
- REDUCE
- RAISE
- CREATE

ELIMINATE

- TBD

REDUCE

- TBD

RAISE

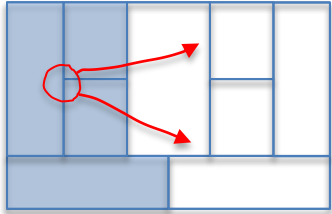
- Unique venue
- Simple booking
- TBD

CREATE

- Business venue
- Charge for bookings
- TBD



Blue Ocean

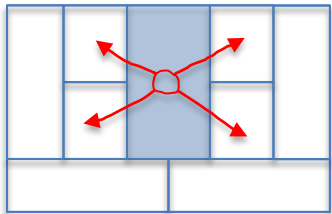


Which activities, resources, and partnerships have the highest costs?

What happens if we eliminate some of these costs?

How could we replace, using less costly elements, the value lost by reducing or eliminating expensive resources, activities, or partnerships?

What value will be created by planned new investments?

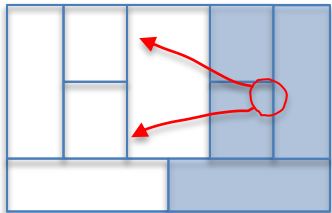


What less-valued features, products or services could be eliminated or reduced?

What features of services could be enhanced or newly created to produce a valuable new customer experience?

What are the cost implications of your changes to the Value Proposition?

How will changes to the Value Proposition affect the customer side of the model?



Which new Customer Segments could we focus on, and which segments could we possibly reduce or eliminate?

What service/product do new Customer Segments really want to have done?

What kind of relationship would these new customers prefer or expect?

What are the cost implications of serving new Customer Segments?