

Restaurant Research's Concept Benchmark Analysis Report

Subway

July 2009

Executive Summary

Subway continues to progress as a new millennium concept with its success in budget priced, quick-serve, made-to-order food that is perceived to be fresh and healthy. For sure, Subway has done a masterful job of convincing consumers that it provides an alternative to traditional hamburgers and chicken sandwiches with a plethora of sub offerings that made Jared skinny. The fact that these sandwiches are assembled in front of consumers' plain view while offering easy customization choices of breads, cheeses, veggies and sauces/dressings add to their appeal. However, it seems apparent that the \$5 price point rolled-out during 2008 for Subway's footlong subs was the final ingredient to launch the chain's market share grab that possibly extends beyond QSR all the way into casual. It seems to us that Subway's \$5 price point has been a game changer for the entire chain restaurant industry with more than a few direct and indirect competitors beginning to match Subway's offer. In any case, we like Subway's very simple and increasingly successful business model which communicates value without necessarily rock bottom price points (after-all a \$5 sub could look a little pricey compared to a sandwich off of a dollar menu). Having said that, we believe the chain's decision to rotate subs on and off the \$5 promotion could confuse some customers that have grown accustomed to the \$5 price point. Finally, while the chain's unit economics still suffer from relatively low AUVs, they seem to work for individual owner/operators along with multi-unit franchisees especially after increasing low double-digits last year – however, we suspect the \$5 price is not great for everyone's margins which explains why the chain is now experimenting with higher footlong prices.

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RR Clients

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More About Us

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. For more information please contact us at info@ChainRestaurantData.com or 203-405-1901.