Getting Friendly with the King

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Introduction

Burger King is owned by 3G Capital and is the second largest fast food hamburger chain in the world. Burger King serves a variety of foods including burgers, fries, sodas, and various dessert items. There are over 12,300 Burger King restaurants located in 78 countries (Burger King, 2012). Friendly Ice Cream Corporation owns and operates the Friendly's restaurant chain in the United States. Friendly's is known for its ice creams including various types of sundaes. They also serve breakfast items such as pancakes and omelets, and lunch and dinner items such as burgers and sandwiches. Friendly's employs 16,000 people at 380 restaurants located in 16 states up and down the east coast in the United States (Wikipedia, 2012). Friendly's was ranked among the top 250 franchised restaurants by Entrepreneur and Franchise times in 2010 and 2009 respectively. Founded in 1954 Burger King is considered as the second largest fast food hamburger chain in the world. In 2010, 3G Capital, a global investment firm purchased Burger King, making it a privately-held company.

Burger King and Friendly's Co-Branding

In December 2011, Burger King and Friendly's joined forces. Georgetowne Ventures, based out of Freehold, NJ, manages 14 Burger King locations. Georgetowne Ventures opened the first Burger King and Friendly's co-branded location in Jackson, NJ. Both restaurants are located within a single unit. The Friendly's store co-branded with Burger King is entitled Friendly's Scoop Shop. Friendly's Scoop Shop offers only various ice cream products such as cones, shakes, sundaes and its featured items including Fribbles and Friend-z's. Georgetowne Ventures is planning on opening up a second co-branded location later in 2012 as well (Jennings, 2012).

The co-branding experiment between Burger King and Friendly's came together after a suggestion by Joe Anghelone, a Burger King franchisee. Anghelone passed the idea by executives at Burger King and Friendly's two years ago in order to increase sales and offer a product which did not compete with current Burger King products. Although it is too early to deem whether the co-branding venture between Burger King and Friendly's has been a success or failure, Anghelone states that ice cream revenue generally make up approximately 18% of total sales. Therefore, this co-branding venture provides an exciting opportunity to increase sales heading into the summer months and into the future (Abelson, 2012).

Figure 1. below shows an image of a fully functional Friendly's Scoop Shop. The Friendly's Scoop Shop shown on the following page operates with only 200 square-feet of counter space.

Figure 1

Friendly's Scoop Shop

(Source: http://articles.boston.com/2012-01-27/business/30666888_1_ice-cream-whopper-new-location)

This joint venture between Friendly's and Burger King provides Friendly's a possible avenue to expand its chain nationwide rather than restrict itself to the 16 states it currently operates in. This new concept allows Friendly's to test out a new idea and possibly expand to not only other Burger King locations throughout the United States, but offers a method to expand to other nontraditional locations as well such as airports, college campuses, hospitals, and stadiums. Executives at Friendly Ice Cream Corporation hope this co-branding method opens possibilities in the future to help the struggling company. Friendly's is planning on opening ten more Friendly's Scoop Shop locations in 2012 (Abelson, 2012).

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Menu Items: Burger King Versus Friendly's

Burger King's menu consists of a breakfast, lunch, and dinner items. The breakfast menu includes items such as biscuits, burritos, CROISSAN'WICH sandwiches, pancakes, oatmeal, hash browns, and drinks such as milk, coffee, and juice. The lunch and dinner menu include popular items such as its featured burger named the WHOPPER and other items such as chicken and fish sandwiches, and side items like chicken nuggets, fries, onion rings, and salads. Burger king also serves dessert items such as sundaes, pies, shakes, and ice cream cones. In April 2012, Burger King unveiled new items on its menu. This was the largest addition of menu items since the chain was created over 50 years ago. The decision by Burger King to add new items to its menu came from customer demand. Burger King's customers wanted more options on the menu like the ones offered by Starbucks and its largest competitor, McDonald's (Jennings, 2012a). Burger King added ten new items to its menu which include the "new premium Garden Fresh salads, snack wrap sandwiches, fruit smoothies, chicken strips and frappe drinks" (Jennings, 2012a). The new items offered by Burger King are fresh and prepared when ordered by customers (Jennings, 2012b). Similarly to Burger King, Friendly's menu offers breakfast, lunch, and dinner items as well. Breakfast items include pancakes and omelettes. Lunch and dinner menu items include sandwiches, burgers, soups, and salads. However, Friendly's is famous for its dessert options. Dessert items include sundaes, brownies, cakes, and its flagship items which are Fribble shakes and Friend-z ice cream.

Burger King's most popular menu items include its lunch and dinner offerings which are burgers and fries. On the other hand, Friendly's is known for its dessert offerings such as sundaes and cones. Although Burger King and Friendly's offer similar products in its breakfast menu such as eggs, lunch and dinner items such as burgers, fries, and salads, and dessert items such as sundaes, shakes, and cones, they target customers with different preferences. Burger King serves cheaper, fast food items for customers on the run whereas Friendly's serves food a little more pricier in comparison to Burger King, prepared when ordered by a customer, and targeted at customers looking for a dine-in experience. Generally, lunch/dinner items pair well with dessert items. Because the Friendly's Scoop Shop only offers dessert items, they do not directly compete with Burger King. Customers can order items from both menus which do not compete against one another. Instead, the offerings by both chains complement each other. Because both chains are popular for items which do not compete against each other, the co-branding venture between Burger King and Friendly's complement one another rather than take away from each other.

Friendly's Issues

Friendly's has been facing a number of issues recently. In October 2011, Friendly Ice Cream Corporation filed for Chapter 11 bankruptcy protection in the state of Delaware. They filed for Chapter 11 due to the downturn of the economy, rising costs for goods, and rent for locations which were greater than the current market rates (Lockyer, 2011). The problem for rent rates occurred because the company decided to sell the land of its stores in order to raise capital many years ago. The company then turned around and leased the land for the stores from its owners (Abelson, 2012). However, Friendly Ice Cream Corporation was able to obtain $70 million of financing in order to continue operations and reorganize the company. In conjunction with the Chapter 11 filing, they also announced the closing of 63 locations operating poorly in order to decrease costs, increase operational effectiveness, and to better its financial standing (Lockyer, 2011).

Figure 2

Friendly's Ice Cream in a freezer aisle at a supermarket

Source: http://articles.boston.com/2012-02-12/business/31050128_1_supermarkets-grocery-stores-pathmark

In January 2012, Friendly Ice Cream Corporation recovered and came out of Chapter 11 bankruptcy with fewer stores and able to reduce their debt as well (Thorn, 2012). Friendly's actually ended up closing 100 restaurants, which accounted for approximately 25% of their whole chain. In addition, Friendly's was able to drastically reduce the rent for its locations as they were able to successfully negotiate leases with landowners in order to decrease the rent and remain competitive (Abelson, 2012a). Friendly's has also undergone leadership changes as well. Friendly's was bought by Sun Capital Partners, a private investment firm, in 2007 for $337.2 million. Shortly thereafter in

2008, Ned Lidvall was named CEO and President of Friendly's (Kinney, 2010). During his tenure as CEO, Lidvall stated his goal was to provide faster service and better quality products (Abelson, 2009). Friendly's Express was also introduced during his tenure. Friendly's Express locations are generally smaller than traditional Friendly's restaurants. Friendly's Express locations focus on quicker service and offer a limited menu with cheaper pricing (Elan, 2009). However, Lidvall only stayed a short time. He stepped down as CEO in 2010.

In August 2010, Harsha Agadi was named CEO. Agadi focused on providing a menu with fresh and healthier options. He also focused on marketing promotions as well such as 'High 5' (Lockyer, 2011). The 'High 5' promotion focused on giving out one trillion high-fives to Friendly's customers and offering a menu offering popular items for only $5 (Thorn, 2011). Like his predecessor Lidvall, Agadi only stayed a short time as well. He resigned as Friendly's CEO in February 2012. Friendly's named COO James Parrish as the interim CEO while they search for a permanent CEO (Kinney, 2012).

Other Friendly's Ventures

In addition to co-branding with Burger King, Friendly's is implementing other strategies as well in order to reposition the company, strengthen its brand name across the United States, and increase sales to rejuvenate the struggling company. Friendly's is now selling its ice cream in various supermarkets such as Food Lion and Walmart in order to increase sales and market itself across the United States. Since June 2011, 3,200 more supermarkets are now carrying Friendly's products, a 40% increase (Abelson, 2012). Figure 2 shows a customer shopping for Friendly's ice cream at a local Walmart. In March 2012, Friendly's successfully obtained a permit to serve alcohol at its Chicopee, Massachusetts location. In order to serve alcohol at this location, the restaurant still needs to create space in the building to store the alcohol. In addition, Friendly's has not been decided which types of alcohol to serve (Michalski, 2012).

"The move by the operator of several hundred family-friendly restaurants in the Northeast to sell beer and wine follows similar steps by the likes of Starbucks and Burger King as fast-food and fast-casual restaurants increasingly seek to expand their offerings and woo a larger consumer base" (Shanken News Daily, 2012). By incorporating alcohol into its menu, Friendly's is attempting to reposition itself in order to strengthen its brand, appeal to more customers, compete against other restaurants which serve alcohol, and ultimately increase sales (Michalski, 2012).

Co-Branding

Co-branding can be defined "as the combining and retaining of two or more brands to create a single, unique product or service" (Pipes, 2012). The goal of co-branding is to take advantage of the strengths of each brand. More companies are co-branding in today's economy and marketplace. A large number of co-branding examples exist within various industries throughout the world including (however not limited to) the airline, automotive, hospitality, retail, technology, and restaurant industries.

Advantages

Companies engage in co-branding for a number of reasons. Those reasons include financial incentives and to increase the customer base. (a) Financial Incentives: In today's downtrodden economy, companies are attempting to find creative ways to increase profits and reduce costs. "Companies, meanwhile, report increased profits, while franchises benefit because they're appealing to more customers and maximizing space. Typically, adding a second brand can increase a restaurant's sales by as much as 40 percent" (Scripps Howard News Service, 2012). Co-branding offers an effective method to not only increase profits, but reduce and share costs as well. By co-branding, companies are able to share various costs such as advertising, operating, equipment, and labor costs. Restaurants which co-brand can "share the same building, and in some cases the same staff, counter and kitchen" (Magloff, 2012).

A prime example of this includes the co-branding effort by Dunkin' Brands. Dunkin' Brands operate Dunkin' Donuts and Baskin Robbins restaurants. There are some locations which house both restaurants in one building. This allows both brands to reduce and share costs such as advertising, personnel, and real estate among others. "By employing co-location as part of the strategy, the two chains can share facilities like dining rooms and help minimize some of their joint business expenses" (Tatum, 2012). "Co-branding ultimately saves money because it requires less land and fewer buildings, a plus in commercial areas where costs for prime space suitable for a restaurant are going through the roof" (Scripps Howard News Service, 2012). Also, there can be shared labor whereby employees can be used for working simultaneously at both brand restaurants (Khan, 1999). (b) Increase Customer Base: Co-branding also provides for an effective method to appeal to a larger customer base than simply branding as a lone entity. "Co-branding can increase the visibility and market share of both franchises" (Magloff, 2012). Through co-branding, restaurants are able to appeal to a wider audience and thus increase the number of customers entering into their store. "At the same time, they attract customers who enjoy the ability to order food from two different menus under the same roof, increasing the possibility of groups of customers choosing them rather than a chain operating alone" (Tatum, 2012). "But put simply, more choices appeal to more customers, increasing the chance that bigger groups will visit the site - resulting in a higher tab" (Scripps Howard News Service, 2012). Consumers who are loyal to a brand can benefit by having additional items being served from another well-

known brand (Khan, 1999).

Another co-branding example in the restaurant industry which aims at increasing its customer base includes Tim Horton's and Cold Stone Creamery. Tim Horton's is well-known for its coffee and doughnuts. Therefore, Tim Horton's normally has higher customer traffic in the morning and early afternoon hours. Cold Stone Creamery specializes in various dessert items such as ice creams, sundaes, and cakes. Cold Stone usually generates higher customer traffic in the late afternoon and evening hours. By co-branding, they were able to boost customer traffic in the store throughout the day (Magloff, 2012).

Disadvantages

Co-branding has its fair share of drawbacks as well. The issues associated with co-branding include brand recognition, confusion, competition, and legal requirements. (a) Brand Recognition: Co-branding may cause issues with the brand of the restaurant. By co-branding, the restaurants have the possibility of unintentionally ruining the other's reputation and can occur in many ways. "If a customer has a bad experience at one company, the chances that he or she visits again are slim, even if it is paired with another name" (Scripps Howard News Service, 2012).

For example, Yum! Brands operates Pizza Hut, Taco Bell, and KFC. There are some co-branded locations which house all three restaurants at a single location. Issues at just one of these restaurants may discourage customers from eating at the unaffected restaurant due to its relationship with the affected restaurant. Taco Bell has previously had issues with salmonella outbreaks at various locations nationwide. In a separate incident, in January 2011, Taco Bell faced a lawsuit alleging that they were not using real beef. Although unfair, a customer may associate an incident at Taco Bell with its co-branded partner as well. They may believe the other restaurant such as Pizza Hut which is co-branded alongside Taco Bell and housed at the same location may be affected as well. Events similar to those at Taco Bell may deter a customer from entering the restaurant to eat at the co-branded store, thus ruining the reputation and sales of the unaffected brand. "If the co-brand has some negative associations, these can also transfer to the other brand and cause a drop in its reputation" (Magloff, 2012:1). This results in "brand equity dilution. In this case, consumers begin to associate the two brands as one combined brand, and each brand loses some of its unique identity and appeal" (Magloff, 2012:1). (b) Confusion: In addition to causing an issue with brand recognition, co-branding may cause confusion as well. It is possible that a customer may not associate one brand with the other and how they complement each another (Reader, 2012). A customer may also characterize both brands as one single brand. For example, a customer may assume the chain with the larger sign is the primary brand, when in fact, both are on equal footing. As mentioned previously, this may result in brand equity dilution (Ingram, 2012). (c) Competition: Co-branding may also unintentionally result in unwanted competition between the brands. A larger and more popular brand may take away sales and notoriety from a smaller and/or lesser known brand. As a result, the smaller and/or lesser known brand may suffer as they are not able to effectively establish and market themselves (Reader, 2012). There are chances of increased competition where more than one branded restaurants are present at the same location (Khan, 1999).

(d) Legal Requirements: Co-branding may also result in numerous legal requirements to be fulfilled prior to the co-branding venture to even commence. "Reaching an agreement on co-branding can be a time-consuming and complex process, generally involving lengthy negotiations and complicated legal agreements" (Magloff, 2012). The legal agreements must be fair and financially equitable to all parties involved. It is imperative no one brand holds an advantage over the other in the co-branding relationship (Magloff, 2012).

Other Co-Branding Examples

The Burger King and Friendly's co-branding relationship is not unique in the restaurant industry. Several examples exist of successful co-branding efforts among restaurants.

- Dunkin Donuts/Baskin Robbins
- KFC/Pizza Hut/Taco Bell
- Taco Bell/Doritos
- Tim Horton's/Cold Stone Creamery
- Safeway/Starbucks

Figure 3. displays an image of a co-branded location of KFC, Pizza Hut, and Taco Bell.

Figure 3

KFC, Pizza Hut, and Taco Bell co-branded restaurant

Source: http://www.ramendays.com/kentacohut-kentucky-fried-chicken-taco-bell-pizza-hut/

Results

Considering how the co-branding partnership occurred recently, the short time of the co-branding partnership, and due to the small sample size, it is difficult to assess the results of the Burger King and Friendly's co-branding marriage. At the time this case was written, no financial and/or performance data were available. Therefore, it is still too early in the partnership to determine whether the co-branding effort between Burger King and Friendly's can been deemed a success or failure.

Conclusion

This case study highlights the co-branding efforts between two restaurants and the advantages and disadvantage of co-branding. This case study discusses the shortcomings Friendly's has faced and the paths they have taken to overcome poor performance, specifically co-branding with Burger King to strengthen its brand name, expand across the United States, and to increase sales.

The co-branding venture between Burger King and Friendly's proves to be a unique case in the franchising industry. Unlike other co-branding relationships in the franchising industry, the co-branding partnership between Burger King and Friendly's complement one another. For example, Friendly's competitors, Baskin Robbins and Cold Stone Creamery, have co-branded with Dunkin' Donuts and Tim Horton's respectively. Dunkin' Donuts and Tim Horton's featured menu item are donuts which typically generate high customer traffic during the morning hours only. However, Burger King generates customer traffic throughout the day. Therefore, the Friendly's Scoop Shop has the ability to sell its items throughout the day rather than be confined to a specific set of high traffic hours during the day like its competitors.

In another example, co-branded locations featuring KFC, Pizza Hut, and/or Taco Bell offer lunch and dinner items which compete against one another. On the other hand, Burger King and Friendly's Scoop Shop do not offer products which compete against one another. Burger King's is primarily known for its lunch and dinner items such as burgers and fries whereas Friendly's Scoop Shop only offers dessert items such as sundaes and cones. Because these two chains do not offer items which compete against one another on the menu, the Burger King and Friendly's relationship is complementary rather than cannibalistic. Hence, the co-branding venture between Burger King and Friendly's proves to be a unique instance in the franchising industry as the relationship between the two chains tends to be complementary rather than a negative presence. Although it is still too early in the partnership to determine whether the co-branding effort between Burger King and Friendly's can been deemed a success or failure, Friendly's is taking steps in the right direction by aligning themselves with a reputable partner. However, only time will tell if it was actually a good idea to get a little 'Friendly' with 'The King'.

Discussion Questions

- How much of the blame for Friendly's issues can be placed on the lack of vision and continuity of leadership?
- Is the co-branding effort with Burger King a desperation attempt by Friendly's to save the company? Why or why not?
- Is Friendly's successfully marketing its brand? Why or why not?
- If you were appointed the new CEO of Friendly's, what steps would you take to strengthen the company?
- What are other co-branding efforts Friendly's can consider? Why do you think they would be successful?
- Other than co-branding, what other suggestions or improvements could Friendly's make to strengthen the company?
- In light of the new menu released by Burger King offering fresh and made to order items, how will this positively and/or negatively affect Friendly's Scoop Shop? Please explain your reasoning.
- From the advantages of co-branding listed in this case study, which of these is Friendly's likely to achieve? Please explain your selection and reasoning.
- From the disadvantages of co-branding listed in this case study, which of these is Friendly's likely to face? Please explain your selection and reasoning.

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