

Restaurant Research Think Piece – July 2009

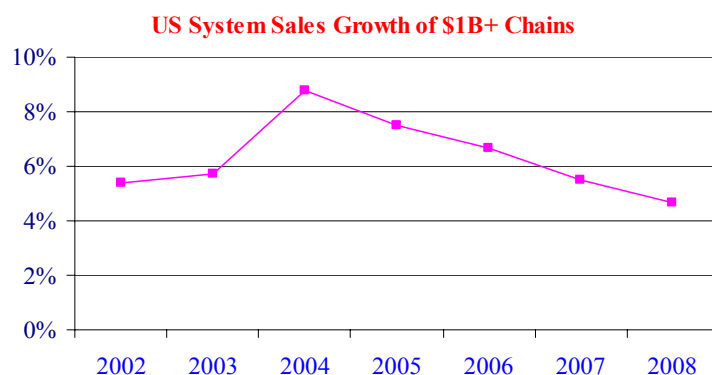
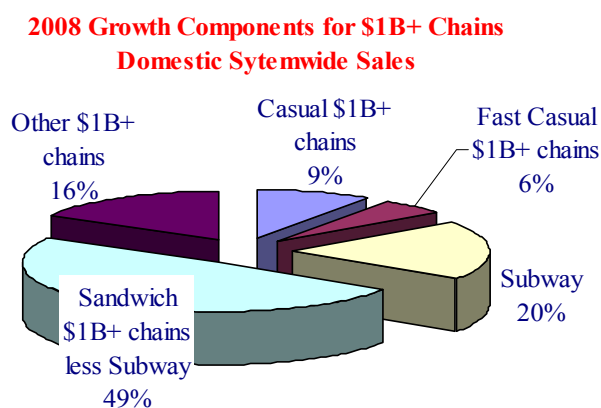
Where Did Subway's 2008 Share Gain Come From?

It started with a savvy operator in South Florida who discovered that selling footlongs for \$5 drove his sales through the roof. After wrestling with corporate, he was able to convince the brass that this same promotion could benefit Subway from sea to shining sea. Boy was this operator on the money.

What happened next was QSR history as far as we are concerned. Subway rolled out the \$5 footlong in April 2008 and 8 months later their comps finished up an astounding +12% in an economic year that many believe rivaled the Great Depression. What would have happened if Subway hit this at the beginning of the year during a time of economic prosperity??

In any case, we have heard some comments along the line that: (1) Subway's impact was not really that great on the industry because this is a concept with such a low AUV, and (2) all Subway really did was to take share from smaller sub chains like Quizno's and Blimpie's, etc.

But in fact, this line of thought badly underestimates the actual scale of the second largest QSR player by domestic systemwide sales. True enough, Subway generates its business with many more stores than its QSR peers, but its system sales speak for themselves. Take a look at the chart below - Subway accounted for a full 20% of the total \$7.1B 2008 US system sales increase among \$1B+ chains. To put this in perspective, Subway's \$1.4B 2008 sales increase represented more than 2.1x the \$666 million kicked-in by the entire \$1B+ casual segment which includes 11 chains (for more detail please refer to our recently released 2008 System Sales Report for \$1B+ Chains). Notably, Quizno's only lost \$100MM in 2008 sales and Blimpie's 2007 sales were just \$270MM to begin with. Obviously, there is much more to the Subway share gain story than immediately meets the eye.



Source: Restaurant Research LLC

This last point is especially true when considering the downward trajectory of industry sales (see chart above) that has been at least partially fueled by menu price increases. Remember, Subway's magic was the result of a price reduction (learn more by purchasing our Subway report at www.ChainRestaurantData.com). In conclusion, it is our opinion that Subway's shot heard around the World was not lost on even its casual competitors (recall Friday's \$5 lunch promotion?). The lesson for the industry could be this: price elasticity is still alive and well in the food service industry.

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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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