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Restaurant Research Think Piece – January 2012

Concept Report Summaries

Panera

Panera continues to demonstrate the success of its unique business model with a steady diet of unit level sales growth through good times and bad. This brand is about more than high quality, healthful food but also about providing customers with a much needed respite in a hospitable environment – flying in the face of our fast food culture. It seems to us that Panera has done a good job of getting its finger on the pulse of its mid-to-upscale target market which, in turn, provides the concept with license to charge a little more and invest a little more in its core principles. While its strategy of maintaining its identity as the un-QSR is holding less true in its effort to step-up advertising, the return on this marketing investment does seem to be holding-up for now. In conclusion, Panera is doing just fine marching to its own drum.

McDonald's

McDonald's continues to do everything right as it steadily outperforms the industry, thus further bolstering its already formidable competitive insulation. Success starts with terrific and innovative menu development (spanning food and drinks) that is able to drive sales across all dayparts. Further, years of unit level profitability is funding facility upgrades which further distinguish this world class brand from competitors struggling with outdated stores. Finally, marketing, promotions and value provide strong appeal to a very broad target market and acts to drive repeat business from increasingly satisfied customers. In conclusion, McDonald's strong and strengthening market position allows this well-run machine the luxury of cherry-picking market share in targeted nickels and dimes from weaker competitors - this is a key growth strategy in an otherwise stagnant fast food market.

Wendy's

Wendy's is beginning to build positive momentum for the first time in a long while as the brand enjoys some optimism in the form of menu improvements and new leadership provided by the legendary Emil Brolick. Basically, it seems that the concept seeks to become more fast casual like in order to regain its former glory as an upscale competitor. Of course, this is a tall order given the long period of time McDonald's and other fast casual concepts have had to distance themselves from the iconic Wendy's brand that lost its way after the passing of its founder Dave Thomas nearly 10 years ago. In any case, better food and, subsequently, less discounting is a good start. Add to that the beginning of a legitimate breakfast roll-out and the start of a reimage discussion and you have something to talk about. While the high costs of this turn-around may prove burdensome to strapped operators, their apparent readiness to buy-in is good news for the future.

Sonic

Sonic Drive-In remains a very unique concept with a fun, retro image that includes car hops and an exciting menu that is not easily duplicated. In core markets, Sonic's fan base exhibits very strong loyalty which manifests in high levels of repeat business. The brand's challenge has been to extend and duplicate this high level of loyalty among new customers and in new markets – a task complicated by economic weakness which works against a brand that speaks to discretionary fun more so than dining necessity. While we do believe Sonic's business model works for the long-term, it does require hard-to-come-by patience for lasting economic improvement and perhaps more of a push from tweaks designed to cope with our currently difficult operating environment.

Arby's

Arby's continues to pursue a turn-around of its brand which has struggled dramatically since the onset of the great recession. Past attempts to reposition the chain has failed to move the needle as Arby's struggles with how to build brand equity on a foundation of roast beef. New management and ownership is currently looking hard at how the brand fits into the QSR marketplace by seeking to define a target market coupled with a plan of how to reach it. However, we suspect that Arby's real work is to consider how to leverage its uniqueness by making roast beef cool again. If Starbucks can convince the world that caffeine is fashionable, Arby's could do the same with red meat. This will require operational improvements, facility upgrades and a reinvigorated franchisee base. Fortunately, sales stability provides new brand management with some breathing room which could be just the break Arby's needs to get going.

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