QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: June 20, 2011

TO: Foodservice Industry Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 1st Quarter, Calendar Year 2011

It is still a mixed bag for the chain restaurants, but refreshingly more positives than negatives for a change. There are some bright spots, some making progress and some in continued chaos.

Those who are doing well, even in a tough environment, Starbucks, McDonald's, Panera, Chipotle, Steak N' Shake, and BJ's are relentless in their work to stay relevant to their customers. One of the drivers of success today is keeping the news about new products out there. In many cases it is all about new beverages.

One example is BJ's. While most of the news about California is all bad, and most of the chains based there, or with large numbers of restaurants there-tell that story. Yet, BJ's which is based in Southern California, and has more than 50% of their stores in California-is up 7.8% in SSS versus last year, lapping a positive 4.4%, so the two year trend is up 12%!

Positive trends (finally!) with some of the legacy brands – yet bear in mind many of these chains are coming off 2-3 years of negative SSS (Sonic, Arby's, Applebee's) from their historical highs – so your sales (or potential) will not necessarily be at the levels it was previously. At Sonic SSS were off -4.3% in 2009, followed by -7.3% decline in 2010, the same store sales are off about $100,000 per store on average over the last 2-3 years (from an average of just over $1 million per store to just under $900,000 per store) – that really hits the franchisee community hard--it impacts their lifestyle as well their attitudes!

In looking at the numbers, bear in mind that some chains (Logan' s as an example) have positive overall trends simply by increasing their pricing--which of course, will ***not*** impact your volume. An example of the trend going the other way is Steak N Shake--which actually had a lower average check, but increased traffic by 5.2%

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The point being for manufacturers as well--the business is out there-you just have to be much smarter about where you invest--that means understanding the individual brand's consumers and the organizational culture ***first***, before you make a big investment.

One trend we have embraced-in this changing environment, it would serve you well to let go of opportunities sooner rather than later, than you have in the past, when you begin to see things not going your way. There are fewer well qualified truly new business opportunities, so the "opportunity cost" factor is a stronger consideration today.

Making the sales / profitability / menu mix success thresholds in and of itself will not always get you the business on a new item or a limited time offer, although that is still very important. It ***must fit the brand and the culture*** of the customer organization-which means you need to truly ***understand that*** and work within that framework in order to be successful.

One question we get asked frequently is about the future of Casual Dining, and how much of that business is going to Fast Casual, what that might mean for their business. This is worth watching – the consumer sees four positives with Fast Casual – they are more in control of the overall experience, no tipping is required, they believe the food is at least as good as Casual Dining, if not better, and for younger people it is a place to socialize, with access to the internet.

As a supplier, the Fast Casual players are the ones most aligned with the consumer direction at the moment, so if you aren't already working in this segment, you should begin to do so-the other segments will follow whatever is successful that will work for them.

The 1st Quarter 2011 SSS reports

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Arby's	+5.5%			Announced sale to Roark Capital
Burger King	-6%			The struggles continue
Carl's Jr.	-0.4%			
Chipotle	+12.4%			
Domino's	-1.4%			lapping a +14.3% a year ago
El Pollo Loco	-2.4%			
Hardee's (CKE)	+5.7%			
Jack in the Box	+0.1%			Qdoba +6%
McDonald's	+2.9%			
Panera	+3.3%			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Papa John's	+6.1%			
Popeye's	+2.5%			
Sonic	+1.2%			Lapping a -13.2%
Starbucks	+7%	+6%	+1%	Schultz's return has made the difference
Wendy's	NC			Breakfast to be in 1,000 stores by year end
Yum Brands (US)	-1%			Long John Silver's & A&W for sale
KFC	+1%			
Pizza Hut	-3%			
Taco Bell	Flat			Short term negative impact caused by false claims
Full Service				
Applebee's	+3.9%			
BJ's	+7.8%			Lapping a 4.4% increase!
Bob Evans	+1.2%			Mimi's Cafe -1.3%
Buffalo Wild Wings	+3.9%			
California Pizza Kitchen	-2.1%			
Carrabba's	+3.9%			
Cheesecake Factory	+2.1%			
Chili's	-0.3%	+0.2%	+1.2%	Clear evidence of consumers managing the check
Cracker Barrel	-0.3%	-2.6%	+2.3%	
Denny's	-1.7%	-1.1%		
Famous Dave's	+3.0%			
IHOP	-2.7%			
Logan's Roadhouse	+0.1%	-2.5%	+2.6%	Pricing increases offset traffic declines
Longhorn	+6.1%			Newly remodeled units leading the positive trend
McCormick & Schmick's	-3.2%			Fighting hostile takeover efforts by Landry's
Morton's	+7.5%			
Olive Garden	NC			
Outback	+4.1%			Flemings +11.4%
PF Chang's	-0.5%			
Red Lobster	-0.1%			
Red Robin	+1.9%	+0.9%	+1.0%	
Ruby Tuesday's	-1.2%			
Ruth's Chris	+5.2%		+1.2%	Price increase on entrees only +3.9%
Steak N Shake	+4.3%	+5.2%		Customer trade down-while overall sales increase
Texas Roadhouse	+4.6%		+1.0%	

Implications for Foodservice Manufacturers

We are finally seeing some good news in the chain restaurant world, and it is becoming clearer who the winners are and who the losers are as we come out of The Great Recession. Manufacturers need to continue to adjust resources to support the brands that are showing positive growth, still building units and driving traffic through menu innovation.

We recently finished a project to identify the supplier (food and non-food) best practices in the eyes of many of the top chains, and several themes came through loud and clear. The suppliers that will be successful have three traits in common:

- They are connected up and down in the chain's organization (well beyond purchasing and R&D) and understand and respond to the strategies, goals and culture of the chain organization
- They will commit to innovation and changes in manufacturing for their core chain customers
- They have a clear view of how the chain fits in their strategy, what resources they will commit to the business, and the expected results. Importantly, the best manufacturers have shared that plan with their chain customers.

These are the elements of best practices from the chain restaurant perspective. Now is a good time to take a look at your organization, your go to market approach, relationships and the skills and competencies in sales, marketing and finance that support the chains and identify where you need to invest resources, change priorities or change team members.

It is easy to sit back and say "yeah, we do all of that – but our business is still struggling." The question to ask is "Do you know – or do you think you know – what is going on in your chain customers?"

Please feel free to contact us with any comments or thoughts, especially if you think we missed something, or you disagree with our conclusions!

Regards

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