

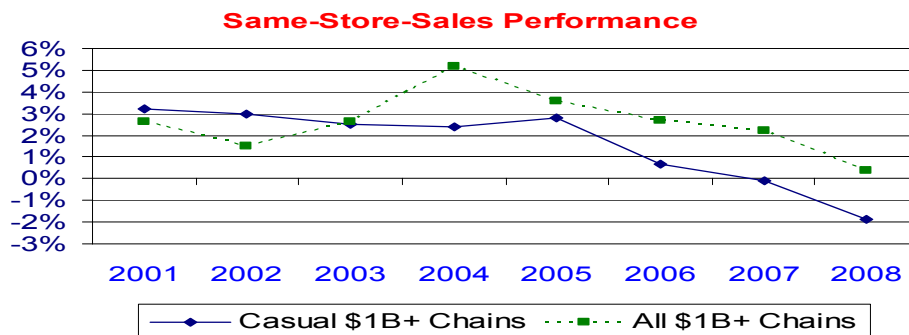
## Restaurant Research Think Piece – May 2009

### What's the Deal with Casual?

OK, so there is nothing new to talk about with the casual segment's comp underperformance – right? It is all about trade-down to higher quality and more affordable QSR (especially at lunch), a punk economy and undifferentiated casual concepts. At least that represents the standard line we think.

But even a “casual” look at the numbers below reveals another side of the story to chew on... Rewind to the 2001 recession and we can see that casual actually outperformed RR's overall \$1B+ chain index. Apparently, there was no trading down to QSR during that economic slowdown. Granted that recession was led by corporate weakness as opposed to the current consumer led fall-off, but still...

In any case, we think that it is interesting to observe that the casual segment has not posted comp performance as strong as 2001 results since then – although the segment came close during 2005. Also, a look at the below chart shows the obvious fact that casual has steadily underperformed the overall index ever since its 2001 banner year.



Source: Restaurant Research LLC

Rather, it seems apparent to us that something big picture is going on – perhaps abetted by the official line. With an estimated 25% of the segment's customer base generating 75% of sales, we think that it is important to consider the state of the segment's core customers (i.e. those who frequent casual 1-2x month). We suspect that retiring baby boomers represent a key component of the core customer base – who else can afford \$20 entrees no matter how tasty? If this is the case, then it might actually take \$5 and \$7 price points to get them in (not just the retired ones but those that have to save for the first time now that their homes and stock portfolios have been devastated). In the mean time, QSR keeps driving-in ordinary folks who still have to eat and would not consider a \$20 meal except for a special occasion.

That is not to say that casual cannot benefit from better eats – at least good enough to warrant a \$20 price tag or even \$10. But all-the-same, it just may be that casual will have to adjust to the notion that its pie is shrinking along with the baby boomer's wallets. Let's face it, even Buffalo Wild Wing's comps are nothing to write home about. Much lower price points may already represent a permanent reality for the casual chains and we suspect it is time for these concepts to consider how to make them work with their fixed cost structures. No easy fix, but we are confident that the leading casual chains are resilient operators when push comes to shove. Learn more by purchasing our forthcoming Concept Benchmark Analysis reports on Applebee's, Friday's and Chili's at [www.ChainRestaurantData.com](http://www.ChainRestaurantData.com).

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