

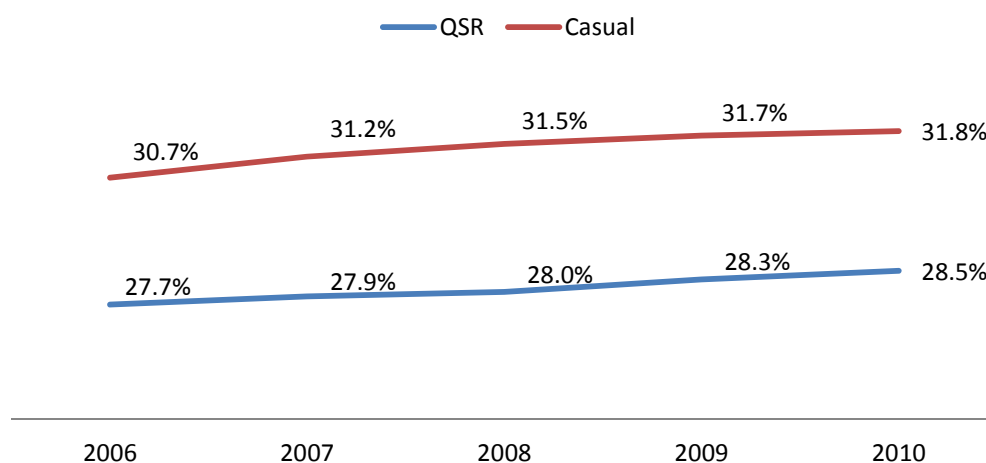
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Restaurant Research Think Piece – October 2011

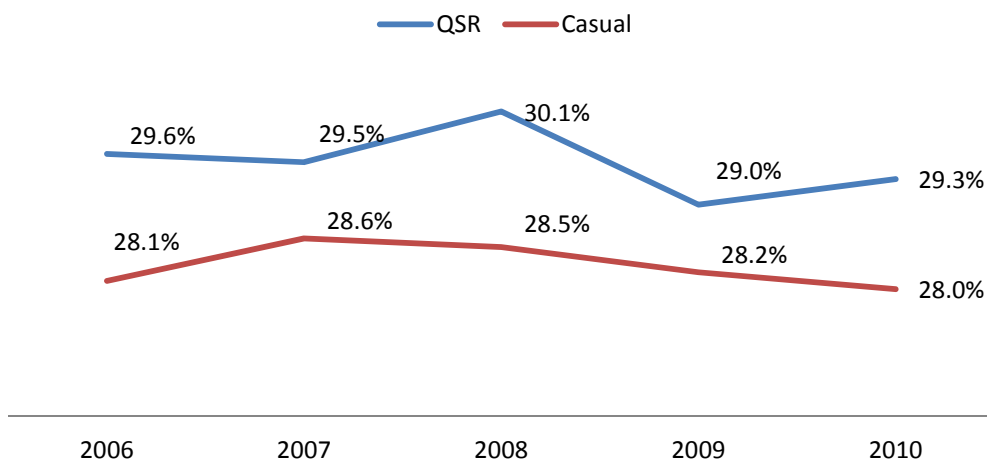
Labor Cost Category Most Important to Operator Profitability

Rising minimum wages and more costly benefit plans have had their toll on franchisee restaurant operator profitability as we can see from the top chart. This margin squeeze is magnified by labor's fixed cost structure which is difficult to manage during times of top-line weakness. Conversely, we can see from the bottom chart that restaurant operators have been quite successful at managing their food margins during a period of escalating raw ingredient prices coupled with top-line weakness. We attribute this to successful menu engineering. Our conclusion? Operators must find better technologies and labor practices (scheduling, etc.) to control labor costs if they are to survive and thrive in a world which is sure to demand higher labor wages even amidst periods of slow economic growth.

Labor Margins for \$1B+ Chains



COGs (food & paper) Margins for \$1B+ Chains



Source: RR estimates

Data is derived from Restaurant Research's Unit Economic Database which includes unit level financials (at franchisee and franchisor corporate level) for 35 \$1B+ chains spanning the last 5 years. **This product represents a huge labor/cost savings for clients** who are able to leverage RR's extensive work in gathering this important and hard-to-get unit level economic data (including AUV, COGs, labor margin and EBITDAR). For more information on how to order complete Unit Economic Database, please contact us at (203) 405-1901 or info@ChainRestaurantData.com.

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