

Beef or Chicken? Beef prices hit fast-food chains

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Burger King's Whopper sandwich. Soaring beef prices have hurt Burger King, Wendy's and McDonald's.

* Fast-food chains alter market strategy in bid to keep costs down

NEW YORK — Rising beef prices might not mean the cost of a

Whopper is going to skyrocket, but it could mean you'll be encouraged to order a chicken sandwich instead.

Beef prices have climbed in part because of rising demand overseas and droughts in recent years that have caused livestock producers to shrink their cattle herds. The average, year-to-date price for 81 percent of lean ground beef is up 24 percent from a year ago, said Kevin Good, an analyst at CattleFax, a Colorado-based tracker of the beef industry.

The soaring prices have hurt fast-food restaurants that feature beef as the centerpiece of their menus: Burger King, Wendy's and McDonald's — the nation's three biggest burger chains — all say they're dealing with higher beef costs.

But fast-food chains, which sometimes pass along additional costs for ingredients to customers, realize there's only so much people are willing to pay for a burger. So, they're taking other measures to help ease the pressure, such as slashing expenses elsewhere or trying to get people to order other things on their menus.

Arby's, a chain best known for its roast beef sandwiches, this week is rolling out a new line of steak sandwiches. But without providing details, CEO Paul Brown said the company is also looking for "more opportunities" to promote chicken, which on average accounts for about 10 percent of sales for the chain.

"There are certain things you can do, which is promote different items," Brown said last week, when asked how the company is dealing with rising beef costs.

Alex Macedo, president of Burger King's North American region, said earlier this year that the company is pushing chicken more aggressively to offset rising beef costs. During the summer, the chain said, it brought back its Chicken Fries, which are deep-fried

pieces of chicken in the shape of french fries, after "ongoing guest outcries reached a point where they could no longer be ignored." The dish was introduced in 2005 and taken off the menu in 2012.

Burger King's website also is promoting its Italian Original Chicken Sandwich as well as a deal for 10 chicken nuggets for \$1.49.

Burger King is working with franchisees to reduce restaurant costs as well. Carrols Restaurant Group, Burger King's biggest U.S. franchisee, noted that its beef costs were up 32 percent in the latest quarter from a year ago.

On Thursday, Wendy's also announced a plan to cut costs by \$30 million to offset challenges, which include rising beef costs. Spokesman Bob Bertini declined to specify how Wendy's is adjusting its marketing strategy to deal with rising beef costs. But he said "our varied core menu with many chicken and salad options gives us options."

To drive customer traffic in the U.S., McDonald's said it's working to keep prices down despite its rising costs for ingredients. To counter pressures, which include weak sales, McDonald's Chief Financial Officer Pete Bensen said the company is working with third-party experts to analyze its cost structure, including staffing levels.

That doesn't mean fast-food customers will be shielded from rising beef costs entirely. Chipotle raised prices nationally by about an average of 6 percent this past year, with the company citing higher costs for ingredients, including beef. But Chipotle is enjoying strong sales growth and is more confident about its ability to raise prices without scaring off customers.

Companies aren't expecting higher beef prices to ease up soon.

John Harrington, publisher of Hastings, Neb.-based *Feel of the*

Market who analyzes the cattle market, said livestock producers are just starting to replenish their herds after a drought in recent years.

As such, he doesn't expect prices to ease until 2017.

"It just takes so long — two to three years to a breed a cow. You have to get the calf on the ground, grow the calf and then butcher the animal," Harrington said.