



## QUARTERLY CHAIN RESTAURANT UPDATE

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BELLWETHER FOOD GROUP, Inc.

DATE: December 10, 2012

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 3rd Quarter, Calendar Year 2012

In looking at the brands that performed well in the 3rd quarter, there seem to be three sets of characteristics in common. The first is the culture. One example is Chipotle — through their "restaurateur" program, wherein they recruit and train 98% of their general managers. This is an incredible recruiting tool. Another example of their operations culture is that when senior management works a market, they actually **work a shift** at a Chipotle restaurant. Those actions send a very clear message about the priorities of the leadership team.

The second is the talent, stability and effectiveness of the senior management team. One great example is Buffalo Wild Wings. One interesting aspect of their success is the tenure, talent and cohesiveness of the senior leadership team. CEO (Sally Smith), CFO (Mary Twinem) and EVP, Global Brand & Business Development (Kathleen Benning) have worked together for at least 15 years. Our favorite detail about the leadership team – its three women – yes, three women who have changed the landscape in the sports bar segment. They continue to outperform their peers, and will open some 60 company restaurants next year and 45 franchise stores.

On the subject of talent, keep an eye on Ruby Tuesday's – they recently announced that JJ Buettgen is the new President/CEO. He comes from Darden where he was Chief Marketing Officer (CMO). His most recent role at Darden was his second tour of duty there and his experience also includes time at Brinker. If there is someone who can right the ship at Ruby Tuesday's, he's one who has the capability and track record. He's in that small, select group of talented executives whom we believe can get Ruby Tuesday's on the right track – so stay tuned.

The third factor in being successful is ongoing consumer segmentation, as part of constantly working to better understand what is now resonating with the right types of consumers.

There was a time when understanding and segmenting individual groups of consumers using the brand was something brand operators did every 2-3 years or once a year. Today, the good ones are working on this as an ongoing undertaking. More specifically, it's no longer an event; it is a way of doing business. We see essentially the same patterns with the most successful

manufacturers; those who continue to diligently understand what matters most to the customers and to whom they can bring the most value – they are the ones who out perform their peers. Especially now, the "weeding and feeding" of the customer portfolio and the new business pipeline are more critical than ever.

We continue to be impressed by Popeye's performance – they keep growing SSS. Their positioning as the flavors of Louisiana is quite a transition from a "fried chicken" positioning. It is admittedly a subtle difference, but one that matters. On another front, Popeye's recently completed an agreement to buy a group of KFC locations in Minnesota, which they will of course convert to Popeye's – significantly diminishing KFC's presence in that market.

Finally, we are a little humored by all the fuss about McDonald's having a decline in sales recently. Of course, no one likes to have negative sales trends, and to be sure that could be a sign of consumer angst (or not!). Putting this in perspective is important. At some \$2.3 million in AUV, they are still anywhere from \$500,000-\$800,000 per year larger in sales than their closest hamburger QSR national competitor. Put another way, if you are able to get a limited time offer (LTO) with a McDonald's region – that's still more business for you than all of Sonic or Dairy Queen throughout either brand's entire system, over the same time period! Simply put, they are, and will continue to be, an industry leader.

### **The 3rd Quarter 2012 Same Store Sales Reports**

| Brand                        | Same Store Sales Versus Prior Year | Traffic Change | Pricing | Comments                                       |
|------------------------------|------------------------------------|----------------|---------|------------------------------------------------|
| <b>Limited/Quick Service</b> |                                    |                |         |                                                |
| Burger King                  | +1.6%                              |                |         | (includes Canada)                              |
| Carl's Jr.                   | +4.0%                              |                |         |                                                |
| Chipotle                     | +4.8%                              |                |         |                                                |
| Domino's                     | +3.3%                              |                |         |                                                |
| Dunkin Donuts                | +2.8%                              |                |         |                                                |
| Hardee's (CKE)               | +1.6%                              |                |         |                                                |
| Jack in the Box              | +2.8%                              |                |         |                                                |
| McDonald's                   | +1.2%                              |                |         |                                                |
| Panera                       | +6.2%                              | +0.6%          | +3.0%   | Favorable mix of +2.6% & price drove the +6.2% |
| Papa John's                  | +2.5%                              |                |         |                                                |
| Popeye's                     | +6.8%                              |                |         |                                                |
| Pollo Tropical               | +7%                                | +5.9%          |         |                                                |
| Sonic                        | +2.3%                              |                |         |                                                |
| Starbucks                    | +7%                                | +5%            | +2%     |                                                |

| Brand                                            | Same Store Sales Versus Prior Year | Traffic Change | Pricing | Comments                                                   |
|--------------------------------------------------|------------------------------------|----------------|---------|------------------------------------------------------------|
| Taco Cabana                                      | +1.8%                              | +0.6%          |         |                                                            |
| Wendy's                                          | +2.8%                              |                |         |                                                            |
| Yum! Brands (US)                                 | +6%                                |                |         |                                                            |
| KFC                                              | +4%                                |                |         |                                                            |
| Pizza Hut                                        | +6%                                |                |         |                                                            |
| Taco Bell                                        | +7%                                |                |         |                                                            |
| <b>Full Service – Family, Casual and Upscale</b> |                                    |                |         |                                                            |
| Applebee's                                       | +2.2%                              |                |         | Higher average, some traffic declines                      |
| BJ's                                             | +2.3%                              |                |         | Lapping a +6.5% increase, over a +6.7% increase in Q3 2010 |
| Bob Evans                                        | +1.0%                              |                |         | Declines at Mimi's continue, -5.6%                         |
| Bravo Restaurants                                | -0.5%                              |                |         |                                                            |
| Brio Restaurants                                 | -1.1%                              |                |         |                                                            |
| Buffalo Wild Wings                               | +6.2%                              |                |         | Lapping a 5.7% increase from 3rd quarter last year         |
| Carrabba's                                       | +1%                                |                |         |                                                            |
| Cheesecake Factory                               | +2.9%                              |                |         |                                                            |
| Chili's                                          | +2.8%                              | +0.4%          | +1.4%   | Gained a +1% favorable mix                                 |
| Cracker Barrel                                   | +3.8%                              | +1.4%          |         | Note 0 traffic gains include retail store traffic          |
| Denny's                                          | +0.4%                              |                |         |                                                            |
| Famous Dave's                                    | +0.2%                              |                | +2.2%   |                                                            |
| Fleming's                                        | +4.1%                              |                |         |                                                            |
| IHOP                                             | -2.0%                              |                |         | Primarily traffic declines, offset by higher check         |
| Longhorn                                         | +3.6%                              | +3.4%          | +2%     | Experienced weaker menu mix of -1.7%                       |
| Olive Garden                                     | -0.3%                              | -2.6%          | +2%     |                                                            |
| Outback                                          | +4.5%                              |                |         | Some of the increase a result of weekend lunch             |
| Red Lobster                                      | -2.6%                              | -4.0%          | +2.8%   |                                                            |
| Red Robin                                        | +1.1%                              | +0.8%          | +0.3%   |                                                            |
| Ruby Tuesday's                                   | +1.9%                              |                |         |                                                            |
| Ruth's Chris                                     | +5.9%                              | +3.6%          | +2.2%   | Company Stores                                             |
| Steak 'n Shake                                   | +2.9%                              | +2.2%          |         |                                                            |
| Texas Roadhouse                                  | +3.6%                              |                |         | +4.9% at franchise locations-(72 of 384 total stores)      |

## **Implications for Foodservice Manufacturers**

There are some manufacturers who are enjoying a competitive advantage — one that really sets them apart, and it has very little to do with their product offerings.

The smartest and most successful manufacturers are carefully targeting customers to invest with in terms of better understanding the customers' important consumer groups and what matters most to them. One thing every chain restaurant wants to know more about is what really drives preference in their competitive set. The competitive set often varies for a chain restaurant concept depending upon how these consumer groups use the brand. The point is that it's not all the same for each group of consumers.

Setting up a research protocol is relatively simple and inexpensive these days. Certainly, before you make that type of investment, be sure you have alignment with your most qualified customers, combined with contacts at the VP/C level. If you want the best results, get your chain customer involved in setting up the goals and desired outcomes for any type of research. In short, get your goals aligned with theirs, you'll learn a tremendous amount about their true priorities and how they really make decisions!

Even if you don't customize products, or that's not your strength, you can still use this approach. The key is selecting the right customers with whom to invest. As we hope you know by now, selecting the right targets or customers to invest in is critical, as critical as is investing with the best value buying influences or stakeholders.

One theme we have heard repeatedly from our chain customers, is their struggle to understand the purchase behaviors and motivation of millennials. This is the first generation to spend less on foodservice than the previous generation – obviously that is a huge concern for many brands.

One supplier to a top QSR just undertook some innovative research on millennials – talking with them, hanging out with them and dining with them to better understand the influences on their decisions, how they used social media, and what was important to them. We have heard from both the supplier and the QSR how valuable that research was – it has cemented the relationship between the two and opened new opportunities for the supplier. It's not just about products.

Helping your chain customers better understand their customers, or whatever matters most to them, is something all chain operators value. If you can help do that, you stand a better chance of success. For you, the learning is that you now better understand how chain restaurant

consumers use your product or categories at certain restaurant brands – that's at least one way to gain a competitive advantage, regardless of which chain you're talking to.

If you'd like to talk further about how to go about doing this, give us a call. As always, 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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|-----------------------------|----------------------------------------------------------------------------------------|--------------|
| Mac Brand, Dallas           | <a href="mailto:mbrand@bellwetherfoodgroup.com">mbrand@bellwetherfoodgroup.com</a> ,   | 972-863-8057 |
| Rob Hardy, Boston           | <a href="mailto:rhardy@bellwetherfoodgroup.com">rhardy@bellwetherfoodgroup.com</a> ,   | 617-281-5175 |
| Jon Jameson, North Carolina | <a href="mailto:jameson@bellwetherfoodgroup.com">jameson@bellwetherfoodgroup.com</a> , | 843-422-4285 |