

How Much Does DIY Research Mistakes Cost You? RR Profits Clients with Labor Savings and Value-Added Insight.

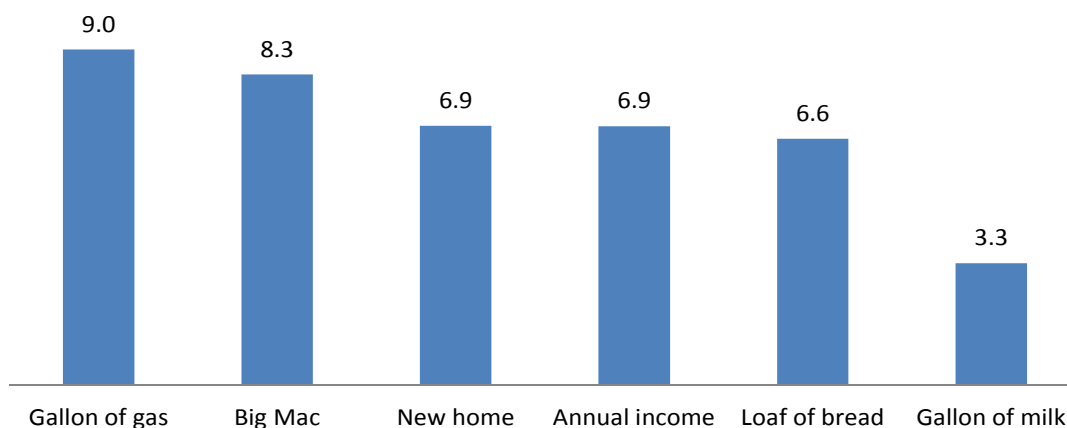
Restaurant Research Think Piece – December 2011

Is The Chain Restaurant Industry Business Model Keeping-Up?

In our recent series of *Think Pieces*, we outlined how estimated unit level EBITDAR profits for \$1B+ chains have declined 12% over the last 5 years. This may reflect more than a weak economy, but also a secular change to the business that is not being adequately addressed by the industry as a whole. For instance, we believe the following chart is illustrative of how it is possible that fast food price inflation over the decades has exceeded other core food items (with growth that is more commensurate with gas prices as opposed to bread or milk) while also surpassing annual income. At its introduction in 1967, we understand a Big Mac (as good a proxy for fast food as any we can think of) cost \$0.49 having since risen to a current national average estimate of \$4.07 (8.3x higher).

While this may work for McDonald's, smaller scale industry players need to explore how to generate higher profits with lower unit pricing! At 7x inflation from 1967 to current, a Big Mac would now cost \$3.43 which represents a -16% discount to today's price level. The ability to offer lower prices will require new business models – a topic we plan to explore in greater detail in future *Think Pieces*. Please email us your ideas on this subject.

Ratio of Current Price/1967 Price



Sources: Various Web sites

Restaurant Research's Industry Data Report on Chain Menu & Promotions provides the big picture on current pricing and positioning strategies. Clients use this information to make more profitable decisions. For information on how to order the complete report, please contact us at (203) 405-1901 or info@ChainRestaurantData.com.

RR Clients

Includes major lenders, investors, major US restaurant chains, operators and industry consultants. Please check www.ChainRestaurantData.com for a partial client list and customer testimonials.

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.

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