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Fast-Food Joints Flap Chicken As Ground Beef Hits New Highs

By PAUL ZIOBRO

Ground beef prices are sizzling, up double-digit rates from a year ago, a move that normally triggers menu increases at fast-food restaurants.

Chains, including [McDonald's Corp.](#), [Wendy's/Arby's Group Inc.](#) and [Burger King Holdings Inc.](#), wary of losing customers are absorbing the increases and trying to steer diners toward chicken, salads and other more profitable offerings.

Fast-food chains are reluctant to raise burger prices as sales remain weak. McDonald's, which has a 48% and growing share of the U.S. fast-food hamburger market, has said it is committed to holding the line on price, forcing competitors to follow.

Beef prices typically rise in the summer as demand increases. But the run-up has occurred earlier this year amid tighter imports and historically low U.S. beef-cattle herds. Prices for beef used in most restaurant hamburgers—90%- and 50%-lean beef—are 14.4% and 31.6% higher, respectively, than last year, according to U.S. Department of Agriculture data.

All of this comes as chains seek new ways to profit amid slack demand. [Jack in the Box Inc.](#) recently began selling deli-style sandwiches with turkey, salami and ham. Other chains are seeking to boost profits with premium drinks and other higher-margin menu items, most of which don't include beef.

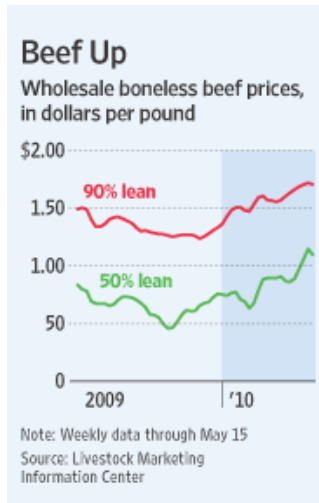
Jack in the Box Chief Executive Linda Lang says the company is taking ingredient costs into account on its promotions. "We do factor in the commodity costs," Ms. Lang said last week. New promotions are "margin friendly and actually have a lower food cost."

Wendy's, once famous for its "Where's The Beef?" advertisements, is focusing on promoting a new flavor of "boneless wings" and planning to launch a new line of premium salads later in the summer. Burger King, meanwhile, is readying a limited-time launch of bone-in pork ribs.

And [Sonic Corp.](#) plans to feature foot-long hotdogs in July—a peak month for burgers—and will add what the chain calls "real" ice cream, which has more butter fat, to its menu.

These diversion strategies may run afoul of customers. Fay Cheng, a Chicago software programmer, says promotions for wings or chicken strips aren't changing her orders at McDonald's and Wendy's. "I go there for fries and burgers," she says. "It's not like if they start promoting more chicken I'll go for chicken."

None of these new products sprang up overnight. McDonald's pricey new drinks including Frappes and Smoothies were years in the making. All the



chains initially prepared the new products to expand their menus and stand out from competitors. But rising beef prices make the success of these new items all the more important.

Higher beef prices don't look to fade soon. This month, the price of 90% lean ground beef was the highest since September 2008 and 50% lean was the highest since at least 1995, according to the Livestock Market Information Center. The USDA forecasts that total U.S. beef imports will fall 5% this year to 2.5 billion pounds, on fewer shipments from Australia and New Zealand.

Meanwhile, those chains sticking to discounted burgers are feeling push-back from their franchisees. Burger King recently raised the price of its Double Cheeseburger, with two hamburger patties and two slices of cheese, to as high as \$1.29 in some places, while adding a Buck Double, which has one slice of cheese, with a \$1 price tag. Both sandwiches have the same amount of beef.

[Carrols Restaurant Group Inc.](#), the largest Burger King franchisee with 311 stores, said last week that selling double cheeseburgers for \$1 "contributed to a significant erosion in profits," one that's magnified as beef prices rise. "The essence of it," Carrols Chairman and CEO Alan Vituli told analysts, "is that we're promoting the wrong product."

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