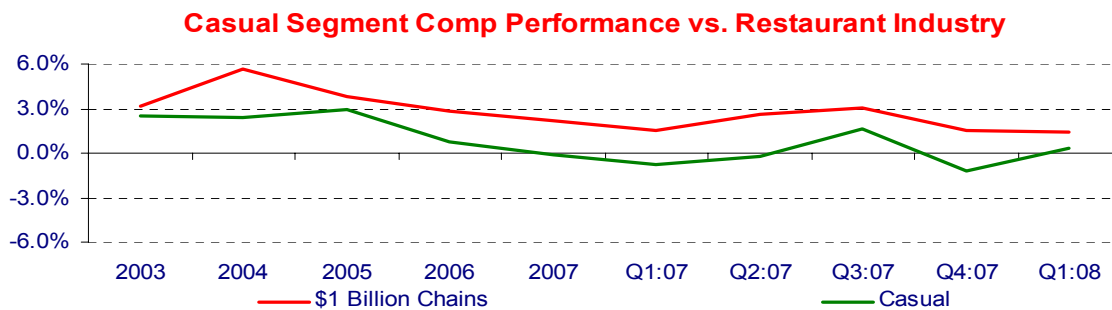


Casual Repositioning

During May, we have been looking at the casual segment which has been reeling over the last several years as major players continue to struggle with a lack of differentiation against a backdrop of steadily improving QSR competition. To add insult to injury, economic weakness has been forcing a “trade down” to less expensive fare – once again driving customers away from casual chains towards cheaper fast food.



Resultantly, we hear a common theme of casual chains seeking to better differentiate themselves as a way to fight-off internal competition. To this end, we are witnessing the death of the LTO as the big casual chains seek to promote signature items that can only be found at their particular concepts. We agree that this strategy to invest promotional ad dollars into building brand equity makes quite a bit of sense. Before, these chains found themselves spending oodles of money to tell existing and potential clients about a temporary menu item that was to be replaced in short order. Further, we like the fact that this new practice simultaneously eases operational complexities (i.e. by eliminating the training and sometimes added equipment or kitchen procedures needed to produce LTOs).

In any case, the question seems to remain whether the casual segment must accept a permanent change in its target market. At the margin, there seems to be greater acceptance among operators that the low-end customers have gone away for good (especially at lunch). In our opinion, this may not necessarily represent a bad development as casual aims higher in search of higher ticket averages and improved sales mix as they substitute quality for value with the faith that consumers still want sit-down to celebrate and socialize. Of course, the strategy to trade-off volume for higher price is better suited to times of economic strength...

Lastly, we all eagerly await to see how Julia Stewart will fare in her effort to turn-around Applebee's – the largest casual player with the biggest identity crisis. We agree that Stewart has a good plan, but we also agree with operators who believe strategy is one thing, but execution is another story all together. In conclusion, one thing is for certain, change is coming to the casual segment in one form or another.

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For more information please contact us at (860) 274-4962 or info@restaurantresearch.info with questions related to this report.

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