MEMORANDUM

Bellwether Food Group, Inc.

To: Friends & Colleagues

From: Mac Brand

Date: July 24, 2008

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

The 2nd quarter of 2008 for the chain restaurant business continued showing consumers trading down; they look for value first and continued interest by consumers in "safe adventures". Most of the chain operators we have met with especially casual and fine dining chains believe that tough times are here for at least another 18-24 months. Most of these management teams have never seen this level of challenges in their business. In private conversations, many are uncertain of exactly what path to chose, so most are going back to the basics. (*Quality, service, convenience, value, new product news)*

Ahead of the game Same Store Sales (SSS)

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

Quick Service

McDonald's-U.S 2nd quarter SSS were up 3.4% .. The four key growth strategies of chicken, breakfast, beverages(*excellent margins*) and convenience (*improved through put*) drove results with the nationwide launch of the Southern Style Chicken Biscuit and Sandwich and locally relevant beverage promotions

- Market based beverage promotions, driven by market needs, two examples are sweet tea, and the espresso based beverages, both of which are enjoying success in select markets, certainly not all the markets

Chipotle-SSS up 7.1%, in addition to the consistent quality, and merchandising the integrity of the ingredients, the company continues to focus on and execute very

well with store staff as brand ambassadors, and in bringing the elements of the Chipotle experience to each consumer, much like Starbucks.

Burger King-Up 5.6% in the most recent period, the new product news is the primary driver, combined with being open longer hours in many markets, and expansion of the breakfast menu

Panera-The envy of all in the industry! Company owned SSS up 6.5%, franchisee SSS up 4.8%, the company also took a 5.5% price increase to the consumer. It appears that they have not experienced any real declines in traffic due to their recent set of price increases. This is probably due to the fact that consumers still see them as a great alternative to casual dining and their quality and environment is still a strong driver of value in their business.

Carl's Jr-SSS up 4.9%, driven by new product news-Prime Rib Burger, Natural French Fries

Hardee's-SSS 5.7%, driven by new products, such as the Red Burrito Taco Salad™ and the Strawberry biscuits

Yum Brands-The U.S. SSS up 2%, led by Company SSS growth of 4%.Restaurant margin and operating profit declined largely due to significant commodity inflation, weak sales and profit results at KFC. Issues with franchisee margins continue

Full Service

Olive Garden's-SSS increased 5.8%, its 55th consecutive quarter of same-restaurant sales growth, based in part on managing price on select menu items, and subtle enhancements to their wine program

California Pizza Kitchen- Under the circumstances, impressive, SSS increased approximately 1.4% compared to 5.4% in the second quarter a year ago. New product news the driver

Brinker-Chili's SSS up 1%, an improvement. They also announced plans to close 15 Chili's and 6 On the Border restaurants, due to poor performance, this followed two elimination rounds of administrative staff at Dallas headquarters. If you are a manufacturer working with any of the Brinker brands, please be aware that they are in a very defensive position at the moment

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IHOP-SSS increased 2.6% for the second quarter 2008 and increased 3.2% for the first six months of fiscal 2008. Once again, it is new product news, and the Limited Time Offers (which always include a beverage) driving their performance

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.

Full Service

Ruby Tuesday's-suffered a 9.8% decline in SSS, following a double digit decline (-12.7%) the first quarter. Structurally, they face the challenge of having about 1/3 of their stores in or near shopping malls, tough to manage around the decreased traffic issues, when consumers reduce visits for reasons that have nothing to do with your restaurant brand.

Applebee's-SSS decreased 1.7% for the second quarter 2008 and decreased 0.6% for the first six months of fiscal 2008, reflecting particular weakness in the Southeast and Midwest. Applebee's has a disproportionate number of stores in some of the smaller population markets, where income levels are typically lower, drive times further, hence increased fuel costs hit consumer pocketbooks harder

Ruth's Chris-A personal favorite, SSS down 6.9% in the most recent quarter, prompting the key players at Madison Dearborn to make some key management changes

Cracker Barrel-SSS were down 1.2%, including the effects of a 3.8% higher average check driven primarily from an average menu price increase of approximately 3.7%, which means they are losing traffic. Tough times exacerbated by being strong with vacation travelers during the peak vacation season

Quick Service

Jack in the Box-company SSS decreased 0.1% in the second quarter compared with a year-ago increase of 6.4%. This comes on the heels of two new products in the second quarter, including the BBQ Bacon Sirloin Burger. and a Cinnamon Roll was added to the menu during the quarter, they also began promoting the Spicy Chicken Bites.

- Starbucks-last quarter SSS reported as "mid-single digit decline". Clearly a brand in transition, but still strong with consumers.

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- Sonic-SSS declined 0.4%. The company did take some pricing moves, which appear to have hurt momentum, as did a very cool and unusually wet March in many of their core markets (*Texas being the largest*). This is due in part, to the car-delivery service model, which is the foundation of the brand, which is more vulnerable during inclement weather

Wendy's-SSS at company-operated restaurants increased 0.1% during the quarter which means they are ***not*** keeping up with increased operating costs. Issues such as coming late to breakfast and being underpenetrated in some key growth markets, like Southern California continues to take its toll. This affects a quarterly number because whatever improvements are made, they aren't enough to compensate for not being penetrated in an important geographic growth market, or a daypart that is benefiting from a tremendous amount of new product news and increased advertising, throughout the industry.

For example, if McDonald's has a strong breakfast media campaign, in Los Angeles (which they did in May) all of the quick service brands benefit from that. If you are not penetrated in that market, or are last on the list of places consumers think of for breakfast, it is difficult for your brand to benefit

So what do we do now?

We are hearing this same question from both the manufacturers and chains:

In this challenging environment, for which there is no playbook, what is the best way to figure out where to place our bets?

- For manufacturers it is deciding between investment in national chains, regional chains, and contract management companies
- For operators it is how to change menu offerings, close stores or reduce the labor requirement in the back of the house to maintain margins

Implications for Manufacturers

In planning for the next 6-24 months, we recommend consideration of 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.

Work on programs that will boost traffic/sales in the short term-Most chains are working only 6-18 months out. At the same time the Limited Time Offers (LTOs)

are a way to boost same store sales, which is important to almost everyone at the corporate office on any type of bonus program! Especially in the "C" Suite.

With LTOs, the decision process tends to be quicker, less complex, and relatively less price sensitive (even if the RFP process rears its ugly head on regular menu items), it is quite difficult and time consuming for a purchasing department to drag out the procurement process when the marketing department has a promotional window to fill, and part of the senior executive management team bonus program is tied to SSS, which are favorably impacted by LTOs.

Getting involved earlier in the development process- we touched on this last quarter and got asked some questions about how to do that more effectively. One practice we have seen work well is to offer to support concept/product screening efforts much earlier in the process, such as when the senior management team is establishing overall direction for the restaurant brand.

The obvious risk is that your company's product(s) or concepts may not make the cut, the benefit is that you will know their overall strategy and direction much sooner, so that you make smarter decisions about your investments in time and other resources.

- **Finding the pockets of growth-** 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. We can no longer assume increasing or sustained growth with every chain; if one of your targets is struggling with declining sales patterns, you need to be selective about how much to invest in a brand that is losing sales, or closing stores.

  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?

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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?

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; feel free to give any one of us a call.

Regards

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