

teaching note

Who is Losing the Breakfast Battle? A Case Study of McDonald's and Taco Bell

Summary

This case study examines the expansion of Taco Bell's menu to include breakfast and the company's advertising strategy in capturing the breakfast market. After 50 years of establishment, Taco Bell decided to compete for the breakfast market predominantly held by the breakfast giant McDonald's. The case looks into Taco Bell's advertising campaign and the strategy used by Taco Bell to get consumer's attention to its new breakfast offerings. The ad campaign initiated by Taco Bell directly attacked McDonald's to which McDonald's responded with a message attacking Taco Bell. The case study looks into the two organizations' marketing strategy, and the implications of the strategic decisions on consumer behavior and sales.

Teaching Approach

This case can be used to teach one or more of the teaching objectives listed below. It is intended for undergraduate and graduate business students particularly those majoring in hospitality marketing. It primarily focuses on marketing policy and strategy.

Teaching Objectives

Objectives

- The primary objectives of this case are to:
- To understand the strategic decision making implications and its resultant outcome.
- To realize the impact of decisions made by the leadership in choosing various marketing strategies..
- To enumerate the importance of brand image when making strategic marketing decisions.
- To appraise the role of leadership in making decisions that are beneficial for a corporation.
- To recognize that any decisions made at the corporate level have an impact of consumer behavior and acceptance.
- To understand the role and application of competitive and combative advertising.

Teaching strategy

Subject areas outlined below are meant to be basic options for review and can be expanded upon or reviewed specifically dependent upon course material or necessity for subjects to be reviewed determined by the instructor. The case can be made interesting by letting the participant take sides (one group with Taco Bell and other with McDonald's) and discuss the dilemma involved in this case study. Examples of subject matters for which this case study can be applied are listed below.

Strategic Management

When a company decides to introduce new products or services, the new offerings should be in alignment with the company's mission and values. If a company does not think through its decisions before making a change to its product offering, often times it becomes detrimental to the company's profit. When Taco Bell decided to expand its menu to include breakfast, it was important for Taco Bell to make sure that the menu expansion does not deviate from its mission and strategic goal. Similarly, careful thought should be given to marketing strategy to promote the new product or service. This case looks into product expansion by Taco Bell and the advertising strategy it used to promote its products. The case also demonstrates the implications of using attack ads and the dynamics of the companies involved in the ads.

Marketing

A brand's image is vitally important in marketing. Using advertisement to promote its product can be done with or without attacking a company's competitor. Attacking a competitor can be a double edge sword. An organization should be very careful when choosing an appropriate ad and the message the ad is trying to convey. This case study looks into the choices the two franchises had and the decisions the franchises made in responding to its competitor and promoting its products. Comparative assessment of similar competitive ads is shown to emphasize the significance of such marketing policy and strategy.

Teaching Aids

In order to make this case study interesting it is highly recommended that advertisements should be played on audio/video devices. Also students should be assigned the role of one or the other corporation and let them discuss the marketing strategy. Before the beginning of the case, the instructor should introduce the topic of the economic role of breakfast offerings and the profitability. Some examples of the exhibits that can be used are shown below.

Definitions

The prisoner's dilemma is a canonical example of a game often used in business disciplines as a game theory to demonstrate why two purely "rational" individuals might not cooperate based on the circumstances, although it may be apparent that it is in their best interest to do so. In order to understand it consider the following scenarios (Wikipedia, 2015):

Two members of a criminal gang are arrested and imprisoned. Each prisoner was placed under solitary confinement with no means

of communicating with each other in any way. The prosecutors do not have enough evidence to convict the pair on the principal charge. The prisoners do not know that they are being asked simultaneously. The prosecutors hope to get both sentenced to a year in prison on a lesser charge since they do not have enough evidence. The prosecutors offer each prisoner a bargain by giving each prisoner an opportunity either to: betray the other by testifying that the other committed the crime, or to cooperate with the other by remaining silent. Here is the offer:

- If A and B each betray the other, each of them serves 2 years in prison
- If A betrays B but B remains silent, A will be set free and B will serve 3 years in prison (and vice versa)
- If A and B both remain silent, both of them will only serve 1 year in prison (on the lesser charge)

In other words, the prisoners will have no opportunity to reward or punish their partner other than the prison sentences they get, and that their decision will not affect their reputation in the future. Because betraying a partner offers a greater reward than cooperating with him, all purely rational self-interested prisoners would betray the other, and so the only possible outcome for two purely rational prisoners is for them to betray. The interesting part of this result is that pursuing individual reward logically leads both of the prisoners to betray, when they would get a better reward if they both kept silent.

This prisoner's dilemma game can be used a model in many business areas to show how reaction of one business can have an impact on other business in a simultaneous situation. In current case study the choices are whether it is beneficial to respond or not to respond to combative and competitive advertisements.

The Nash equilibrium is used in game theory when two or more players are involved and in which each player is assumed to know the equilibrium strategies of the other players. None of the players has anything to gain only by changing their own strategy. If each player has chosen a strategy and no player can benefit by changing strategies while the other players keep theirs unchanged, then the current set of strategy choices and the corresponding payoffs constitutes a Nash equilibrium. For example, if A and B are in Nash equilibrium if A is making the best possible decision taking into account B's decision while B's decision remains unchanged; whereas on the other hand B is making the best possible decision taking into account A's decision while A's decision remains unchanged.

Class Activities

Case Study Preparation	Provide basic information about case studies and required discussions.
Provide background information	Explain giving examples as to what Prisoner's dilemma is and how it can be applied in selected business discipline. Explain how Nash Equilibrium works giving examples from marketing or strategy fields.
Arrange an information session	Without getting into details show them the ads from both corporations. No discussion should take place.
Assign Students	Divide students in two groups one for McDonalds and other for Taco Bell. Give each group questions separately for getting ready for discussion.
Arrange one hour class time for discussion.	Let the two groups to discuss without interfering from the instructor. However, probing and prodding should be done once the groups reach a dead point.
Evaluations	Follow the guidelines for conduct and evaluations.

General guidelines for Case Study discussions

Class sessions should comprise of a combination of lecture and discussions related to the marketing/management/strategic issues as well as method for analyses of the case. Since business cases are complex and involves thorough analyses, individual and group participation is essential. Based on the number of students enrolled, session leader(s) should be assigned for this case study. The intent is to blend different perspectives and insights on the case problem that help in understanding concepts and practices. Participation by groups and individuals should be graded continuously at each step and tallied at the end of the semester. Regular participation and comments indicate a conscientious preparation of the assigned readings and cases. Arguing and justifying a position that diverges from the apparent consensus is an indication of higher level of understanding. Although high frequency of participation is necessary, comments should reflect some depth of analysis. Pertinent examples and contemporary issues should enrich the class discussions and result in a better academic grade. Discussions should lead to an emergence of good analysis with well-prepared remarks as well as comments made during sessions. Thus it is essential to listen carefully to the analysis as it develops in class and responding to what other classmates are saying. Polite disagreement adds to the flavor of discussions and should not be considered as negative. Some of the best learning can result from debate and will make understanding of concepts easier and interesting.

Student(s) should prepare ahead of time assigned case study and give a presentation to the class. Strong contributions and competitiveness of groups are highly encouraged. Student(s) should

present orally in detail the contemporary status of the case, substantiate with materials collected from a variety of sources, may use audio-visual materials, and answer questions listed at the end of the case. In order to spur the discussion lead students should be assigned from each group.

Lead student(s) will be responsible for:

1. Giving an outline of their side for the case as an introduction of their group.
2. Leading discussion
3. Answer questions listed at the end of the case or encouraging group mates to respond.
4. Involving respective group into discussion
5. Soliciting and answer questions from either side

Recommended outline for case summary write up from each group should include:

- Title page containing the names of the students in the group.
- All discussions questions and answers provided by the group in defense of the arguments.

- Latest trends related to the case after the dateline of the case
- A recommendation and conclusion based on your assessment.
- A deadline for submission of the written report should be provided.

Grading criteria for individuals and groups should preferably be based on:

1. understanding and presentation of the case
2. analytical depth (both written and oral)
3. answers to the questions
4. strength of arguments
5. productive and useful discussion
6. grading of written summary

Exhibit 1

**Quick-service breakfast segment in 2013
(Bernstein analysis of Euromonitor data, WSJ.com)**

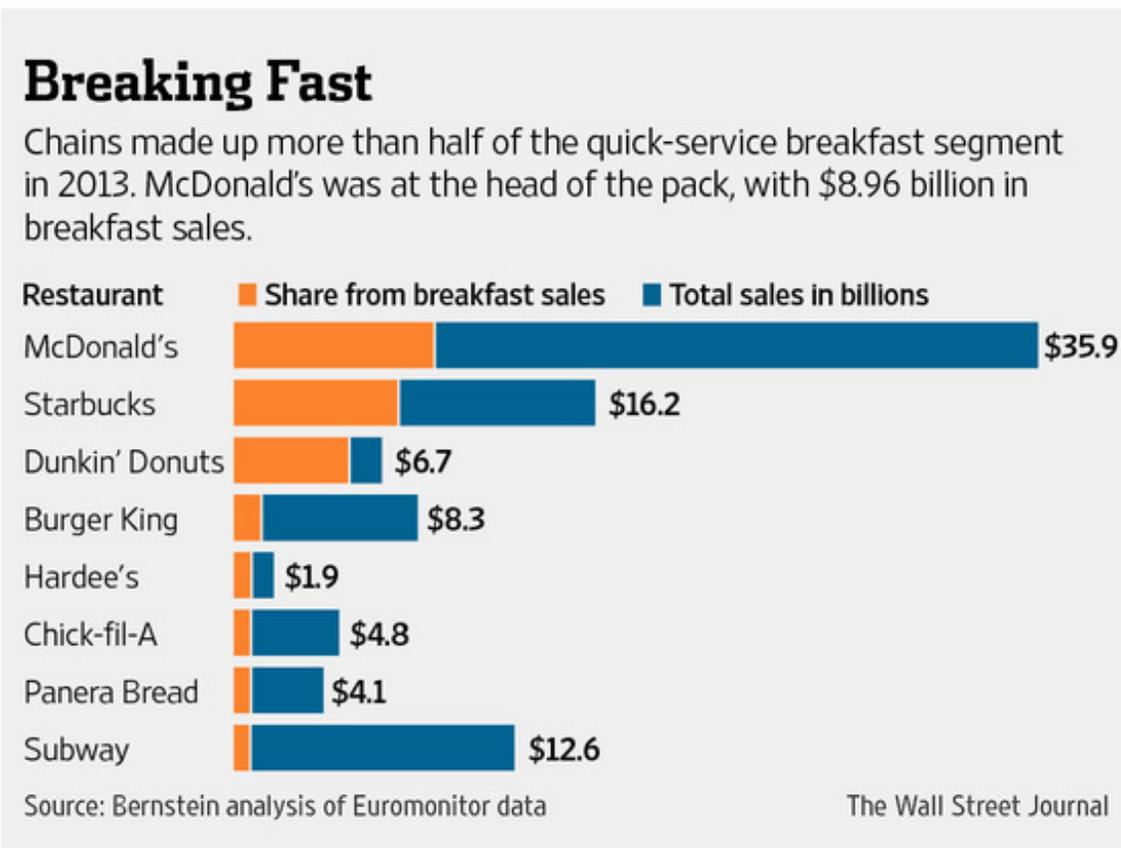


Exhibit 2

Yum Brands' Income Statement 2011-2013
(Yahoo! Finance, Nov. 15, 2014)

Period Ending	Dec 28, 2013	Dec 29, 2012	Dec 31, 2011
Total Revenue	13,084,000	13,633,000	12,626,000
Cost of Revenue	9,501,000	9,852,000	9,140,000
Gross Profit	3,583,000	3,781,000	3,486,000
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	1,454,000	1,450,000	1,536,000
Non Recurring	331,000	37,000	135,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	1,798,000	2,294,000	1,815,000
Income from Continuing Operations			
Total Other Income/Expenses Net	-	-	-
Earnings Before Interest And Taxes	1,798,000	2,294,000	1,815,000
Interest Expense	247,000	149,000	156,000
Income Before Tax	1,551,000	2,145,000	1,659,000
Income Tax Expense	487,000	537,000	324,000
Minority Interest	27,000	(11,000)	(16,000)
Net Income From Continuing Ops	1,091,000	1,597,000	1,319,000
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	1,091,000	1,597,000	1,319,000
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	1,091,000	1,597,000	1,319,000

Exhibit 3**McDonalds' Income Statement 2011-2013**
(Yahoo! Finance, Nov. 15, 2014]

Period Ending	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011
Total Revenue	28,105,700	27,567,000	27,006,000
Cost of Revenue	17,203,000	16,750,700	16,319,400
Gross Profit	10,902,700	10,816,300	10,686,600
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	2,138,400	2,211,700	2,156,900
Non Recurring	-	-	-
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	8,764,300	8,604,600	8,529,700
Income from Continuing Operations			
Total Other Income/Expenses Net	(37,900)	(9,000)	(24,700)
Earnings Before Interest And Taxes	8,204,500	8,079,000	8,012,200
Interest Expense	-	-	-
Income Before Tax	8,204,500	8,079,000	8,012,200
Income Tax Expense	2,618,600	2,614,200	2,509,100
Minority Interest	-	-	-
Net Income From Continuing Ops	5,585,900	5,464,800	5,503,100
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	5,585,900	5,464,800	5,503,100
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	5,585,900	5,464,800	5,503,100

Exhibit 4

**Yum Brands' Stock Performance November 2013-November 2014
(Yahoo! Finance, Nov. 15, 2014)**



Exhibit 5

**McDonalds' Stock Performance November 2013-November 2014
(Yahoo! Finance, Nov. 15, 2014)**

