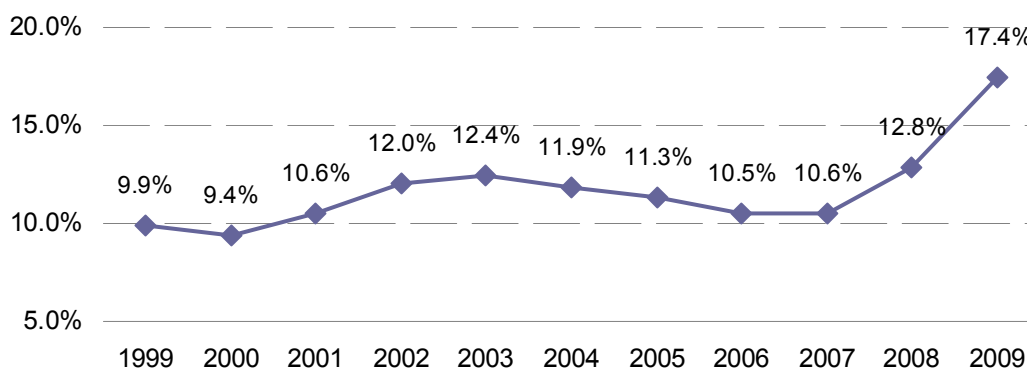


Restaurant Research Think Piece – November 2009

Avoiding a Disastrous QSR Price War

A near 10% headline unemployment rate is well known. What is less well known is the unemployment rate for the QSR target market (18 – 24 year old males). While not a perfect apples-to-apples comparison in the below chart, we can see the impact of the great recession on America's youth (16 -24 year olds). So far during 2009, the unemployment rate for this demo has increased from 16% during 1Q09 to 18%+ during 2Q and 3Q (with 17% representing an average for the first 3 quarters).

Unemployment Rate 16 - 24 yrs. (not seasonally adjusted)



Source: BLS

Resultantly, it is not surprising that the QSR sector is feeling the brunt of this troublesome trend. Last year we heard all about the casual trade-down to QSR which boosted fast food sales. But this year we are hearing all about something that is subtracting from fast food sales - trade-out of QSR with some of the bottom-end of the market no longer patronizing their favorite QSR eateries at all. This is entirely understandable with an 18% unemployment rate – unemployed youth simply do not have a cash cushion to continue eating out.

So what is a QSR player to do? We suggest that the first step is to accept this reality. Increased discounting will not bring unemployed youth greater disposable income to spend at QSR eateries – end of story. Rather, we believe increased discounting will simply bring an onset of fast food deflation as one chain steals a part of a smaller sales pie from another chain (thus prompting another round of discounting retaliation) while everyone's premium customers trade-down to more appealing discount offerings. In our opinion, it is better for all QSR players to simply accept the temporary loss of the bottom-end of their business while holding the line on the margins of their higher-end business. We understand this takes faith that the economy will eventually recover, patience to wait for the recovery and a long-term approach to the fast food business even as some fast money investors scream. But what is the alternative??

Sign-up for RR's free Think Pieces at: <http://www.chainrestaurantdata.com/free-newsletter-sign-up/>

www.ChainRestaurantData.com

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

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.

Copyright: This publication may not be reproduced, retransmitted electronically, including via email, intranet or internet or copied in any form, in whole or part, without prior written permission, whether for internal business use or otherwise. Violators risk criminal penalties and civil damages of up to \$150,000 per offense. We vigorously prosecute copyright infringers. Copyright 2009 Restaurant Research® LLC. All rights reserved.

Disclaimer of Liability: Although the information in this report has been obtained from sources Restaurant Research® LLC believes to be reliable, RR does not guarantee its accuracy. The views expressed herein are subject to change without notice and in no case can be considered as an offer or solicitation with regard to the purchase or sales of any securities. Restaurant Research's analyses and opinions are not a guarantee of the future performance of any company or individual franchisee. RR disclaims all liability for any misstatements or omissions that occur in the publication of this report. In making this report available, no client, advisory, fiduciary or professional relationship is implied or established. This report is intended to provide an overview of the restaurant industry, but cannot be used as a substitute for independent investigations and sound business judgment.