

Restaurant Research Think Piece – August 2009

Promoting the Dollar

It's all over the press – the dollar ain't what it used to be... Just check the price of a barrel of oil – going up with 10% unemployment??

All this has not been lost on the US consumer. Joe Q. Public is looking harder than ever for a dollar deal at his favorite QSR restaurant. Buy our Burger King report at www.ChainRestaurantData.com and you can read how sales driven by their assorted dollar menus have increased from ~13% to 14% of total sales to something closer to ~15% to 20% according to our best estimate. Sure Joe Q. would love an indulgent \$6 burger but his money ran out with his last variable mortgage payment. At least a national forced diet could help lower the staggering cost of the administration's proposed health care plan – undoubtedly an unintended benefit of economic weakness.



In any case, times are still tough even though the stock market says otherwise. Is the dollar menu the new normal for QSR? Well if you buy the argument that employment cannot grow with GDP expanding below 4% or so, then you must accept that the new normal of cheap eats is going to stay with us for at least a little while.

Has QSR caught onto the new normal? We think not! Rather, we see the major QSR players innovating and marketing around their premium menu items. Have you heard about the barbell strategy? You know, deep thinking and grand industry dedicated to selling at the premium end of the barbell with minimal work for the discount end. In other words, a lot of heavy lifting to push all those margin rich products to cash strapped consumers.

Here is a new idea we would like to advocate. Maybe it is time for some harder industry innovation around the lighter part of the barbell. Such a strategy recognizes that Joe Q. still likes variety and a constant flow of new ideas – just at a cheaper price. In this case, QSR players could give a try at letting the premium part of the barbell stagnate a little more than the discount end (the opposite of what we have today) in recognition of the new normal. The key is figuring out how to expand the margin of these discount bargains. No doubt this includes smaller portion sizes... But at least such a strategy would be politically correct for industry players big (brand owners) and small (franchisees). And a dose of political correctness can't be all that bad for QSR nowadays...

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For more information please contact us at (203) 405-1901 or info@ChainRestaurantData.com with questions related to this report.

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Restaurant Research LLC leverages an extensive network of industry players as part of its annual Concept Benchmark Analysis due diligence process for 22 large US restaurant chains. Also, RR tracks store level data for all major chains with system-wide sales in excess of \$1B across all major restaurant segments in order to produce 11 key Industry Data Topic reports.

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