MEMORANDUM

Bellwether Food Group, Inc.

To: Friends & Colleagues

From: Mac Brand

Date: April 10, 2008

Subject: Chain Restaurant Same Store Sales (SSS) First Quarter, Calendar Year 2008

First Quarter Results

The first quarter of 2008 for the commercial chain restaurant business in the US, was at best a mixed bag, and at worst an indicator of increasingly challenging times for chain restaurant operators and manufacturers, as measured in Same Store Sales (SSS).

Ahead of the game (SSS)

Conventional wisdom is that consumers trade down during economic uncertainty and difficulty, and many of the QSR sales trends reflect that.

- McDonald's-An increase in same store sales of 8%. Benefiting from consumer trade down, improved operations, and being open longer
- Burger King-Up 4.2% in the most recent period
- Sonic- Up 3.2 %, driven by a "healthy" increase in traffic. The Happy Hour program is meeting expectations, as part of the "Ultimate Drink Stop" strategy
- Carl's Jr-Same store sales up 6%, driven by new product news
- Olive Garden-Up 5.7%, the leader in Casual Dining category sales performance given the maturity of the brand, and the number of stores, driven by a 3.1% lift in traffic

- Cracker Barrel-Up less than 1%, while average check was up 3%, about the same as the price increase passed along to consumers, which is a good sign under the circumstances

Behind the game (SSS)

Full service chains, especially casual dining, continue to suffer the most in the current environment, yet even some QSR brands are having a difficult time.

- Ruby Tuesday's-suffered a 12% decline in overall same store sales, average check declined about 2%, meaning there was not only a traffic issue, but consumers are "managing the check"-for example, not ordering a beverage with the meal

- Brinker-Chili's down 2.4%, On the Border down over 4%

- Longhorn Steak House-sales down 3.4%

- Red Lobster-sales down 2%

- Wendy's-a same store sales decline of 1.6%, not being in breakfast and being underpenetrated in some key growth markets, like Southern California is taking its toll.

We are hearing one fundamental question from both the chain operators and manufacturers:

- How do we think about, organize, allocate resources, and prepare for the changing environment?

Implications for Manufacturers

In planning for the next 6-24 months, we recommend consideration of four areas to tweak and adjust your thinking, planning and execution for your national accounts and street business.

- **Setting Priorities Effectively**-Consistent use of a well defined, disciplined, and rigorous targeting & prioritization process, to help in picking your battles wisely. A key element is to clearly understand the customers business, and specifically the chain restaurant brand.

- **The need to sell higher in the organization** – Over the past 3 months, we have met with some 20 senior executives in the chain restaurant industry, from Casual

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Dining, to Mid Scale to Quick Service. Every single executive is much more directly involved in menu and supplier decisions, than in the past, especially marketing. If you don't have working relationship these executives, you are probably not working with the right people.

- **<u>"Go for the No"</u>**-Some companies are in so much turmoil, senior leadership is in survival mode. New initiatives simply get lost. In private discussions, senior leaders are telling us that the focus for the balance of 2008 will be around managing their margins, menu adjustments, and working to improve service metrics.

  Any publicly traded company with negative SSS results (Ruby Tuesday) or announced as a candidate for sale (Buca, Macaroni Grill) are probably not going to be focused on new initiatives.

- **<u>Finding the pockets of growth</u>-** Some chains are growing and doing well. The challenge for most manufacturers is identifying these pockets of growth, and putting the right resources against them.

  You may be better positioned for success in generating new, profitable business, by refocusing on the right emerging and growth chains, versus a heavy investment in the legacy, limited growth brands.

.The Targeting & Prioritization Protocol

One of the ways our clients work through where and how much to invest in today's climate is to set priorities as an organization, by utilizing these five elements of definition and analysis:

- **Strategic Fit:** Are the strategies targets and goals of the chain aligned you're your strategies and goals

- **Size of the Prize:** How big is the opportunity on a quantitative or relative measure? Does it justify investment?

- **Accessibility:** How accessible is the account? Do you have relationships in the right places today? Can your team build the right relationships over time?

- **Transactional / Relational:** How does the account typically behave when selecting products in your categories? Is the account primarily focused on cost – hence transactional? Or are they more interested in a long term relationship, and can they see the benefits of working with a "co-investor" in their business?

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- **Innovation Score:** How important is innovation to the chain? Are they known for entering new categories and driving culinary innovation, or not?

For more insights on how to plan for more effective and profitable execution for the next 6-24 months, give any one of us a call.

Regards

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