



# QUARTERLY CHAIN RESTAURANT UPDATE

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*BELLWETHER FOOD GROUP, Inc.*

DATE: April 13, 2016

TO: Operator Friends & Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 4th Quarter, Calendar Year 2015

## **The 4th Quarter 2015 Same Store Sales Reports**

Overall, the industry was fairly healthy in the 4<sup>th</sup> Quarter. Many brands continue to do well, while some are struggling. Pizza continues to grow - with Domino's leading the way with a +10.7% increase, which comes on top of +11% in 2014. Papa Johns (+2.2%) and Pizza Hut (+2%) also delivered positive results. Papa Murphy's didn't fare as well, reporting a -3.1%

In Hamburger QSR, McDonald's sales increased 5.7%, benefiting from the October launch of all day breakfast. Wendy's continues to gain traction as evidenced in the +4.8%, and Burger King continued their positive trends posting +2.8. All the national brands benefitted somewhat from the unseasonably mild weather.

Sonic posted a +5.3% increase (on top of +8.5% the previous year). Besides the product news and integrated customer engagement - they've continued with menu enhancements. Recently, "The Soda Pop Shoppe" was introduced. Among the offerings - cream sodas made with flavored syrups or soft drinks mixed with sweet cream, and are ½ price after 8 PM. This plays into one of their strengths as a combined 40% of their sales come in the afternoon or after dinner.

New product news and limited time offers are established tools in QSR. More recently, coffee continues to evolve as an important driver of breakfast differentiation. Sonic, not one of the brands typically in the discussion in QSR breakfast, now has a branded coffee program (Green Mountain), and they're using that with the \$3 breakfast delivered in 2 minutes.

Starbucks continues to hit on all cylinders reporting +9% SSS, 4% of which is incremental traffic. They lead in many ways, none the least of which is the technology platform. Over the Christmas Holiday, \$1.9 billion was loaded on Starbucks Cards in the U.S. and Canada; 1 in 6 American adults received a Starbucks Card over the holidays, up from 1 in 7 in 2014. They now have more than 11 million active members in the domestic loyalty program - Starbucks Rewards™

Technology's role in the consumer experience will continue to increase. Dominos' recently described itself as a technology company that delivers pizza. The acceptance rates across the consumer spectrum, including baby-boomers is unprecedented.

The flagship Darden brands all had positive results. We see Olive Garden's new focus on take out/take home (up 20%) and the value oriented Cucina Mia meals (\$9.99). Recently, Olive Garden started a national delivery catering program for any home or office event for a minimum of \$125. They've seen all the local independents enjoy that business for some time.

Cracker Barrel has focused on a value platform, with a \$5.99 lunch plate, and a \$7.69 Country Dinner plate, combined with the "Wholesome Fixins" line with entrees under 600 calories in all three dayparts. They've decided to give fast casual a try, opening Holler & Dash, a "biscuit inspired" menu. The first unit opened last month in Birmingham, Alabama. The menu includes innovation-organic apple juice, beer, wine, beignets, and a biscuit with bacon, guacamole and a fried green tomato. Interesting menu, we're anxious to give it a try.

Elsewhere in casual dining the environment continues to be tough. Bloomin Brands, had negative sales and traffic at all three flagship brands. They've announced a number of initiatives including a "Re-Invigorating the Experience," remodeling the restaurants, along with plans to relocate potentially 100 Outback locations to better sites. Early reports are that the new location moves are generating a 20-40% lift in traffic during dinner. This makes sense, as local trade areas can change over time. Also, work with recent app upgrades include ordering/paying online, combined with waitlist and reservation enhancements.

Casual dining has embraced the order and pay at your table concept. Pay at table has always been the case, but it is now using technology to do so, which is rapidly becoming the industry standard. Consumer expectations are shaped by the entirety of their collective experience with all the places they shop and eat. Today, the consumer can track their package coming across the country thru Amazon, so now they expect the kitchen to know where their order is, in real time, and when it will be at the table. The standard "it should be here soon" response is no longer an acceptable answer.

Suffering from -8.2% traffic decline on top of -3.8% decline in 2014, a major challenge for Brio/Bravo now is keeping the best talent in the store. The best servers, bartenders, and others are going to go where the best tips are. For managers, who earn bonus on sales increases, this makes life very difficult. So the guest experience suffers. Unfortunately the same realities apply to Famous Dave's.

Wage increases are happening, and for the time being the trends are going in that direction. Both the chain operators and the manufacturers are looking for unique ways to reduce labor. Of course, technology will play a significant role, especially in full service restaurants.

We don't see that technology will completely replace servers in full service, although it should increase efficiencies over time. What we do see is the servers using the pads to communicate internally to input orders (and then only once - the kitchen and bar get the orders at the same time the waitperson actually takes them). This saves time and labor and improves the customer experience.

This will minimize errors, speed up the overall dining experience, and allow the server to cover more tables at a time. A separate food and beverage delivery person will bring most of the orders to the tables. For operators working to maximize throughputs during a busy lunch or breakfast rush, this can really help. We've already seen how well the right technology can improve both the customer experience and operations at Starbucks.

Over time, the servers will be able to handle more tables, and therefore make more in tips. The operator will have less people, which will save labor expense and health insurance costs. We don't make predictions, but the evidence so far strongly suggests that the minimum wages are going in only one direction for the next few years - up. California recently signed legislation that raises the minimum wage to \$15 over a period of years.

#### **4th Quarter 2015 SSS Sales by Brand**

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
<b>Limited / Quick Service</b>				
Arby's	+8.1%*			*full year 2015 performance
Bojangle's	+0.6%			
Burger King	+2.8%			US and Canada
Chipotle	-14.6%			-30% SSS in December; -29% in February
Del Taco	+5.8%			
Domino's	+10.7%			
Dunkin Donuts	-0.8%			
El Pollo Loco	+1.8%			
Habit Burger	+3.3%	-0.2%	+3.5%	
Jack in the Box	+1.4%			
Jamba Juice	+3.9%			
KFC	+1%			
McDonald's	+5.7%			All day breakfast a key driver
Noodle's	-1.1%			
Panera	+2.3%			
Papa John's	+1.9%			
Papa Murphy's	-3.1%			
Pizza Hut	+2%			
Popeye's	+2.0%			Lapping +10.4% SSS
Pollo Tropical	+0.4%	-1.1%		
Pot Belly	+3.7%			
Qdoba	+1.8%			
Shake Shack	+11%			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Sonic	+5.3%			Lapping +8.5%
Starbucks	+9%	+4%		
Taco Bell	+4%			
Taco Cabana	+3.3%	-0.7%		
Wendy's	+4.8%			
Wingstop	+5.9%			
Zoe's	+7.7%	+2.8%	+0.4%	+4.5% product mix
<b>Full Service</b>				
Applebee's	-2.5%			
BJ's	+0.7%	-2.5%		
Bob Evans	-3.6%	-6.5%	+2.9%	
Bonefish Grill	-5.4%			
Bravo Restaurants	-5.2%			Combined traffic decline of -8.2% for both brands
Brick House Tavern	-2.8%			
Brio Restaurants	-4.3%			
Buffalo Wild Wings*	+1.9%*			*@ 596 Company stores, +0.1%% @ (579) Franchised
Capital Grill	+4.3%			
Carraba's	-4.0%			
Cheesecake Factory	+1.1%			
Chili's*	-2.1%			
Chuy's	+3.2%			
Cracker Barrel	+0.6%			
Dave 'N Busters	+6.0%			Lapping a +10%
Denny's	+2.9%			
Famous Dave's	-10.6%			Lapping -4.8%, on top of -2.6% in '13, -6% in '12
Fleming's	-0.3%			
IHOP	+1.4%			
Joes' Crab Shack	-2.9%			
Longhorn	+2.7%	-0.7%		
Olive Garden	+4.9%	+3.0%		
Outback	-2.2%			
Red Robin	-2.0%			
Ruby Tuesday	+0.8%	-2.2%	+3.0%	
Ruth's Chris	+3.2%	-0.3%	+3.5%	
Steak 'n Shake	+0.8%			
Texas Roadhouse*	+4.5%			*392 Co. Stores ;+4.0% @ 82 Franchise Stores
Yard House	+3.9%			

### **Implications for Operators**

As the battle for, and the cost of, talented employees and managers continues to get more intensive, we've seen many in the industry try continue to work on unique strategies to attract and retain the right team members. It's a full time job.

One of the approaches we've seen work well recently, is to actually share some of the results of our AA&U or customer satisfaction work, and build a story or dialogue around the key learnings for the team that interacts with the guests. What we're hearing is that most of the employees would prefer to tell the story in their own way.

When implementing the programs, whatever they are, make sure your customer-touching associates, wait staff, bartenders, greeters, etc. understand the "why" behind the changes, and the implications. Simply, tell the story (not just the numbers) behind the changes. This includes what customers said they liked and wanted more of, and maybe some things they didn't like or value very much.

One of the practices we've seen work well is to actually have employees role play explaining or introducing any new products or changes to their guests. Within a group of the new menu items or changes, let the individual wait staff, bartender or manager sample the new products or changes made on the menu or service elements. Then give the server permission to playback what was learned and what changes were made, and why they were made - in their own words.

We're happy to share our perspective in more detail - just give us a call.

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