QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: December 22, 2011

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 3rd Quarter, Calendar Year 2011

In the most recent reporting periods the winners: BJ's, Starbucks, Panera, Chipotle, Texas Roadhouse, and of course McDonald's, continue to outperform their direct competitors in a very difficult environment. Some continue to raise prices, and grow in difficult geography.

BJ's continues to do well, even with about half of their stores in troubled California. The two year running same store sales increases are an incredible +13.2%; quite a performance. Another, example is Starbucks: they have raised prices on some of the food by over 30% at once over the past 90 days, with no impact on sales.

Since the beginning of their turn around, which began about 9 years ago, McDonald's AUVs have grown at an average of $875,000 per store, about 54%. This year the average domestic restaurant will do around $2.3 million, up from just over $1.4 million in 2002. This is an incredible performance, especially considering the economic patterns over that time period. Their primary competitors still average between $800,000 and $500,000 ***less per*** store. The focus now is improving through puts during the peak breakfast and lunch day parts – a reduction in delivery time of 10 seconds per order generates a 1% increase in SSS, according to our contacts.

For the brands that continue to outperform the industry, the story lies in the fundamentals that matter, and working on those. Those are things that consumers really care about: new product news and offerings, combined with a consistent experience and a solid price/value relationship. Nothing is new there.

One essential differentiator is talent. One example is Texas Roadhouse. Conventional wisdom was that the steak category was dormant. Yet, Texas Roadhouse continues to grow. How? One key is the overall structure and operating principles around the managing partners. The GMs have an ownership position and they get 10% of the store operating income as a bonus! The key is that this type of structure attracts the talented people who want to build wealth versus just getting a job.

One theme we hear consistently from our chain restaurant clients is that their talent is a key competitive point of difference. The ongoing dialogue is around how to attract the best talent. How can they keep and develop the most talented team members once they get them?

Some brands are still slipping; IHOP & Applebee's as examples, although not as much as in previous years. It is simply fewer customers through the door, and the consistent use of deals to drive the business at the likes of Applebee's, Chili's and TGIFriday's.

Unfortunately, there are a few hanging on seemingly by a thread. Arby's is one example. We talked to a franchisee in Georgia (who will do $600K this year, versus just over $1 million in 2003), and another in Florida, whose sales have declined by 50% (from $900K to $450K) in the same time period. Sad to see, and if you are considering work on a project there, proceed with caution!

<u>The 3rd Quarter 2011 SSS reports</u>

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Burger King	-0.3%			
Carl's Jr.	+2.0%	-0.1%	+1.0%	
Chipotle	+11.3%			Incremental traffic, and price increases
Domino's	+3.0%			Lapping a +11.7% increase in the same period in 2010
Dunkin Donuts	+6.0%			
Hardee's (CKE)	+2.5%	-0.8%	+1.03%	
Jack in the Box	+3.1%			Qdoba +3.7%
McDonald's	+4.4%			
Panera	+4.4%			System wide increase of 11.3% over the past 24 months
Papa John's	+5.3%			
Popeye's	+1.7%			
Sonic	-0.5%			Still work to do
Starbucks	+10%	+7%	+3%	
Wendy's	+0.9%			
Yum! Brands (US)	-3%			
KFC	-3%			
Pizza Hut	-3%			
Taco Bell	-2%			
Full Service – Family, Casual and Upscale				
Applebee's	-0.3%			Less traffic, increase in average check

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
BJ’s	+6.5%			Lapping +6.7%
Bob Evans	-1.5%			Mimi's -4.8%
Buffalo Wild Wings	+5.7%			
Carrabba’s	+6.3%			
Cheesecake Factory	+0.8%			
Chili's	+1.7%	+1.9%	+1.3%	Consumers managing the check
Cracker Barrel	-1.6%	-3.8%	+2.2%	+2.2% Average check increase
Denny's	+0.9%			
Famous Dave's	-0.1%			
IHOP	-1.5%			Less traffic, increase in average check
Logan's Roadhouse	No Change	-1.8%	+2.9%	Price increases influenced average check improvement
Longhorn	+6.0%			12/16 Release
McCormick & Schmick's	-1.0%			Agreement in place to be acquired by Landry's
Morton's	+5.1%			
Olive Garden	-2.5%			12/16 Release
Outback	+5.6%			
PF Chang's	-3.7%			
Red Lobster	+6.8%			12/16 Release
Red Robin	+2.1%			
Ruby Tuesday's	-4.1%			AUVs versus 5 years ago????
Ruth's Chris	+2.6%			
Steak N Shake	+4.9%	+4.8%		
Texas Roadhouse	+4.0%			

Implications

The patterns are becoming clearer in the chain restaurant world. Overall, the third quarter was better performance than we have seen in a long time, with a majority of the chains posting positive results. However, there are still three groups – the winners, losers and watchers. The outlook for the winners is clear, and McDonald’s is the best example. The Golden Arches are driving overall performance through a relentless focus on consumer research and brand execution. They have a long track record of strong performance, and it is unlikely that will change in the near future.

What is interesting, and we pointed this out in the analysis of the Nation’s Restaurant News Top 200 Chain analysis, is that some of the largest chains are putting up some of the best numbers.

In this game the absolute numbers really do matter. So an 11% gain at Chipotle – another competitor relentlessly focused on brand execution and staying ahead of the competitive set.

These high performing brands and in the chain restaurant branding work we have done over the past 6 months, we hear one theme consistently from the consumers *—"If I am going to spend money on a restaurant visit, it has to be really special or really matter to me"*

Do you understand your core consumers' wants and needs at a fairly deep level?

It is not enough to just review your guest satisfaction scores versus last year. You must dig deep into the comparison of how you are performing against the competitive set. Review comments by your guests on the guest satisfaction survey, and track the number of compliments and complaints. Take 2 of each, every month and determine how you can get more of the same compliments and much less of the complaints received. Review each month and determine where your focus is going to be, moving forward. Second, go to the social networking sites and see what consumers are saying about your brand and their experiences. This will help to prioritize areas to focus on in improving the overall experience. Make sure, when possible, to connect with those consumers and let them know you are listening and learning from their feedback.

Third, get together with your core consumers every month in discussion groups or focus groups to identify areas of strengths and areas of opportunities. Discuss their dining habits at competitors; identify what your brand could do to have more loyalty from those core consumers.

Do you understand that the only way to grow business in today's economy is to steal market share from your competitors?

Many brands today are increasing prices, which is fine in this economic environment, yet consumers have gotten much smarter and more sophisticated with how they spend their discretionary dollars. Margins may improve, but average check is not growing, due to consumers making choices about how much they will spend.

Consumers are buying fewer drinks, appetizers and desserts than they used to in order to manage spending. So, in order to increase market share, avoid the first most common error.

You must consistently deliver a better experience than your competition is the right approach!

Not as difficult as it may sound if you are constantly talking to your core consumers about your brand's performance. Doing something with that consumer feedback is critical! Another way you can steal market share from your competitors is to outspend them in advertising. We do not recommend this unless you are consistently delivering the experience better than your competition. The brands that appear to be weathering the rough waters of our economy the best, do very little advertising. They consistently innovate and deliver the brand experience better than their competitors.

What's next?

Connect the dots! Once you have a solid understanding of your strengths, weaknesses and opportunities versus your competitors, here's what's next. Constantly evolve your strategic plan to address the brand and operational needs of your business. When times were good, it was great to have your strategic plan speak to unit and AUV growth through high-level strategic initiatives.

In today's environment, it is our belief that you have to consistently and constantly get back to the blocking and tackling. It is about food, service, environment and creating not only the functional benefit of the brand, but the emotional ones. What makes guests loyal to your brand is that connection with them on that emotional level.

We recently completed a project where we conducted focus groups with loyal Chipotle users. We were blown away by the emotional connections that Chipotle has been able to create and improve upon with their core consumers. Their strengths versus the competitive set were so strong that the things that they didn't like about Chipotle didn't matter. The best example — the long lines at lunch. Loyalists figure other ways around it and Chipotle has done a good job with online ordering and applications that help them navigate around the long lines.

- So, are you reviewing your strategic initiatives on a monthly basis?
- Are you looking and connecting those initiatives with your consumer feedback systems to ensure it is making a difference?
- Are you focused on your core consumers and not trying to be all things to all people?
- Do you have a clear communication system in place to connect all the associates at the restaurant level in how they are doing and what is important?

- Do you have a recognition and reward program in place that recognizes excellent performance against those initiatives?

- Do you have a system in place that is able to quickly recover guests that have not had the ideal experience?

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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