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The Traditional Fast Food Restaurant Segment
Planning for Uncertain Scenarios

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The traditional quick service or "fast food" industry faces changing environments, which are hard to predict on the basis of experience or historical analysis alone. This is where building long-term scenarios becomes critical for organizations in the segment.
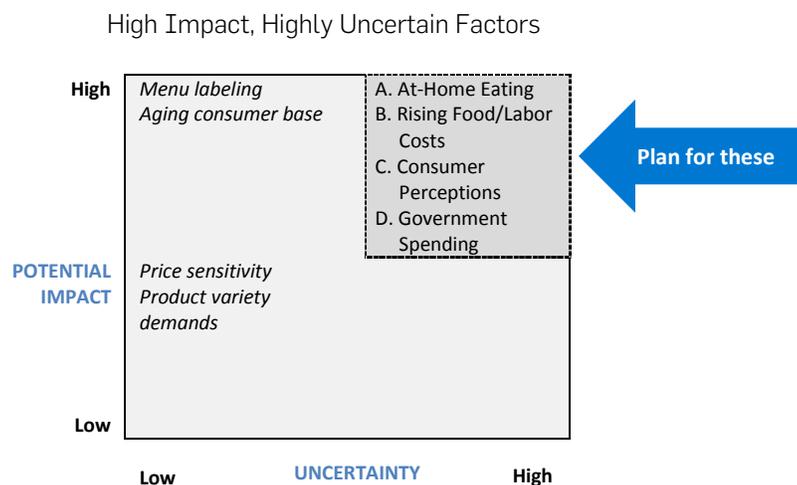
Scenario planning is especially useful in circumstances where it is important to take a long-term view of strategy – probably a minimum of five years. It also works best when there are a limited number of key factors influencing the success of a strategy (or strategies) but where there is a high level of uncertainty about such influences. Another way, scenario planning helps organizations plan for the highly unexpected, because it can be assumed that traditional strategic planning address the obvious outcomes that are common to an industry.

Scenario planning, as will be used in this case, builds plausible views of different possible futures for the traditional quick service burger (QSR) segment. The traditional QSR burger industry is exemplified by concepts such as McDonald's, Wendy's and White Castle.

Identification of High Impact, High Uncertainty Factors in the QSR Burger Environment

Using traditional QSR burger, the upper right quadrant identifies the factors that would have a large impact on the segment/industry. These are at-home eating, rising food and labor costs, changing consumer perceptions and government spending, legislation and regulation.

While the upper-right quadrant is the most critical for long-term risk management, organizations can place factors in the other quadrants as part of building a strategy. For example, expanded menu labeling may have a high impact on the segment, but its uncertainty is low with its current media attention and legislation. And in the case of White Castle, for example, it might mean a change in the loyal consumer base because of aging (low uncertainty but high potential impact.

High Impact, Highly Uncertain Factors

High	Menu labeling Aging consumer base	A. At-Home Eating B. Rising Food/Labor Costs C. Consumer Perceptions D. Government Spending
POTENTIAL IMPACT	Price sensitivity Product variety demands	
Low		
	Low — **UNCERTAINTY** — **High**	

Plan for these

Identification of Possible Futures and Factors

Once the factors have been placed in the quadrant, different futures can be identified by factors. It is important to point out that other factors may also impact the long-term success of a business and therefore the list is not exhaustive.

The Traditional QSR Burger Industry

High Impact, High Uncertainty Factors	Different Possible Futures by Factor
A. Development of At-Home Foods/Substitutes	a. Rapid Change b. Measured Change
B. Cost of raw materials (beef, poultry, oils, corn) and labor	a. High and increasing b. Stabilizing
C. Consumer perceptions of "fast food" burger compared to substitutes	a. Favorable b. Unfavorable
D. Government spending, intervention, regulation and legislation	a. In support of "fast food" restaurants b. Not in support of "fast food" restaurants

Building Scenarios of Plausible Configurations of Factors

Scenario 1: No significant change. Favorable consumer perceptions of fast food burger compared with at-home eating and substitutes are supported with government actions. Furthermore, there is measured change in input (food) and variable costs (labor).

Scenario 2: Chaos. Rapid change in at-home eating and substitutes (food is ubiquitous) is encouraged by government spending and legislation in support of other entities. In addition, unfavorable consumer perceptions of "fast food" compared with at-home foods or fast casual-style fare (for example) are combined with increasing costs of labor and raw materials.

Scenario 3: At-Home Society. Stable consumer perceptions of fast food burger joints compared with at-home eating, measured change in the development of at-home convenience foods or portable foods markets and government spending and regulation in support of fast food burger restaurants are favorable. However, there is concern over the high and rising cost of food (e.g., drought disease, international demand) and a shortage of labor (unemployment less than 3%, higher paying jobs, etc.).

Next Steps: Ranking Outcomes and Measuring Performance

In the case of fast food burger restaurants, more scenarios could be developed. Once these have been exhausted, the next step is to develop strategies to respond to them either by using decision trees or ranking them. Organizations must ensure to analyze the performance of potential outcomes, such as risk or return, if a strategy is implemented. These may include a cost-benefit analysis, simulation modelling or profitability analysis, such as return on capital, the payback period or discounted cash flow (DCF.)

Certain ideas were pulled from Long Range Planning *in the journal* Accountancy*, March 1995. For further information on scenario planning or assistance with strategic planning, please contact* tpowell@q1consultingllc.com*.*