**Buffalo Wild Wings, Inc. – 2013**

Forest R. David

1. **Case Abstract**

Buffalo Wind Wings (BWW) operates 381 company owned restaurants and 510 franchised restaurants in the USA and Canada. All but four restaurants are located in the USA. The company prides itself on their trade market chicken wings with 20 propriety sauce flavors ranging from mild to blazing hot. In addition, BWW has an extensive beer selection with up to 30 different beers available, all served by young attractive female waitresses wearing sports jerseys and similar attire. The average store has up to 50 TVs including several large screen TVs, and the sporting aspect is so popular that during large events such as the NCAA basketball tournament, or big college or NFL football weekends, many local stores cannot keep up with the demand. One area of concern for the company moving forward is the rising price of chicken and increasing competitiveness among rivals.

Headquartered in Minneapolis, Minnesota, BWW is doing great with total revenues exceeding $1 billion for the first time in 2012. BWW’s stock has increased from $15 per share at the bottom of the stock market in 2009 to nearly $100 per share as of March 2013.

1. **Vision Statement** (proposed)

At Buffalo Wild Wings, our vision is to become the first choice when customers think about chicken wings and sporting events.

1. **Mission Statement** (proposed)

At Buffalo Wild Wings, we are on a mission to provide the best chicken wings and sports bar atmosphere (2) anywhere in the United States, Canada, or any other markets (3) we may enter in the future. We accomplish this mission by offering our chicken wings in 20 different trademark sauces ranging from mild to blazing hot, and having over 30 different beers from which to choose (7). From sports enthusiasts, to college students, to working professionals (1) we strive to offer fair prices and top quality food (5), and the latest in high definition TV technology (4) for each customer every time they dine at a Buffalo Wild Wings. We strive to hire only the best employees and take pride in having a diverse upper management team (9); we are a safe and friendly place for women and minorities to work, with proven opportunity for advancement up the corporate ladder (8).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees
10. **External Audit**

**Opportunities**

1. Recent statistics reveal teens are eating out 40% more than they were five years ago.
2. Sales for organic and healthier foods have increased 22% from 2011 to 2012.
3. Approximately 75 million people view NASCAR races each weekend.
4. Restaurants are expected to see around a 4% annual return for the next few years.
5. College sports fans eat fast food up to 5 times more per week than non sports fans.
6. Women make up 45% and 32% of the NFL and NBA viewers.
7. Main competitor Hooters’ revenue dropped 3.4% in 2012.
8. Many American themed restaurants such as Applebee’s, Dominos, and KFC are doing extremely well in international markets.
9. Approximately 43% of stores are located in the Midwest leaving sizable room for further US expansion.
10. Wing prices were trending down as reported in Buffalo Wild Wings 2013 First Quarterly Report.

**Threats**

1. Chicken wing prices increased 63% to $1.97/pound from year end 2011 to year end 2012.
2. Hooters, TGI Friday’s, Applebee’s, and various dine in wing restaurants all present strong competition.
3. Take out wing operations offer wings at a much lower price.
4. Growing health minded consumer around the world.
5. Baseball viewers are at an all-time low.
6. Strikes in professional sports would have a material impact on revenues.
7. Cheaper beer prices at gas stations and grocery stores may impact customer traffic.
8. Growing access to HD large screen TVs at home may impact customer traffic.

**Competitive Profile Matrix**



Hooters and mom and pop chicken wing establishments are likely closer competitors than DineEquity (owns Applebees) and Brinker International (owns Chillis). The total score of 2.41 for BWW is lowered by number of store locations and international presence. BWW is the top chicken wing/sports bar establishment in the USA.

**EFE Matrix**





BWW is addressing external issues below average with a score of 2.30. The main contributors to this rating include: 1) no international presence and 2) difficulty in passing on chicken wing price increases onto the customer.

**E. Internal Audit**

**Strengths**

1. The largest chicken wing based sports bar in the USA.
2. Each restaurant contains ten projection TV screens, and up to fifty smaller TVs for people to watch sporting events.
3. The typical store offers 20 to 30 different beers on draft and tap and 20 different wing sauces.
4. Total stores have increased from 732 year end 2010 to 891 as of year end 2012.
5. Five of the top 9 executives are female.
6. BWW carries no long-term debt on the balance sheet.
7. Well organized company with revenue break downs based on product and by company owned or franchised own.
8. Revenues for company owned stores and franchised owned stores increased 74% and 32% respectively from 2010 to 2012. Total revenues exceeded $1 for the first time ever as of year end 2012.
9. Have a detailed menu of cheaper of non chicken items to provide variety and as a means of hedging against higher chicken prices by having customers order more profitable bottom line menu options.
10. The company capitalizes well on sporting events (many patrons watch the entire game and continue to order drinks) and employs attractive waitresses as part of the ambiance of each store.

**Weaknesses**

1. BWW does not have futures contracts to protect against unexpected rising chicken wing prices.
2. BWW emphatically states they do not attempt to compete with take out wing businesses, even though 13% of 2011 sales came from take out orders.
3. The company could do a better job of marketing to attract female customers.
4. BWW is unable to meet customer demand during major sporting events.
5. One traditional wing contains around 100 calories and 7 grams of fat.
6. Few options for the health minded customer who also enjoys watching sports.
7. The company only has four stores in Canada and also lacks a strong presence in the Northeastern and Western USA.
8. No presence outside the USA and Canada.

**Financial Ratio Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit Margin Percent** | **BWW** | **Industry** | **S&P 500** |
| Gross Margin | 42.28 | NA | 37.91 |
| Pre-Tax Margin | 7.17 | NA | 16.84 |
| Net Profit Margin | 5.07 | NA | 12.42 |
|  |  |  |  |
| **Liquidity Ratios** |  |  |  |
| Debt/Equity Ratio | 0.07 | NA | 0.96 |
| Current Ratio | 0.8 | NA | 1.2 |
| Quick Ratio | 0.8 | NA | 0.8 |
|  |  |  |  |
| **Profitability Ratios** |  |  |  |
| Return On Equity | 15.07 | NA | 22.34 |
| Return On Assets | 10.3 | NA | 7.7 |
| Return On Capital | 12.8 | NA | 10.2 |
|  |  |  |  |
| **Efficiency Ratios** |  |  |  |
| Income/Employee | 19,789 | NA | 128,414 |
| Revenue/Employee | 390,633 | NA | 1.05 Mil |
| Receivable Turnover | 59.8 | NA | 14.1 |
| Inventory Turnover | 84.5 | NA | 13.3 |
| Asset Turnover | 2 | NA | 0.8 |

BWW is virtually a debt free company, doing well financially.

**Net Worth Analysis** (in millions)





Methods 3 and 4 are the most accurate for determining company worth. Rising chicken wing prices has hindered net income growth.

**IFE Matrix**





BWW is addressing internal issues with an above average score of 2.92. The company is especially doing well maximizing its strengths but should consider entering into futures contracts to hedge against rising chicken wing prices.

**F. SWOT**

**SO Strategies**

1. Add an additional 50 stores (25 franchisee and 25 company owned) in the South to capitalize on the region’s high numbers of college football fans. Total cost $30 million. (S4, S6, S8, S10, O4, O5).
2. Add 5 new company owned Buffalo Wild Wing stores in the United Kingdom all with a soccer theme for a cost of $7 million (S2, S4, S6, S8, O8).

**WO Strategies**

1. Add 20 new stores in Canada with half being company owned for a cost of $12 million (W7, O1, O4, O8).
2. Add 5 new company owned BWW stores in the United Kingdom all with a soccer theme for a cost of $7 million (W8, O8).
3. Spend $5 million to develop a line of grilled chicken wings and chicken fingers (W5, W6, O2).
4. Spend $10 million to market BWW to potential female customers (W3, O6).

**ST Strategies**

1. Spend $5 million to research and expand the menu offerings to include salads, veggie plates, and other high margin items that are also healthy options (S9, T1, T4).
2. Increase advertising by $10 million to promote the diversity of beers offered (S3, T7).

**WT Strategies**

1. Enter into a futures contract to hedge against rising chicken wing prices (W1, T1).
2. Spend $3 million marketing a program where orders of 100 wings receive a marginal discount for takeout customers only (W2, T3).

**G. SPACE Matrix**







BWW is positioned in the aggressive quadrant, but close to the origin of the SPACE Matrix, so care should be taken when formulating strategies. Accepting futures contracts for the price of chicken wings would remove much of the financial uncertainty for the company. Maintaining a policy of low to no long-term debt could be limiting growth of BWW.

**H. Grand Strategy Matrix**



BWW is enjoying rapid market growth with a 22% increase in total stores from year end 2010 to 2012. The company also maintains a strong competitive position without a major publically traded competitor to compete against. However, Hooters and mom and pop chicken wing establishments do offer stiff local competition. Appropriate strategies would be for BWW to add stores in the Northeast and Canada and other products to the menu that have higher margins than chicken wings.

**I. The Internal-External (IE) Matrix**



|  |  |  |
| --- | --- | --- |
| **Business Segment** (in millions and rounded) | **Revenue December**  **2012** | **Percent Revenue** |
| (1) Company Owned Stores | $964 | 39% |
| (2) Franchisee Owned Stores | $1,510 | 61% |
| **TOTAL** | **$2,474** | **100%** |

BWW is positioned in Cell V, indicating hold and maintain with EFE and IFE scores of 2.30 and 2.92. It is important to note that Franchisee owned stores average just under $3 million revenue per store, while company owned stores only average $2.5 million. These numbers are reflected in the positioning of the two divisions within the IE Matrix. BWW should add stores, especially in the Northeast USA and Canada, and especially near college campuses.

**J. QSPM**









**K. Recommendations**

1. Add an additional 50 stores (25 franchisee and 25 company owned) in the South to capitalize on the region’s high numbers of college football fans. Total cost $30 million. (S4, S6, S8, S10, O4, O5).
2. Add 5 new company owned Buffalo Wild Wing stores in the United Kingdom all with a soccer theme for a cost of $7 million (S2, S4, S6, S8, O8).
3. Add 20 new stores in Canada with half being company owned for a cost of $12 million (W7, O1, O4, O8).
4. Spend $5 million to develop a line of grilled chicken wings and chicken fingers (W5, W6, O2).
5. Spend $10 million to market BWW to potential female customers (W3, O6).
6. Spend $5 million to research and expand the menu offerings to include salads, veggie plates, and other high margin items that are also healthy options (S9, T1, T4).
7. Increase advertising by $10 million to promote the diversity of beers offered (S3, T7).
8. Enter into a futures contract to hedge against rising chicken wing prices (W1, T1).
9. Spend $3 million marketing a program where orders of 100 wings receive a marginal discount for takeout customers only (W2, T3).

**L. EPS/EBIT Analysis** (in millions expect for EPS and Share Price)

Amount Needed: $82

Stock Price: $92.25

Shares Outstanding: 18.76

Interest Rate: 5%

Tax Rate: 31%





To finance the $87 million needed, BWW should consider using stock, given the highest EPS values above and their high stock price.

**M. Epilogue**

BWW reported first quarter 2013 sales growth of 2.2 and 1.4% at franchised and company owned locations respectively and sales are expected to improve even further over the course of 2013 and 2014. Continuing to plague the company is the volatility of chicken wing prices. Average wing prices rose 9% in 2012 but the so called “all-in” wing cost soared 30% during the same time frame. Chickens are going to market fatter than ever, so for restaurants such as BWW that sell chicken wings by the number count, it is costing considerably more per pound and often difficult to pass these price increases onto the consumer. Furthering this trend, wing sales accounted for 40% of all sales in 2012, up from 37% in 2011. Interestingly enough, BWW is considering offering an option for portion sizes consisting of 1) snack, 2) small, 3) medium, and 4) large sizes. Some analysts fear customers may feel they are being taken advantage of when a respective size comes with 10 wings one day and 8 slightly bigger wings on a different day.

In addition to chicken wings, BWW also derives a significant portion of their revenue from the sale of beer. In 2013, the firm partnered with Redhook, a craft brewer to create a new beer named Game Changer. It is BWW’s hope that the new beer flavor will better compliment the taste of wings and serve as a better gross margin product than traditional beers that the company does not own. BWW now owns a minority stake in PizzaRev, a California-based pizza chain. While not a meaning full stake at the present, BWW is optimistic about future growth of PizzaRev.

**Chapter 3: Buffalo Wild Wings**

**10 Basic Questions**

1: C

2: A

3 C  
4: C

5: B

6: B

7: B

8: A

9: C

10: C

**15 Applied Questions**

**Financial Ratios and Breakeven**

1: C

2: C

3: D

4: B

5: B

**Projected Financial Statements**

1: D

2: A

3: A

4: C

5: D

**Competitive Profile Matrix (CPM)**

1: B

2: B

3: D

4: A

5: A