

OPPORTUNITIES FOR A CHALLENGING ECONOMY

ECONOMIC CRYSTAL BALL

- ▣ Recession- 18 months
- ▣ Loss of jobs may make the recession longer.
- ▣ 6-10% inflation by 2011
- ▣ \$4 a gallon gasoline in the next year, which will further reduce disposable income.
- ▣ Savings rate is up 6%, which helps the banks but not spending.

MARKET TRENDS

- ▣ Trading down
 - Fine dining trading down to Red Robin and TGIF
 - Red Robin- TGIF down to Subway and Qdoba.
 - Qdoba, Subway down to McDonalds' and BK
 - Starbuck's trade-down to McDonald's espresso
- ▣ “Go without” – Starbucks, Jomba Juice, etc
- ▣ 1/3 consumers-eating out less than a year ago
- ▣ Meal replacement
- ▣ Fringe day parts-breakfast-snack-late night

C-STORE CHALLENGES

- ▣ Lower customer counts
 - Increased price of cigarettes driving sales elsewhere
 - \$4 a gallon gasoline- more pay at the pump
 - C-stores are the “face” of big oil. PR problem to overcome when gas rises.
- ▣ “Go without” mentality on impulse purchases
- ▣ Rising labor costs-Washington State \$8.55, Oregon \$8.40, Vermont \$8.06, 5 states @\$8.00
- ▣ Increasing energy costs

QSR CHALLENGES

- ▣ Cannibalization with new units
- ▣ Discounting strategy, intense competition.
 - Subway \$5 sub
 - McDonald's dollar menu
 - Burger King - dollar menu
 - Wendy's - 99 cents price point
 - Quizno's -\$5 sub
 - Taco Bell -79 cents, 89 cents and 99 cents.
 - Sonic's Dollar Menu

QSR BIG FEAR

ELASTIC PRICING

- QSRs backed into a corner with discount menus
- Consumers expect to pay \$1 for a value burger.
- A \$5 Subway sub is now an expectation.
- QSRs assumed add ons, which has not happened
- Subway is countering with \$1 add ons- discounting \$1.59 soda to \$1
- Franchisees are battling the mother corporations to raise prices because of low margins
- Law suits to lower royalties to offset value menu

SUBWAY

	2008 YTD		2009 YTD		2010 YTD	
TOTAL SALES	\$ 264,690		\$ 264,690		\$ 264,690	
TOTAL COST OF GOODS	\$ 77,970	29.5%	\$ 83,428	31.5%	\$ 89,268	33.7%
LABOR:						
Salaries & Wages	\$ 63,526	24.0%	\$ 67,496	25.5%	\$ 72,790	27.5%
Fica	\$ 4,860	7.65%	\$ 5,163	7.65%	\$ 5,568	7.65%
Unemployment	\$ 1,143	1.80%	\$ 1,215	1.80%	\$ 1,310	1.80%
Workmans Comp	\$ 578	0.91%	\$ 614	0.91%	\$ 662	0.91%
TOTAL LABOR	\$ 70,107	26.5%	\$ 74,489	28.1%	\$ 80,331	30.3%
EXPENSES						
Store Equipment Repair & Maint.	\$ 2,058	0.8%	\$ 2,213	0.8%	\$ 2,345	0.9%
Store Supplies	\$ 3,296	1.2%	\$ 3,678	1.4%	\$ 3,878	1.5%
Operating Expense	\$ 1,720	0.6%	\$ 1,899	0.7%	\$ 1,978	0.7%
Laundry	\$ 1,800	0.7%	\$ 1,900	0.7%	\$ 2,050	0.8%
Utilities Expense	\$ 9,441	3.6%	\$ 10,678	4.0%	\$ 12,343	4.7%
Telephone Expense	\$ 1,804	0.7%	\$ 1,989	0.8%	\$ 2,007	0.8%
Office Supplies	\$ 704	0.3%	\$ 799	0.3%	\$ 876	0.3%
Credit Card Service Chrgs	\$ 4,737	1.8%	\$ 4,737	1.8%	\$ 4,737	1.8%
Music Service	\$ 624	0.2%	\$ 700	0.3%	\$ 720	0.3%
Advertising	\$ 1,800	0.7%	\$ 2,000	0.8%	\$ 2,200	0.8%
B&O	\$ 2,366	0.9%	\$ 2,366	0.9%	\$ 2,366	0.9%
QSR Royalties-	\$ 31,988	12.1%	\$ 31,988	12.1%	\$ 31,988	12.1%
Loan	\$ 24,108	9.1%	\$ 24,108	9.1%	\$ 24,108	9.1%
TOTAL OPERATING EXP.	\$ 86,446	32.7%	\$ 89,055	33.6%	\$ 91,596	34.6%
OPERATING INCOME	\$ 30,167	11.4%	\$ 17,718	6.7%	\$ 3,495	1.3%



BREAKFAST

25 % consumers eat breakfast away from home

QSR Sector is aggressively getting involved:

- ▣ McDonald's chix-biscuit breakfast sandwich
- ▣ McDonald's McSkillet Burritos,
- ▣ Burger King's Cheesy Bacon BK Wrapper
- ▣ Hardee's -Ham/ Three Cheese Burrito.
- ▣ Jack n box
- ▣ Breakfast isn't as price point determined as it is perceived value driven

NON PEAK SNACKS UP 196% IN QSR

- ▣ McDonald's Snack Wraps
- ▣ Chicken McNuggets
- ▣ KFC popcorn chicken
- ▣ KFC crispy chicken strip
- ▣ Wendy's Go Wraps,
- ▣ KEYS- PORTABILITY, SMALLER PORTIONS,
EATABILITY IN A CAR.
- ▣ PRICE POINT 1.49-\$1.99

HEALTHY POSTING CALORIES HAS LEGS

- ▣ Technomic found that 86 percent of consumers were surprised by calorie counts listed on menus.
- ▣ 82% - calorie disclosure is changing their order
- ▣ 60% percent is affecting where they visit.

BENEFIT

- Taco Del Mar has launched a 320-calorie burrito
- Subway has 9 subs with 6 grams of fat or less

LOSE

- Hardees country breakfast burrito – 780 calories
- Jack in the box breakfast taco- 720 calories



QSR

OUT OF THE BOX

- ❑ Menu engineering- smaller portions, different containers, lower price points
- ❑ B K- testing premium items, ribs & thicker burgers
- ❑ Burger King is testing a self serve condiment concept similar to a salad bar
- ❑ Hardees's, Thickburgers
- ❑ Domino's is delivering oven baked sandwiches
- ❑ Pizza Hut is delivering baked pasta dishes
- ❑ Quizno's recently started to offer home delivery
- ❑ Subway has drive thrus back in R&D

UNEMPLOYMENT CREATES OPPORTUNITIES

- ▣ INCREASING THE AVERAGE CHECK
- ▣ Show associate money w/ bonus & contests
- ▣ Set goals that are attainable and measurable
- ▣ Post results. Competitive, peer pressure
- ▣ Make check average a criteria for a raise.
- ▣ Terminate employees that don't show average check growth.

MARKETING

- ▣ Loyalty cards rather than discounting.
- ▣ Emphasize the draw of your brand, not the deal.
 - Subway is an example of this by selling discount rather than healthy. No longer a niche QSR but a discounter .
- ▣ Avoid discounting
 - Focus on VALUE rather than discounted pricing
 - Merchandise and market VALUE

OPERATIONS

▣ Food costs-

- Ideal cost of sales based on recipes at cost
- Sales mix will generate an ideal food cost.
- New ideal food cost each week based on sales mix
- Food cost budgets- variance to cost of sales.

Labor-

- Remote electronic labor tracking based on sales per/labor hour or units per hour to control labor.
- Phone/blackberry alerts for OT

COST SAVING

- ▣ Re visit flow to decrease labor
- ▣ Decreasing energy costs
 - Smaller kitchens and smaller dining area spaces
 - Denny's reduced their footprint 25%
 - Equipment -Flat griddles with heat recovery
- Burgerville is trying to design a building that would operate on wind-energy credits and solar power.
- HUGE MARKETING TOOL

OPPORTUNITIES

- ▣ C-store food service can benefit in the trade down chain.
- ▣ Products focused on value rather than compete with discount pricing.
- ▣ “Fringe markets” Breakfast, Snacks, Late Night
- ▣ Home meal replacement-grow in this economy
- ▣ Trade down coffee growth.
- ▣ Create low calorie items and market them.
- ▣ Portable , eatable, snack items
- ▣ Market “GREEN”

CONCLUSION

- ▣ Leverage unemployment to get better employees and increased check averages
- ▣ Experiment with QSR market products, they spend millions in R&D and test marketing.
- ▣ The trade down creates a huge opportunity. Subway is up 7% and McDonald's best 4th quarter in 12 months.
- ▣ While food service has a huge upside potential many of the QSR companies “pros” are struggling to drop money to the bottom line.