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## **THE \$5 QUICKSERVE PROMOTION IS KILLING THE CASUAL DINING RESTAURANT INDUSTRY – WITH ITSELF TO BLAME**

*The race to market of QuickServe concepts in the delivery of a \$5 meal is being replicated by the casual dining market with dire effects*

As restaurant consultants, Onsite recognize that each restaurant venue or chain is bespoke. Each site and each brand has its own demographic and its own model which makes that brand unique. We also recognize that price wars are common in any industry and that in difficult times, venues carry fixed costs (such as rent, staff, amortization of capital expenditure) and therefore ensuring customers continue to come through the door is critical. That being the case, however different the concept, many of these brands do share common underlying problems and challenges.

With reference to those restaurants offering 'unbeatable offers', we have for some time been expressing concerns that dropping prices or offering 'unbeatable deals' is not the quick fix that venues need. These offers rarely bring in the level of new business expected, the restaurant often carries the loss associated with such loss leading discounts for a long period of time and returning to a price point which does make sense for the business can be deeply unpopular because customers get used to these 'new prices'.

If a restaurant charges \$5 for a meal for six months, that venue has now set the new benchmark for its customer. Your customer now expects to get a deal not far off that and when that deal is no longer available, the customer is not necessarily a loyal one because it was likely the price and not the offering that brought that customer through the door. In short, the object of this Quickserve option when replicated by the casual dining market, in whatever permeation, is often defeated.

TGI Friday's is an example of short term cash flow benefit equals longer term disaster. Their new \$5 entrée offering is an attempt to compete with Subway but has not generated the results anticipated by management or the market. Instead, the offer has lowered the spend per check average dramatically. TGI released a statement recently expressing the promotion was an opportunity to give customers exposure to their new salads as opposed to a move to compete with Quickserve but few industry observers believed the statement.

Over the next few months, TGI will likely generate millions of dollars in cash flow from this campaign but the cost of their campaign will likely catch up with them. One might ask how creating the extra cash flow constitutes an unsuccessful campaign and the answer is a simple one. TGI have done their brand irretrievable damage. Onsite argues that the key error they have made is taking an existing item on the



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menu - that item being the regular full sized sandwich menu including fries and a side salad – and simply slashed the price. The offering takes a full priced group of menu items and offers it for much less than they traditionally sell it and diluted the ‘sit down family restaurant’ concept they created.

Marie Callender’s have recently announced a “kids eat free” promotion twice a week allowing a free children’s meal per adult entrée ordered. A family of four can now eat for \$16 if the adults order the \$7.99 combo meal. This is in addition to many other discounts this casual dining chain is offering including the \$18 two course meal. The trouble with this promotion is, again, the steep discount will eventually catch up to the chain not to mention that the chain is now synonymous with only offering discounted fare. The “Kids eat free” option is normally offered on a single day of the week (more often than not a slow day such as a Monday or Tuesday) but this introduction is going to force rival competitors to offer two or potentially three days a week offers to compete.

In response to Wall Street comments about their operations, the chain released the following statement: “In this economy, it is tough for families to dine out. Marie Callender’s would like to make it easier for families to enjoy a meal out together as a family. Marie Callender’s chose Tuesdays and Saturdays to provide a few days every week for families to spend time together enjoying great food. Times are tough but Marie Callender’s would like to help by offering an affordable and fun dining experience for families.”

Global data does indeed show that the market that has seen the most drastic decline within the casual dining market are those which target families with children. Marie Callender’s is evidently responding to this decline but whether offering so many discounts is the solution remains to be seen: It is too early to tell. Certainly the restaurant industry is putting significant pressure on itself by everyone offering the ‘next unbeatable deal’ in an effort to grab the customer. We recognize the need for fast action but the reaction we are witnessing appears to be ‘shoot from the hip and see what happens’ as opposed to measured responses where financial sense prevails over marketing departments.

Unlike Subway, both TGI’s and Marie Callender’s have larger footprints, greater operational overhead and therefore need a higher spend per check average. More importantly, TGI’s is a casual dining restaurant not a full Quickserve. I don’t remember take out and customer turnover being the TGI selling points and for good reason. TGIs is a family restaurant with a menu where the customer expects to spend more than Subway. It is a place where the customer is not expecting take out and where the customer expects to sit down and eat. These are not the characteristics of the other Quickserve options which focus on aggressively lowering the customer/transaction time.

For those chains who have a risk of bankruptcy or serious cash flow issue on the horizon, we understand the urgency in creating cash flow. It is this questionable reaction to the economic climate which is causing a previously robust industry to implode and the casualties are numerous and high profile. TGI Friday’s attempt to enter the \$5 Quickserve markets has the very characteristics of a Company that has a serious urgency to create cash flow with no regard to the long term effect on the business.

I am sure this promotion will not last long and am confident that the surge in customer traffic they have experienced constitutes deal hunters in the main. These are therefore one time only customers;

although we do recognize that if these are people who have not been to TGI Friday's before, to that extent this promotion has potentially encouraged new customers. If the offer has attracted people who typically spend less on food and previously could not afford TGI Fridays, perhaps better economic times will encourage these customers to return in due course.

Early market reports, however, reflect that these promotions are having poor results, as Shoney's CEO David Davoudpour put it: *"\$5 meals won't work in casual dining, (he says...) When you sell for \$5 what you should sell for \$10, something's wrong"*

A onetime customer, while critical to a business, essentially bring reduced margins in a neighborhood restaurant. Only if that customer visits three times a year is that customer now a profitable one for that venue. The advertising and other operational costs required to get that person through the door can now be spread across those three visits for that one person. The profit on Quickserve & Casual Dining is in recurring customers and whilst the aim is to maximize profit generation from every customer who walks through the door, the reality is you spend an awful lot of money for them to come in so you should do everything possible to make them come back (but not give away the house!!)

A more competitive and profits driven company such as Quizno's, who needed to compete with the Subway offering because they are a direct competitor, chose a more financially sound Quickserve option. Quizno's built a product they intended to sell for \$4 and therefore were able to create a profit from such their Quickserve offering - instead of it being a loss leader.

With this out of control success (the old adage of imitation is the best form of flattery clearly still stands) and the industry's need to compete with Subway, commentators and specialists have had a real eye opener about the state of the market and the various engines behind these billion dollar food concepts. Every Quickserve seems to have rolled out something to compete with the Subway \$5 offering indeed recently, KFC advertised that their offering was superior to Subway because it included fries and a drink whereas the Subway offering is just the sub. The craze of \$5 marketing demonstrates the real brand and marketing value of Subway who in the past few years have returned amazing same store sales with the Jared campaign and now this "\$5 sub". It is clearly positive for Subway but unfortunate for the rest of the industry that they have reclassified the meaning of the word 'deal'.

We find ourselves in an economic environment where belts are being tightened and consumer spending has reduced. Companies believe they have to take drastic measures to create cash flow and keep their customers walking through their doors and such campaigns can be a make or break for the company. The error they make is confusing the need to be competitive and offering a product which they sell below a sensible price.

With this in mind, the operator should now consider going back to basics, realizing that even with a month on month decline in same store sales, the value of any offer should be based on two key areas. Whilst a marketing campaign is critical, the financial element is more important. Operators need to be looking inside their operations and find savings and create offers which do not lose money. Sales is vanity, profit is sanity: Casual Dining Restaurants need to focus fast on offers which make money and

enhance the brand instead of wild marketing campaigns which not only negatively affect their business but that of their competitors as well.

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