

WHAT AMERICA THINKS

'08

PART ONE : THE FRANCHISEES
BRAND SATISFACTION SURVEY

What Franchisees Think 2008

Franchisees weigh in on the issues that matter to them most.

To gauge how those charged with the day-to-day challenge of running a quick-service concept feel about the state of the industry, QSR asked survey participants to rate their satisfaction in 11 areas of quick-service operations: same-store sales prospects; unit-level profitability; current menu; new-product pipeline; advertising effectiveness; operational effectiveness; new building ROI; franchisor leadership; system's physical condition; remodeling ROI; and franchisee support programs.

All categories except two were rated above the mid-point rating of Neutral.

Strength of the *Current Menu* received the highest average rating, 3.63, followed closely by *New-Product Pipeline*, 3.43.

More than a few participants mentioned as their biggest challenges lack of or slow support, poor leadership, and mandates to purchase from corporate.

Not particularly surprising, the two areas that scores averaged below 3 were *Remodeling ROI* and *New Building ROI* at 2.95 and 2.78, respectively. It can be

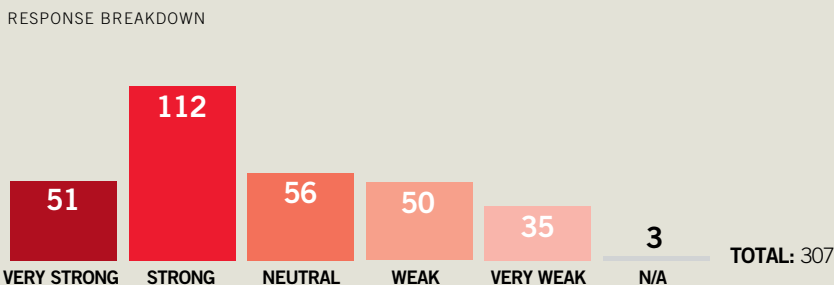
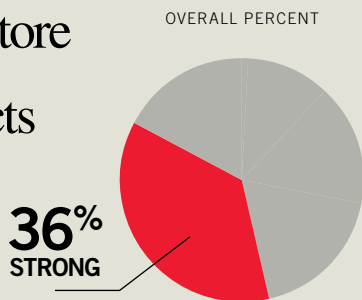
assumed that these two areas require much more time to realize a positive ROI than does a menu change, thus the lower strength rating.

It is interesting to note, however, that while a rating of *Very Weak* by 21 percent of respondents in the area of *New Building ROI* might not be altogether surprising, it is somewhat surprising that 21 percent also described *Franchisor Leadership* the same way: *Very Weak*.

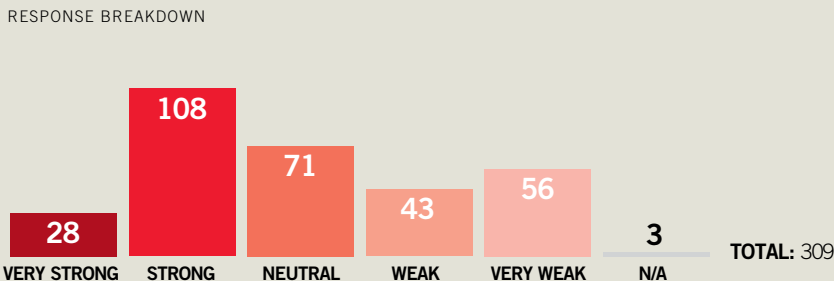
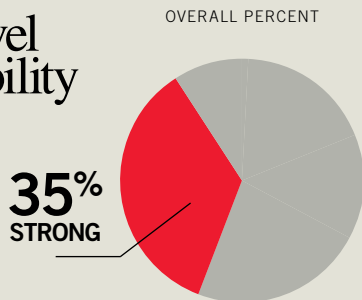


WHAT FRANCHISEES THINK 2008 BRAND SATISFACTION SURVEY

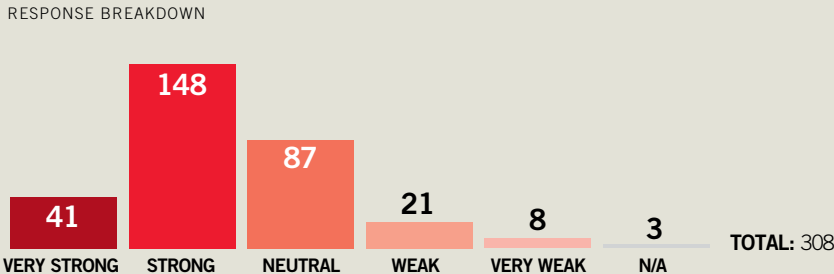
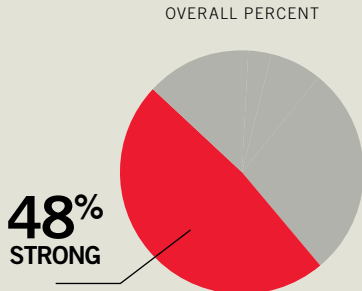
Same-store sales prospects



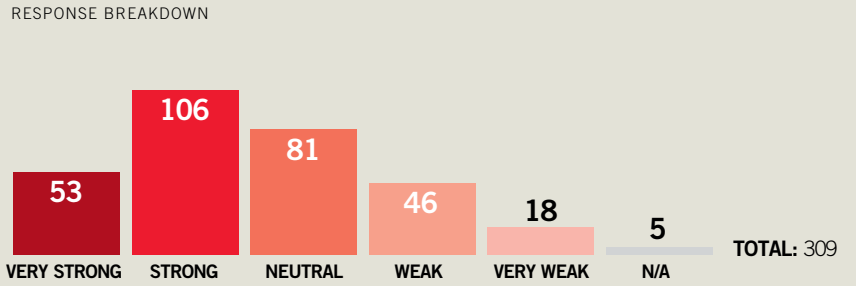
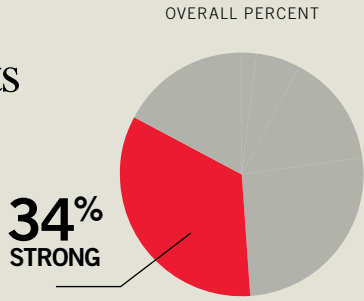
Unit-level profitability



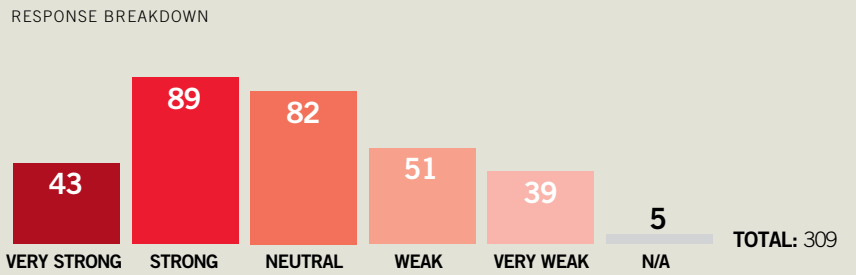
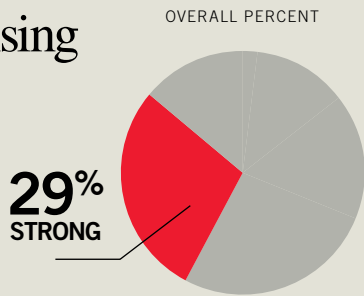
Menu



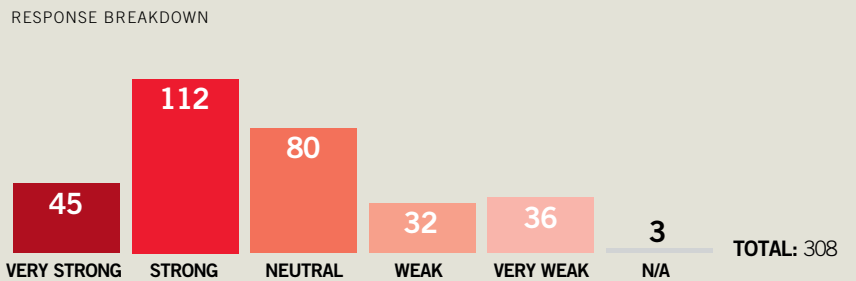
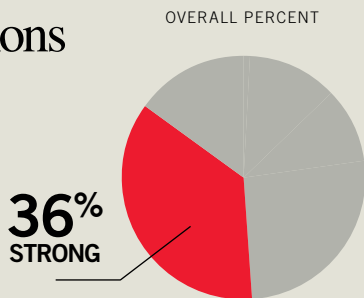
New products



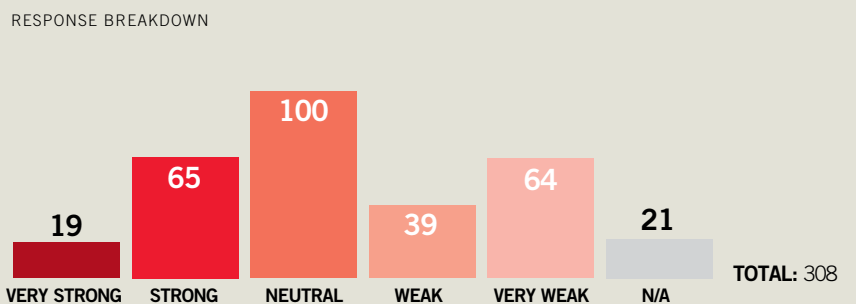
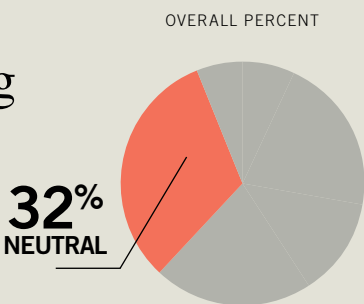
Advertising



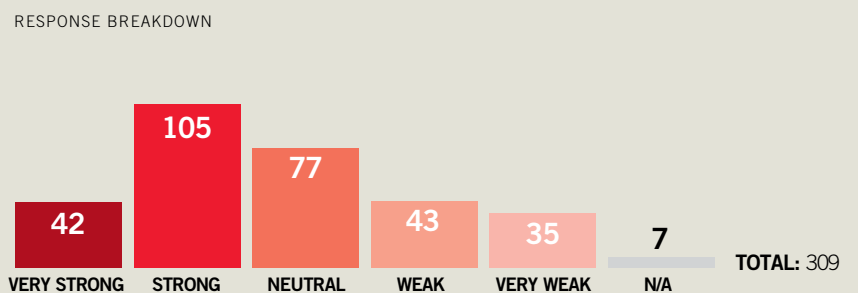
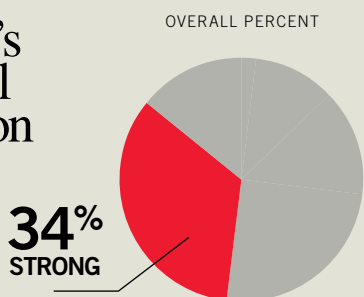
Operations



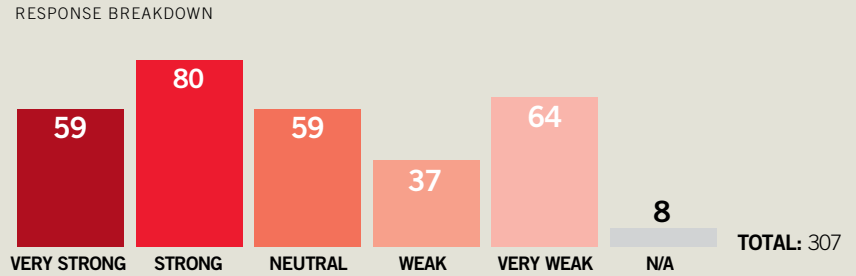
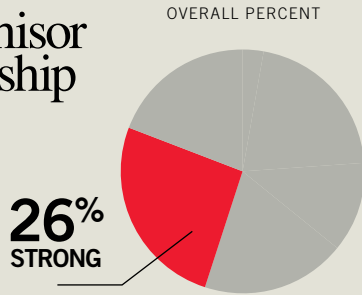
New building ROI



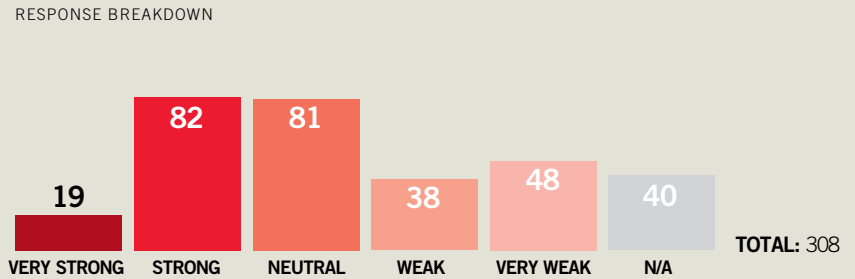
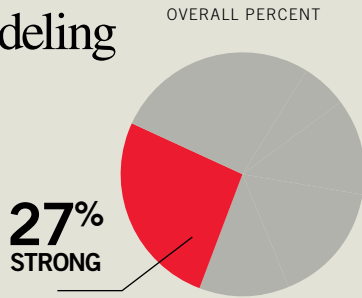
System's physical condition



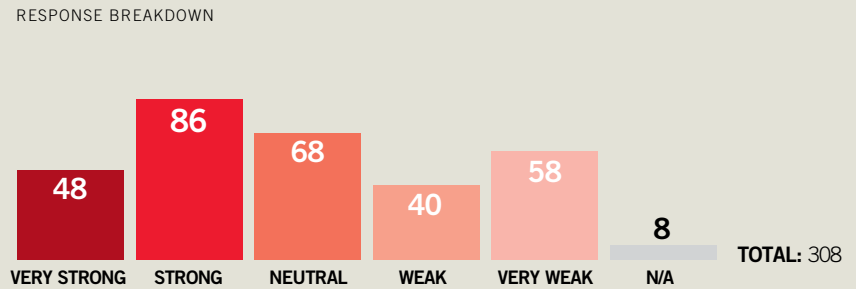
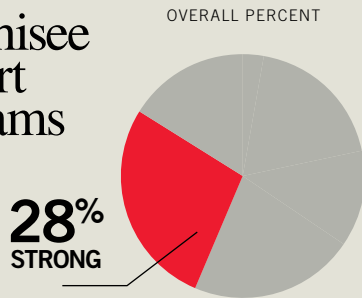
Franchisor leadership



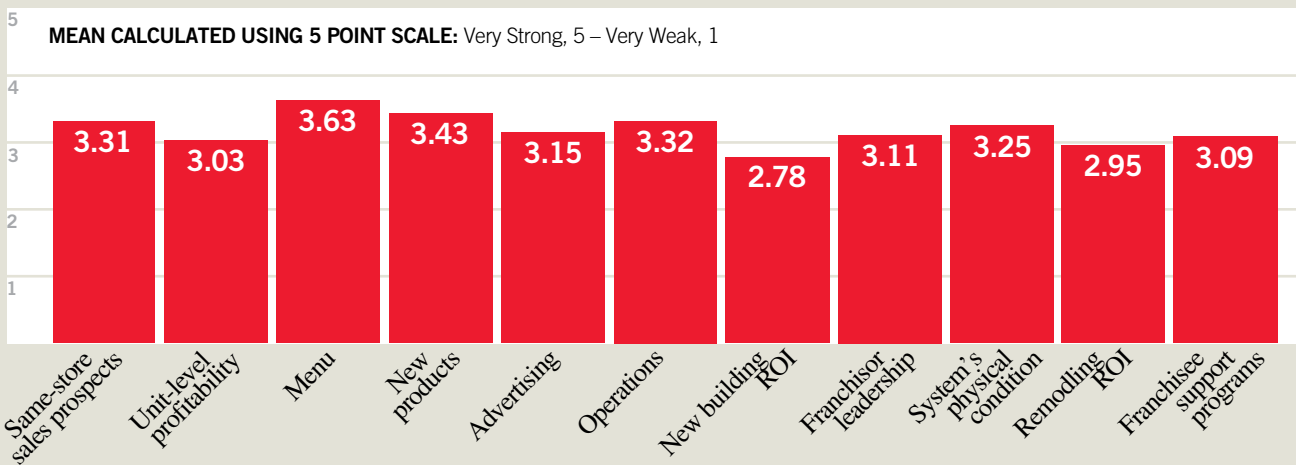
Remodeling ROI



Franchisee support programs



Mean*



*Answers of N/A excluded from Mean calculation

METHODOLOGY More than 300 individuals, representing more than 50 quick-service restaurant concepts, participated in the 2008 QSR Brand Satisfaction Survey. With the exception of South Dakota, restaurants were operated in every state and the District of Columbia.

Quiznos was heavily represented in the survey with 21 percent of all respondents indicating they operated the concept. McDonald's was a distant second with 8 percent, followed by Dunkin' Donuts (7 percent) and Dairy Queen, Subway, and Sonic Drive-In each with 6 percent. The original list of concepts presented in the survey was far from comprehensive. More than one-third of responses indicated a concept other than those in the original list. Any concept that received two or more responses was added to the list for this report. Of these, Cold Stone Creamery received the most responses (3 percent of total) followed by Auntie Anne's Pretzels with just less than 3 percent of all responses. Forty-eight other con-

cepts received one response each; an indication of just how much variety is available in the market.

Geographically, the responses were more evenly distributed. Florida led the field with 9 percent of all respondents indicating operations there. Ohio, Wisconsin, and Texas were next with 8 percent. Twenty-two other states had 3 percent, 7 percent of all respondents. The remaining 23 states received less than 3 percent of all responses.

Survey participants were allowed to select up to five concepts they operated. The vast majority (93 percent) selected only one concept; 5 percent selected a second, 2 percent a third, and only one indicated a fourth and fifth concept.

The 11 areas rated were done so on a scale of 1 to 5, where 1 equaled Very Weak and 5 equaled Very Strong.

There are as many unique challenges facing franchisees as there are franchisees. Still, in reviewing answers to the question, "What is your biggest challenge?" there appear to be four broad areas of concern:

- 1) Reducing/Managing Costs
- 2) Finding/Retaining Employees
- 3) Profitability/Sales
- 4) Concerns and Frustrations with the Franchisor

Items 1–3 are facts of life for any business, although issues with finding and retaining employees have always been a principal challenge for the foodservice industry. However, most businesses need not deal with the demands of a franchisor. Comments from this sur-

vey suggest that a franchisee's success or failure is often a direct result of the demands, restrictions, and edicts placed on him by the franchisor. Additionally, more than a few participants mentioned as their biggest challenges lack of or slow support, poor leadership, and mandates to purchase from corporate.

In light of this, it's not surprising that many of the respondents would like more support from their respective franchisors in the form of more (and more effective) regional advertising, reduced product and royalty costs, and general operational support.

When asked "If money were no obstacle, what is the one concept affiliation you would like to invest in," the overwhelming response was McDonald's with 22 percent, followed by Sonic Drive-In at 10 percent.

From the Mouths of FRANCHISEES

As a franchisee, what is your biggest challenge?

"Attracting and retaining high-caliber management."

"Brand awareness in new a region."

"Controlling profits with rising food cost and labor costs. Aging assets."

"Teenagers."

"Corporate mandates for price discounting are causing lower profits per unit."

"Dealing with the reputation of stores that are not run as they should be."

"Finding A+ real estate at an affordable price and working through municipalities to get locations approved, permitted, and opened."

"Finding financing in this market."

"Getting an ROI on new restaurants."

"Having to pay the ultra-high rents that are demanded of indoor shopping-mall operators."

"Keeping revenue growth strong as pressures are building on food costs, labor costs, credit card fees, and utilities."

"Our menu has largely been the same for many years while our competitors have innovated."

"Sustaining speed of service with an increasingly larger menu."

"High operating cost with our POS. Between support and Internet, we pay \$5k per year!!"

"The corporation is in a growth mode and takes any sites we develop for company restaurants—literally stopping our growth."

What is the one area where you would like more support from corporate headquarters?

"Allowing smaller-volume markets more leeway in hours of operation."

"Better communication with other franchise owners/managers for support purposes."

"Employment image."

"Less PR from them and more help with the price of ice cream and supplies."

"Faster and better technology."

"Enforcing cleanliness policies."

"Finding ways to reduce operating costs. Provide at least two vendors for everything, including POS and high-speed Internet."

"Financing and equipment purchasing."

"Governmental regulations interpretation."

"We would like to see more productive local meetings to keep all our management more involved in the day-to-day activities of our business."

"Funding for local trade area marketing, advertising, sponsorships, cross-promotions, etc."

"[Creating] items that are less labor intensive with higher margins."

"More visits from my FMS, even at night."

If money were no obstacle, what is the one concept affiliation you would like to invest in?

RANKED BY NUMBER OF RESPONSES

1. McDonald's
2. Sonic
3. Chipotle Mexican Grill
4. (tie) Chick-fil-A; Panera Bread

"Operational simplification. Labor costs combined with the immigration reforms are putting increasing pressures on the people at the restaurants and the financials."

"Training rather than punitive inspections."

SOURCE: 2008 QSR BRAND SATISFACTION SURVEY