

## Buffalo Wild Wings, Inc., 2013

### www.buffalowildwings.com , BWLD

Headquartered in Minneapolis, Minnesota, Buffalo Wild Wings (BWW) is the largest chicken wing-based sports bar in the USA. BWW offers a welcoming atmosphere, open layout catering to families, sports enthusiasts, and chicken wing lovers. The typical store offers 20 to 30 different beers on draft and tap, up to 10 projection TV screens, and up to 50 smaller TVs for people to watch sporting events.

BWW specializes in traditional bone-in chicken wings and boneless chicken wings complimented by its 16 different wing sauces. BWW also sells burgers, other finger foods, and alcoholic beverages. The typical restaurant offers a diverse selection of beers, wines, and liquor options. As of year end 2012, BWW operated 891 stores of which 381 were company-owned and 510 were franchisee-owned. The company expects to increase its total number of restaurants by 105 in 2013 and approximately by the same amount in 2014. The typical restaurant is between 4,000 and 10,000 square feet and costs around \$2 million to build, including the land, building, appliances, etc. Each has 50 high-definition flat-screen TV's and 10 large projection screen TV's. Takeout orders comprise 14 percent of BWW sales.

In their company-owned restaurants, BWW employs 25,500 people, 2,800 full-time and 22,300 part-time, which it calls team members. Five of the top nine executives are females including the CEO, Sally J. Smith. BWW operates its 817 stores in 48 U.S. states and Canada. BWW opened five new restaurants in 2012 on the parking lots of big-box retail stores such as Home Depot. BWW expects to have 1,500 restaurants in the USA and Canada by 2016, and many of them will be in vacant space of Sears stores, parking lots, and malls.

*Copyright by Fred David Books LLC. (Written by Forest R. David)*

## History

In 1981, James Disbrow, from Buffalo, New York, along with friend, Scott Lowery, went looking for a Buffalo-style chicken wing restaurant around the campus of Kent State University in Ohio while judging a figure skating competition. Unable to find a satisfactory restaurant in the area similar to what they knew was good from back home, the concept of opening Buffalo Wild Wings and expanding this tradition of Buffalo, New York, to other areas of the country was born. The first restaurant named Buffalo Wild Wings & Weck or BW3, was opened in Columbus, Ohio, in 1982 near the campus of Ohio State University. In 1991, BWW began its franchising program and in 2003 the company completed its initial public offering.

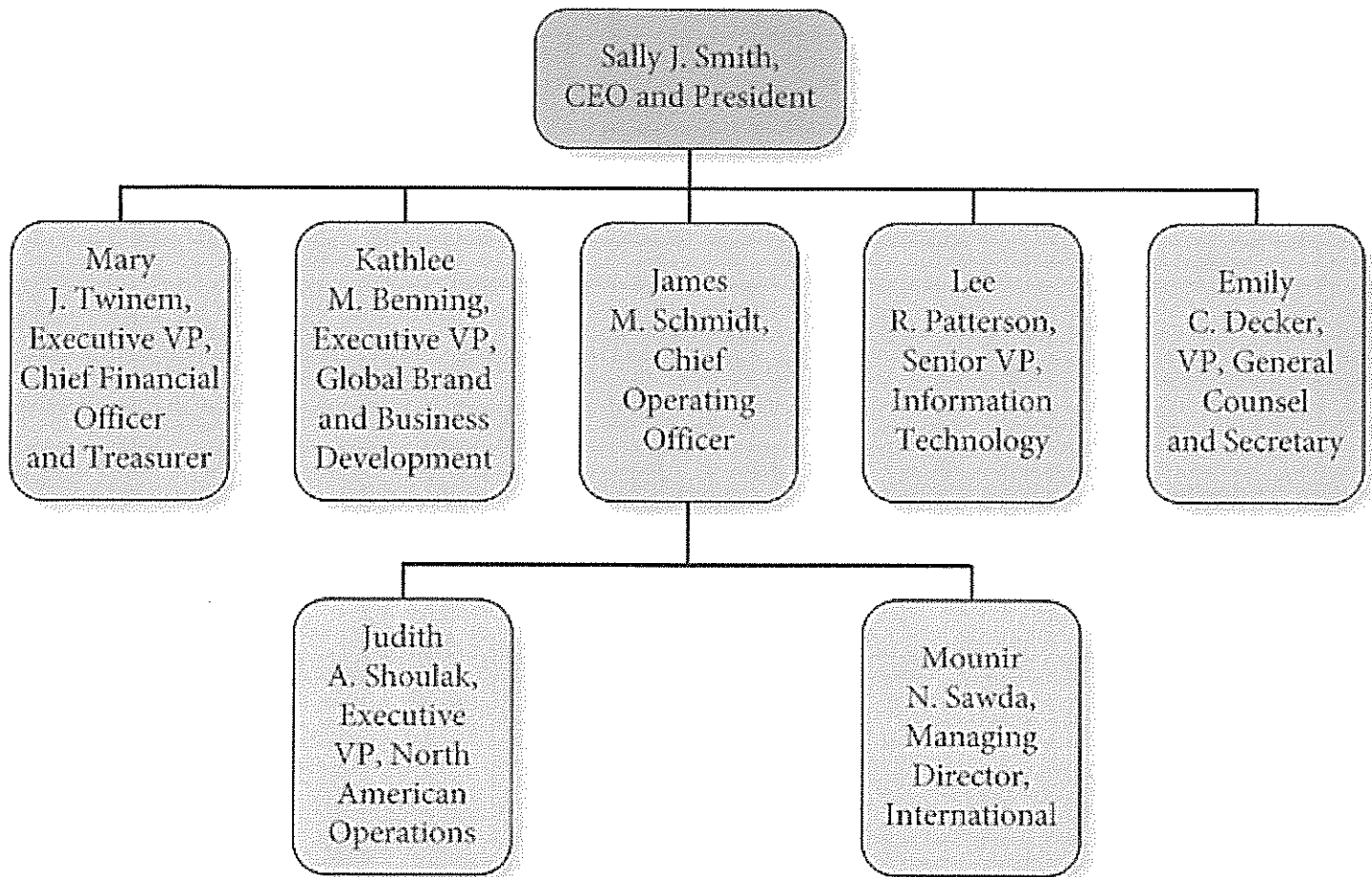
## Vision and Mission

BWW refers to its mission statement in its code of ethics, but the firm does not provide an explicit mission or vision statement on its website or its annual report. However, BWW does provide its "concept and business strategy" as follows:

- Continue to strengthen the Buffalo Wild Wings brand
- Deliver a unique guest experience
- Offer boldly-flavored menu items with broad appeal
- Create an inviting, neighborhood atmosphere,
- Focus on operational excellence,
- Open restaurants in new and exciting domestic markets and new countries and
- Increase same-store sales, average unit volumes and profitability.

# EXHIBIT 1 BWW's Organizational Design

Copyright © 2006 by Business & Society. All rights reserved. This book is for private use only. No part of this book may be reproduced or transmitted without publisher's prior permission. Violators will be prosecuted.



Source: Company documents.

## Organizational Chart

As indicated in Exhibit 1, BWW appears to operate from a divisional by geographic region structure.

## Internal Issues

### Statement of Ethics and Governance

BWW has two statements of ethics: one for regular employees and one for executives. For employees, the Code of Ethics provides an overall standard for ethical conduct in conjunction with what is viewed today as ethical business behavior. The statement also provides the following: (a) how to report violations of conduct, (b) extensive personal conduct policies, (c) conflicts of interests, (d) protecting trade secrets, (e) disclosure of financial data, (f) environmental impact, and much more. The executive code of ethics is similar to the document for employees. Both codes of ethics stress doing the job to the best of one's ability and seeking help before making a decision on any matters of which the employee is not sure of.

BWW provides a well-detailed corporate governance document for view on its website. This document stresses all key issues related to the governance of BWW, including but not limited to: board size, board leadership policies, selection of new directors, retirement, compensation, and stock ownership policies.

## Business Segments

Printed by [print@vitalsource.com](mailto:print@vitalsource.com). Printing is for personal, private use only. No part of this book may be reproduced or transmitted without publisher's prior permission. Violators will be prosecuted.

As indicated in [Exhibit 2](#), 22 percent of BWW's revenues come from alcoholic beverages. Not included in the chart but an important note is that 13 percent of BWW's sales come from takeout orders, an area in which BWW states it does not try to compete on and do not consider takeout wing establishments its primary competitors. But 13 percent is quite large and may be a growth area for the company in the future.

[Exhibit 3](#) reveals strong revenue growth for BWW's company-owned and franchised stores over the last three years. Revenue from company-owned stores increased 34 percent in 2012. [Exhibit 4](#) reveals average revenue per store. Note that franchised stores are outperforming company-owned stores on average, but this is partly the result of BWW repurchasing underperforming franchised stores.

## EXHIBIT 2 A BWW Revenue-by-Product Percentage Analysis

Traditional Wings	Boneless Wings	Alcoholic Beverages	Other Food/Beverages	Years
20%	19%	24%	37%	2011
20%	19%	22%	39%	2012

Source: Company documents.

## EXHIBIT 3 BWW Revenue Analysis: Company Owned versus Franchised Restaurants

	2012	2011	2010	2009
Company Owned	\$964M	\$717M	555M	489M
Franchised	\$1,510M	\$1,326M	1,148M	992M

Source: Company documents.

## EXHIBIT 4 BWW's Average Revenue per Restaurant

	2011	2010	2009
Company Owned	\$2.25M	2.14M	2.11M
Franchised	\$2.66M	2.43M	2.36M

PRINTED BY: igause20@gmail.com. Printing is for personal, private use only. No part of this book may be reproduced or transmitted without publisher's prior permission. Violators will be prosecuted.

## Strategies

2012 2011 2010 2009 (Amounts in thousands except per share data)

BWW is currently employing both market penetration and market development strategies and plans to have around 1,500 restaurants within the next several years, nearly double what they currently own. BWW is considering adding locations outside its current two countries: USA and Canada. The company ~~plans to~~ ~~maintain~~ its 60-40 split of franchised-owned to company-owned stores. Opening new stores especially in new countries would create additional risks, such as limited brand awareness, supply chain issues, unknown competitors, and much more. BWW is considering expanding into international markets via joint ventures with an established global brand.

Exhibit 5 reveals BWW growth over recent years. Note in 2012 the 19 percent growth in company-owned stores and 2.4 percent for franchised stores.

December 30, 2012    December 25, 2011    December 26, 2010

## Marketing and Advertising

### EXHIBIT 5 BWW's Growth: Number of Restaurants

2012 2011 2010 2009

Company-Owned    381    319    259    232

Franchised            510    498    473    420

Source: Company documents.

Since its inception in 1982, BWW has specialized in offering a unique brand experience for guests with the wide array of 6 award-winning sauces, beer variety, conveniently located TVs, a great social and sporting atmosphere, and though not acknowledged by the company, sex appeal with young attractive female waitresses. BWW instituted Tablegating at its restaurants in 2011 to promote sporting events, good food, beverages, and fellowship among fans. BWW maintains a year-round advertising presence but increases this advertising around its peak seasons, generally NCAA football in the fall and NCAA basketball in the spring. Each BWW franchise pays a royalty fee of 5.0 percent and an advertising fee of 3.5 percent of restaurant sales.

## Finance

In 2011 alone, BWW built 50 new company-owned stores and repurchased 18 franchised stores. Exhibits 6 and 7 are the financial statements for BWW. Note net income increased 13.6 percent from 2011 to 2012. Note on the balance sheet that BWW currently has \$32 million in goodwill, up from \$17 million in 2011.

### EXHIBIT 6 BWW's Income Statements

(Amounts in thousands except per share data)

Fiscal years ended

(Amounts in thousands except per share data) **December 30, 2012** **December 25, 2011** **December 26, 2010**

Revenue:	Fiscal years ended		
Restaurant sales	\$ 963,963	717,395	555,184
Franchise royalties and fees	<u>76,567</u>	<u>67,083</u>	<u>58,072</u>
	<b>December 30, 2012</b>	<b>December 25, 2011</b>	<b>December 26, 2010</b>
<b>Total revenue</b>	<b><u>1,040,530</u></b>	<b><u>784,478</u></b>	<b><u>613,256</u></b>
 Costs and expenses:			
Restaurant operating costs:			
Cost of sales	303,653	203,291	160,877
Labor	289,167	215,649	167,193
Operating	141,417	109,654	88,694
Occupancy	54,147	44,005	36,501
Depreciation and amortization	67,462	49,913	39,205
General and administrative	84,149	72,689	53,996
Preopening	14,630	14,564	8,398
Loss on asset disposals and store closures	<u>3,291</u>	<u>1,929</u>	<u>2,051</u>
<b>Total costs and expenses</b>	<b><u>957,916</u></b>	<b><u>711,694</u></b>	<b><u>556,915</u></b>
<b>Income from operations</b>	<b>82,614</b>	<b>72,784</b>	<b>56,341</b>

PRINTED BY: lgause20@gmail.com. Printing is for personal, private use only. No part of this book may be reproduced or transmitted without publisher's prior permission. Violators will be prosecuted.

(Amounts in thousands except per share data)

	Fiscal years ended		
	December 30, 2012	December 25, 2011	
	December 30, 2012	December 25, 2011	December 26, 2010
Investment income	<u>754</u>	<u>118</u>	<u>684</u>
Earnings before income taxes	83,368	72,902	57,025
Income tax expense	<u>26,093</u>	<u>22,476</u>	<u>18,625</u>
<b>Net earnings</b>	<b><u>\$ 57,275</u></b>	<b><u>50,426</u></b>	<b><u>38,400</u></b>
Earnings per common share – basic	\$ 3.08	2.75	2.11
Earnings per common share – diluted	\$ 3.06	2.73	2.10
Weighted average shares outstanding – basic	18,582	18,337	18,175
Weighted average shares outstanding – diluted	18,705	18,483	18,270

Source: 2012 Form 10K, p. 38.

## EXHIBIT 7 BWV's Balance Sheets

(Dollar amounts in thousands)

	December 30, 2012	December 25, 2011
<b>ASSETS</b>		

(Dollar amounts in thousands)

	December 30, 2012	December 25, 2011
Current assets:		
Cash and cash equivalents	\$ 21,340	\$ 20,530
Marketable securities	9,579	39,956
Accounts receivable, net of allowance of \$25	20,203	12,165
Inventory	7,820	6,311
Prepaid expenses	3,869	3,707
Refundable income taxes	4,122	7,561
Deferred income taxes	5,774	6,323
Restricted assets	<u>52,829</u>	<u>42,692</u>
Total current assets	125,536	139,245
Property and equipment, net	386,570	310,170
Reacquired franchise rights, net	37,370	21,028
Goodwill	32,365	17,770
Other assets	<u>9,246</u>	<u>7,146</u>
<b>Total assets</b>	<b><u>\$ 591,087</u></b>	<b><u>\$ 495,359</u></b>

(Dollar amounts in thousands)

	December 30, 2012	December 25, 2011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Unearned franchise fees	\$ 1,763	\$ 1,852
Accounts payable	36,418	30,089
Accrued compensation and benefits	39,637	30,499
Accrued expenses	11,461	7,580
System-wide payables	<u>51,564</u>	<u>44,250</u>
Total current liabilities	140,843	114,270
Long-term liabilities:		
Other liabilities	1,752	1,544
Deferred income taxes	37,128	38,512
Deferred lease credits	<u>27,992</u>	<u>23,047</u>
Total liabilities	<u>207,715</u>	<u>177,373</u>
Commitments and contingencies		
Stockholders' equity:		



(Dollar amounts in thousands)

	December 30, 2012	December 25, 2011
Undesignated stock, 1,000,000 shares authorized, none issued	—	—
Common stock, no par value. Authorized 44,000,000 shares; issued and outstanding 18,623,370 and 18,377,920, respectively	121,450	113,509
Retained earnings	262,047	204,772
Accumulated other comprehensive loss	(125)	(295)
Total stockholders' equity	<u>383,372</u>	<u>317,986</u>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 591,087</u></b>	<b><u>\$ 495,359</u></b>

Source: 2012 Form 10K, p. 37.

## Locations

BWW's home office in Minneapolis consists of 48,000 square feet and is under a lease that terminates in 2017 with an option to renew for another five-year term. BWW has 891 restaurants in 49 different U.S. states and 7 additional restaurants in Ontario, Canada. [Exhibit 8](#) provides the top 10 U.S. markets ranked by total number of BWW restaurants. Note that Texas has the most BWWs, followed by Ohio. [Exhibit 9](#) reveals that approximately 43 percent of all BWW restaurants are located in Midwestern states. The Northeast, West, Canada, and other world locations are still relatively untapped by BWW.

## Restaurant Franchise Operations

Approximately 59 percent of all BWWs are franchised and owned and operated by the franchisee. Franchises fees range from \$25,000 to \$42,500 depending on the owner's restaurant experience and the number of stores he or she currently operates. The general lease is typically for a 20-year initial term with the possibly to renew subject on certain conditions that the company does not specify.

In addition to the initial start-up costs, franchisees also pay royalty fees of 5 percent on all restaurant sales, with an additional 3.5 percent of sales revenue being attributed to advertising. There is a provision in all contracts whereby BWW can increase the fees by 0.5 percent once every three years. It is unclear from company documents whether this would amount to a 5.5 percent fee or a 5.025 percent fee. BWW does not expect to enact this provision in the next two years.

**EXHIBIT 8 BMW's Top 10 U.S. States (Number of Stores)**  
 Copyright © 2013 by VitalSource Publishing. All rights reserved. No part of this book may be reproduced or transmitted without publisher's prior permission. Violators will be prosecuted.

Region	Total Stores	2010	2011	2012	2011	2012
<b>USA</b>		<b>Company-Owned</b>	<b>Franchised</b>		<b>Total</b>	
Texas	37	43	51	45	88	88
Ohio	32	32	53	53	85	85
Illinois	13	18	46	43	59	61
Indiana	7	7	42	42	49	49
Michigan	0	0	43	47	43	47
California	11	18	24	28	35	46
Virginia	15	16	20	20	35	36
Florida	4	5	26	27	30	32
Minnesota	23	23	5	5	28	28
Missouri	7	6	20	21	27	27

Source: Company documents.

**EXHIBIT 9 BWVs' by U.S. Region (2011)**

Region	Total Stores	Percent
Midwest	353	43
Southeast	282	35
West	107	13

Region	Total Stores	Percent
Canada	4	
Total	817	100%
		BWW DineEquity Brinker Int.

Source: Company documents.

## Competitors

In the competitive restaurant industry, BWW is attracting customers based on taste, quality, service, and ambience. Primary competitors include Hooters, T.G.I Friday's, Chili's, Applebees, and many regional and mom-and-pop sports bars across the USA and Canada. In addition to sports bars and chicken wing-themed establishments, BWW does not consider quick-service restaurants (QSR), such as McDonald's and Kentucky Fried Chicken, as competitors, nor surprisingly quick takeout chicken wing establishments. This corporate view is surprising because many quick-service chicken wing stores can offer much lower prices than BWW because its overhead is significantly less. Recall that 13 percent of all BWW sales are derived from takeout customers. This 13 percent can somewhat be considered a gift because BWW does not promote its takeout business with volume discounts, "tailgate specials," or any other marketing strategy.

Exhibit 10 provides a financial comparison of BWW with DineEquity (owner of Applebees's) and Brinker International (owner of Chili's). Note that BWW has the highest price-earnings ratio but has the lowest revenues among the three.

## T.G.I. Friday's

With about 1,000 locations worldwide, T.G.I. Friday's (often shortened to "Friday's" in most countries, and stylized "FRiDAY'S", or "T.G.I.s" in the United Kingdom and the Republic of Ireland) is a U.S. restaurant chain focusing on casual dining, similar to BWW. T.G.I is owned by the Carlson Companies, a privately-held firm, so financial information is difficult to obtain about T.G.I Friday's. The company name, however, is taken from the expression TGIF, which stands for "Thank Goodness It's Friday," although some recent television commercials for the chain have also made use of the alternative phrase, "Thank God It's Friday." The company is known for its red-stripped canopies, brass railings, Tiffany lamps, and frequent use of antiques as décor.

## Hooters

HOA Restaurant Group (Hooters), based in Atlanta, Georgia, was founded in 1983 in Clearwater, Florida, and currently operates more than 430 franchise restaurants in more than 27 different countries, and additionally, the company operates 160 stores. The theme and concept of Hooters has changed little over the last 30 years and chicken wings is a main product served. The typical Hooters restaurant experience includes the sex appeal of female waitresses, jukebox-style music, sports on television, and a menu that focuses around chicken wings, but also includes seafood, salads, and sandwiches. Around 68 percent of all Hooters sales are derived from food and nonalcoholic beverages, 28 percent from beer or other alcoholic beverages, and 4 percent from merchandise, such as Hooters calendars and appeal.

## EXHIBIT 10 A Financial Comparison of BWW with Brinker International and DineEquity

	BWW	DineEquity	Brinker Int.
Market Capitalization	1.61B	804M	2.4B
	BWW	DineEquity	Brinker Int.
Number of Employees	2.8K	640	60.3K
Revenue	1.04B	1.02B	2.81B
Gross Margin	0.26	0.40	0.18
Net Income	57.2M	72.6M	146M
EPS Ratio	2.90	4.00	1.77
P/E Ratio	29.91	10.99	18.00

EPS, earnings per share; P/E, price-to-earnings.

Source: Company documents.

## Applebee's

Founded in 1976 as the International House of Pancakes (IHOP) and based in Glendale, California, with 640 full-time employees, DineEquity today operates both Applebee's Neighborhood Grill and Bar and IHOP. As of year-end 2011, the company operated 1,842 Applebee's franchise restaurants in the USA and 16 different foreign markets and 177 additional company-owned restaurants. There were 1,535 IHOP-franchised restaurants in the USA and 5 in foreign markets and 10 company-owned IHOP restaurants. DineEquity has experienced a 40-percent decline in revenues from \$1.4 billion in 2009 to \$1.0 billion in 2011.

The Applebee's segment of DineEquity competes with BWW by serving chicken wings, burgers, and other bar finger foods along with alcoholic and nonalcoholic beverage items. Applebee's also sells steaks, its most popular item, and have begun a new fresh menu offering new chicken, seafood, and salads in an attempted to capitalize on a healthier-minded consumer. In addition to the historical similarity in food times with BWW, Applebee's also markets itself as a neighborhood bar and grill and provides a limited sports bar atmosphere around the bar area during times of significant sporting events. New CEO Mike Archer of Applebee's is currently reducing the pop culture feel of Applebee's decor, adding healthier items such as its less-than 500-calorie menu, so it has yet to be determined how close of a competitor of BWW Applebee's will remain.

## Chili's

Founded in 1975 as Chili's in Dallas, Texas, Brinker International operates both Chili's Grill & Bar and Maggiano's Little Italy. As of year-end 2011, Brinker operated 1,534 Chili's and 45 Maggiano's. The company has restaurants in all 50 states and in more than 30 countries. The company experienced an 18-percent decline in revenues from \$3.2

## External Issues

Chicken wing prices in 2012 increased 62.8 percent over the prior year to an average price per pound of \$1.97. Chicken wings accounted for 27 percent of BWW's cost of sales in 2012, up from 19 percent the prior year.

## Domestic Economy

Unemployment is hovering just above 8 percent and interest rates are low but banks are not readily lending. Consumers continue to pinch pennies. "Dining out easily can be postponed, so many restaurants are a "very visible indicator" of what's happening in the economy," says Malcolm Knapp, a New York-based consultant who created the Knapp-Track Index and has monitored the industry since 1970. "Amid declining confidence, consumers don't have the appetite to eat away from home as frequently," he said. The USA is facing more than \$600 billion in higher taxes and reductions in defense and other government programs in 2013. U.S. retail sales are weakening, and consumer sentiment, measured by the Bloomberg Comfort Index, is declining. "It doesn't feel like we're out of a recession for many middle-class American households," Knapp said. In what's become an "allocation nation," consumers must choose between different categories of discretionary spending, and dining out is "very sensitive" to changing habits.

## Commodity Prices

BWW does not engage in any form of futures contracts for purchasing wings, instead purchasing at market prices and accepting the volatility that comes with that strategy. BWW acknowledges this problem and is actively looking for a long-term pricing agreement but has yet to come to agreement with any provider of chicken wings. Also, most BWW supplies are provided by third parties, leaving BWW with limited little control over its supply chain. Failure to deliver chicken wings, sauce, paper products, beverages, and such on time could severely impact its business.

## Future

BWW is one of the fastest-growing restaurant chains in the USA and also one of the hottest stocks for investors. The company's strategy to focus on chicken wings, beer, sports, and attractive waitresses continues to be a winning business model. Perhaps the most important challenge facing BWW is with its expansion policy. The company expects to double its total stores in the next three to four years. CEO Sally Smith is currently faced with continuing expansion in stronghold markets in the Midwest and Southeast or exploring markets in the Northeast, West, Canada, and other international markets. BWW has two franchise development agreements for restaurants in the Middle East and Puerto Rico.

BWW lacks control over its supply chain and has no real futures contracts in place to hedge against volatile chicken wing prices. Should CEO Smith actively establish contracts with chicken producers to buy chicken wings on a futures contract? Are there other backward integration strategies CEO Smith could pursue to help protect against untimely delivery, poor quality, or volatile pricing of supply chain products?

Another strategic issue facing BWW is its neglect of the takeout business. Although the company focuses on selling a casual sporty dining environment, many sports fans enjoy watching games at home, tailgating at the event, or even just enjoying a day at the lake or beach. Currently BWW does not offer any type of marketing package or takeout options for this customer group, rather it expects the customer to pay full menu dine-in prices with little price discount for volume purchases. However, with 13 percent of sales, and a much larger percent of food sales because takeout typically does not include alcohol, there is an opportunity to grow this business.

**Develop a three-year strategic plan for CEO Sally Smith at BWW.**