



## **Restaurant Industry Performance**

A Snapshot of YTD 2012

This month we concentrated on some of the individual financial factors that have significant impact on foodservice industry performance. Specifically, how are restaurant & bar sales doing, how are wholesale food prices trending and what trends are we seeing with menu pricing as a result of changing wholesale food prices?

Through July, Restaurant & Bar sales have been pretty strong, frankly stronger than we actually expected. Foodservice is again outpacing Retail Grocery sales, which is a great sign for our industry. But, as expected, wholesale food prices are moving upward at a steady rate, which raises the question: how will the industry deal with these steady cost pressures?

Well it looks like menu price increases are finally beginning to take hold, with Limited-Service formats leading the way. Menu prices increased 2.9% over the last 12-months in all foodservice venues with LSR showing increases of 3.3%.

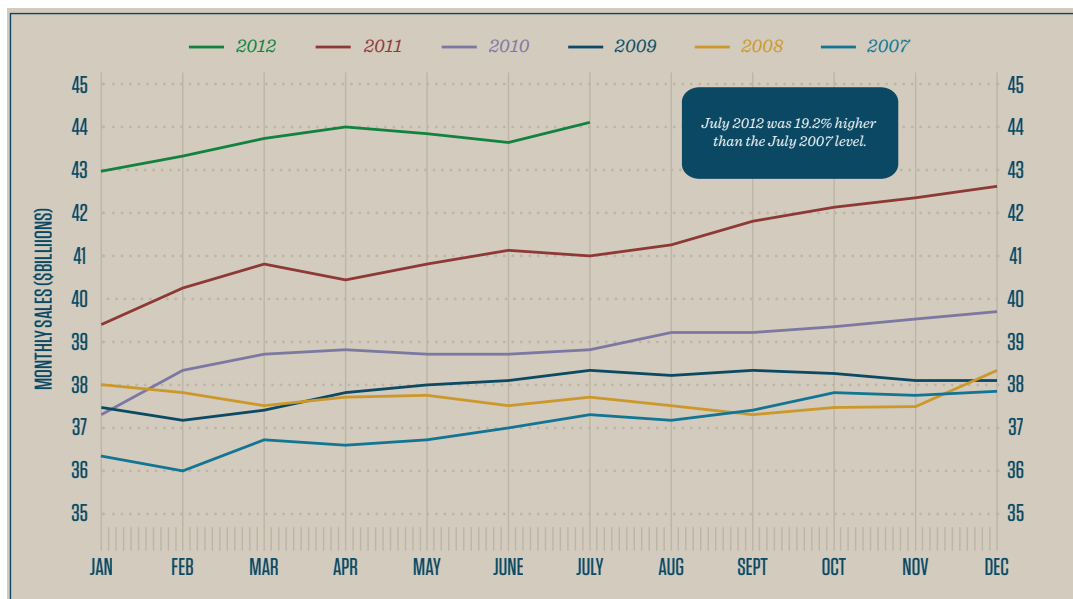
So take a read, and contact one of us if you have any specific questions or need some more detail on any of these topics.

*Marlin Consulting Group*

*September, 2012.*

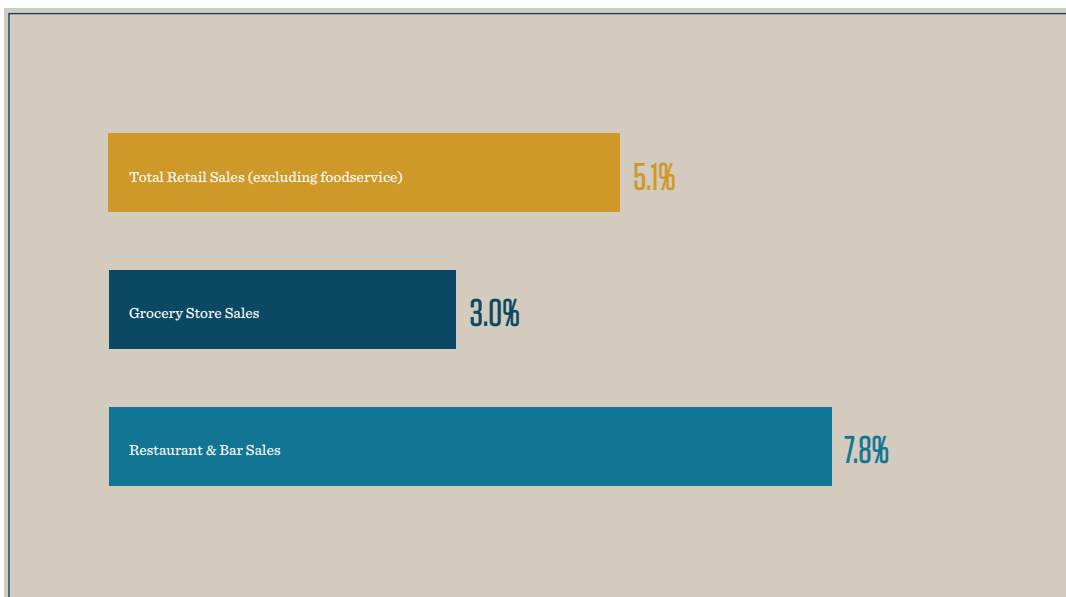
### *Eating & Drinking operations posted a record sales month in July 2012*

After registering modest growth in both May and June, Restaurants & Bars posted a solid month in July climbing to \$44.1 Billion in total sales, up 0.8% over June's sales total on a seasonally-adjusted basis. Supported by 10 monthly gains in the last 12-month period, Restaurants & Bars were up a solid 7.3% for the period ending July 2012, more than 3 times the growth rate of retail grocery operations which posted a modest 2.4% gain over the same period. For comparison, overall retail sales increased by 4.1%, so very good news for the Restaurant & Bar segments of foodservice.



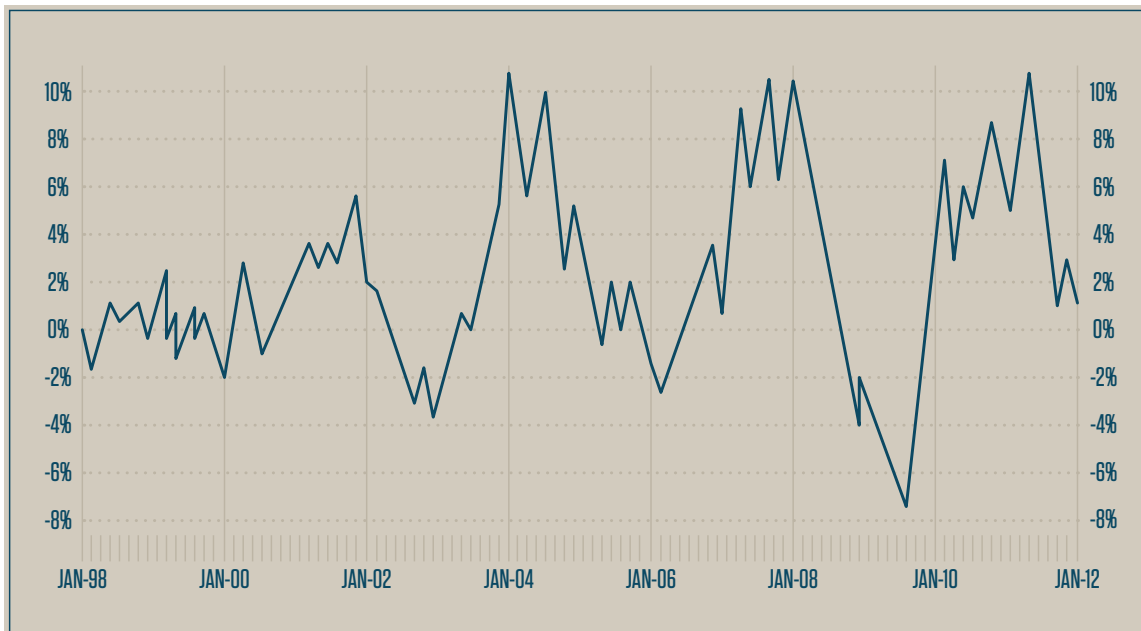
### *Restaurants & Bars also show significant gains for the first 7-months of 2012*

Preliminary sales figures from the U.S. Census Bureau show that Restaurants & Bars have recorded nice sales gains for the first seven months of 2012 when compared to the overall gains in the total Retail Sector and in Retail Grocery segment. With a 7.8% increase through July, the Restaurant & Bars segment leads the way after adjustments for seasonal and holiday factors, and is 52.9% ahead of Total Retail Sales (excluding foodservice), so a pretty strong showing year-to-date for the Restaurant & Bar segment.



### Wholesale food prices inching up

Wholesale food prices rose in July for the fourth time in the past five months lead by steady increases in dairy products, pork, flour and fin fish. Average wholesale food prices edged up 0.1% in July after a hefty gain in June of 0.4%. However, while prices remain elevated, the past 12-months ending in July 2012 showed only a modest gain of 1.4%, which is the smallest 12-month increase in more than two years. The NRA recently reported that Wholesale Price Inflation is at the highest level in 3 decades.



Of particular note are the increases in “on the hoof proteins”. Beef and Veal remained 14.9% above the same period a year ago and are on pace to post their third consecutive year of double-digit percent price gains. Pork also jumped 5.5% in July for its third consecutive monthly gain after posting declines in the past seven of eight months. Despite the July gain, Pork remains 3.3% below the same period last year.

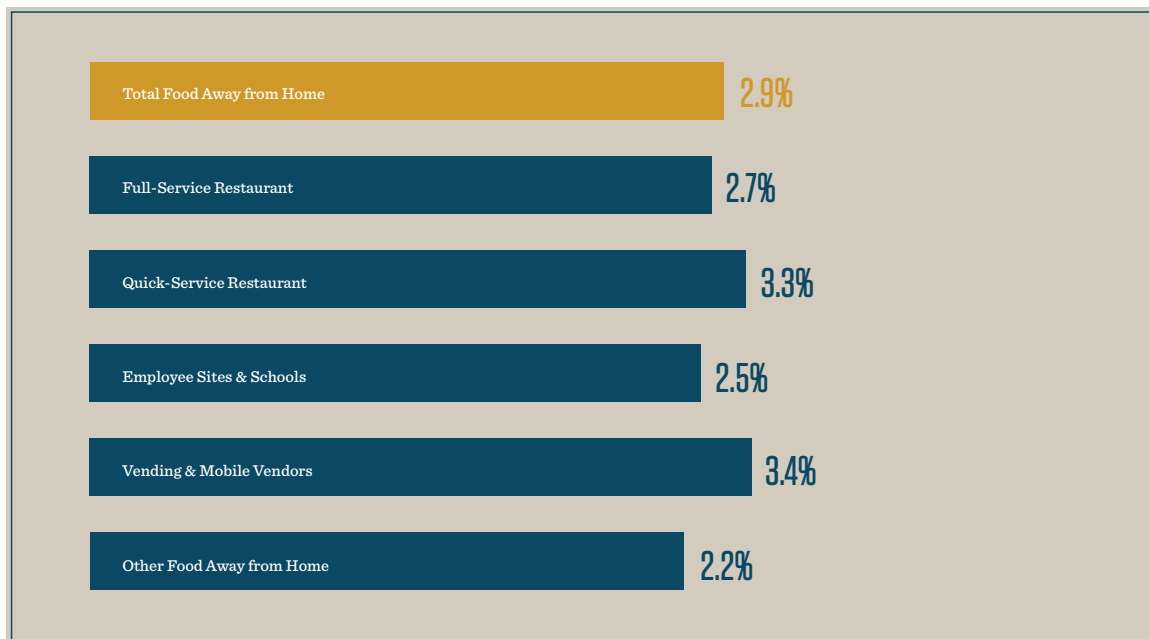
Processed Poultry, while down 1.8% for July, still remains at 10.4% above pricing levels of 12-months ago. Canned & Cured Seafood is the other double-digit leader, posting a 10.7% increase over the past year ending in July.

	6/12-7/12	7/11-7/12
<b>All Foods</b>	<b>0.1%</b>	<b>1.4%</b>
Fruits & melons, fresh/dry vegetables	-3.5%	-5.5%
<i>Fresh fruits and melons</i>	-1.1%	-4.3%
<i>Fresh vegetables (excl. potatoes)</i>	-5.8%	-1.1%
Processed fruits and vegetables	0.2%	4.5%
Cereal and bakery products	1.1%	3.4%
<i>Bakery products</i>	-0.1%	2.7%
<i>Flour</i>	7.5%	6.1%
<i>Milled rice</i>	-0.2%	2.8%
<i>Other cereals</i>	1.3%	4.9%
Meats	0.3%	5.8%
<i>Beef and veal</i>	-0.8%	14.8%
<i>Pork</i>	5.5%	-3.3%
<i>Other meats</i>	-1.9%	1.6%
Processed poultry	-1.8%	10.4%
Eggs	1.4%	-2.6%
Unprocessed & package fish	0.0%	-2.5%
<i>Unprocessed fin fish</i>	8.1%	-9.9%
<i>Fresh packaged fish &amp; seafood</i>	n/a	n/a
<i>Frozen packaged fish &amp; seafood</i>	n/a	n/a
<i>Canned and cured seafood</i>	0.5%	10.7%
<i>Unprocessed shellfish</i>	-2.2%	-9.7%
Dairy products	1.4%	-9.3%
<i>Milk</i>	1.1%	-9.9%
<i>Butter</i>	7.6%	-24.4%
<i>Cheese</i>	2.2%	-9.6%
Sugar and confectionary	-0.3%	-0.2%
<i>Refined sugar</i>	-0.3%	-4.0%
<i>Confectionary materials</i>	0.5%	-5.5%
Alcoholic beverages	0.8%	4.0%
Soft drinks	1.0%	2.9%
Coffee (whole bean, ground & instant)	-1.5%	-7.7%
Tea	0.2%	1.3%
Fats and oils	1.2%	-1.8%

### Implications of increasing wholesale Food Prices

In response to increasing Wholesale Price levels, Menu Prices continued to post steady gains in July according to the Bureau of Labor Statistics. Menu prices rose 0.2% in July, the seventh consecutive month that menu prices have posted a gain.

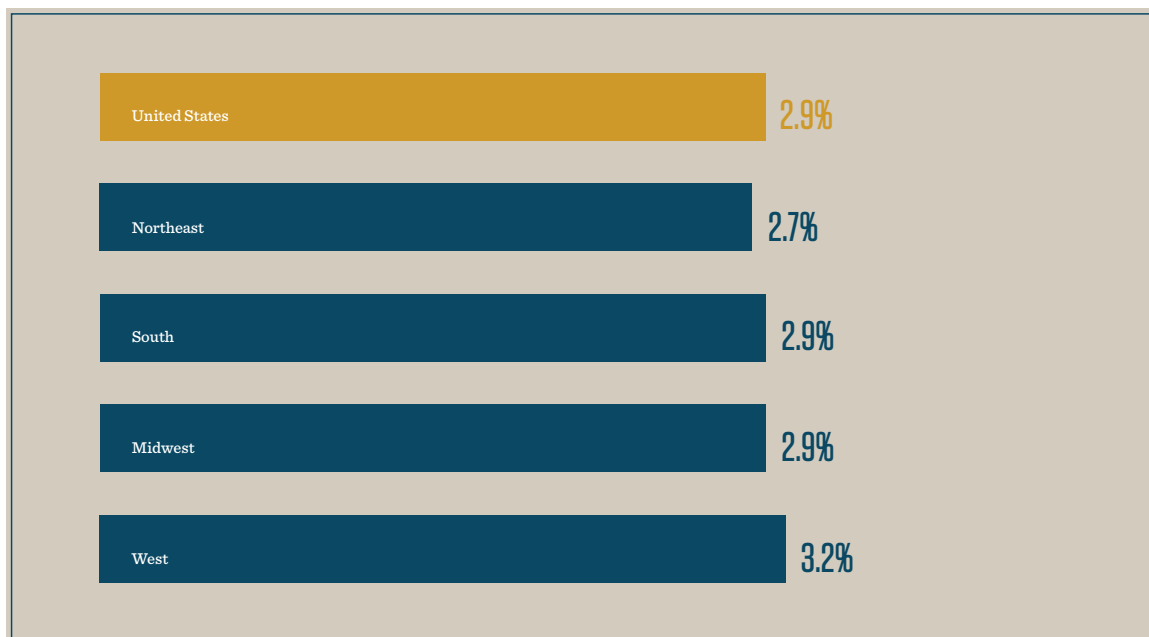
For the past 12-months menu prices are up 2.9%, with Limited Service operations and Vending leading the way with jumps of 3.3% and 3.4% respectively. *LSR - Fast-Food Menu Price increases are 22.2% above those taken by Full-Service Operations over the same 12-month period.*



### Menu Price increases are strongest in the Western Region

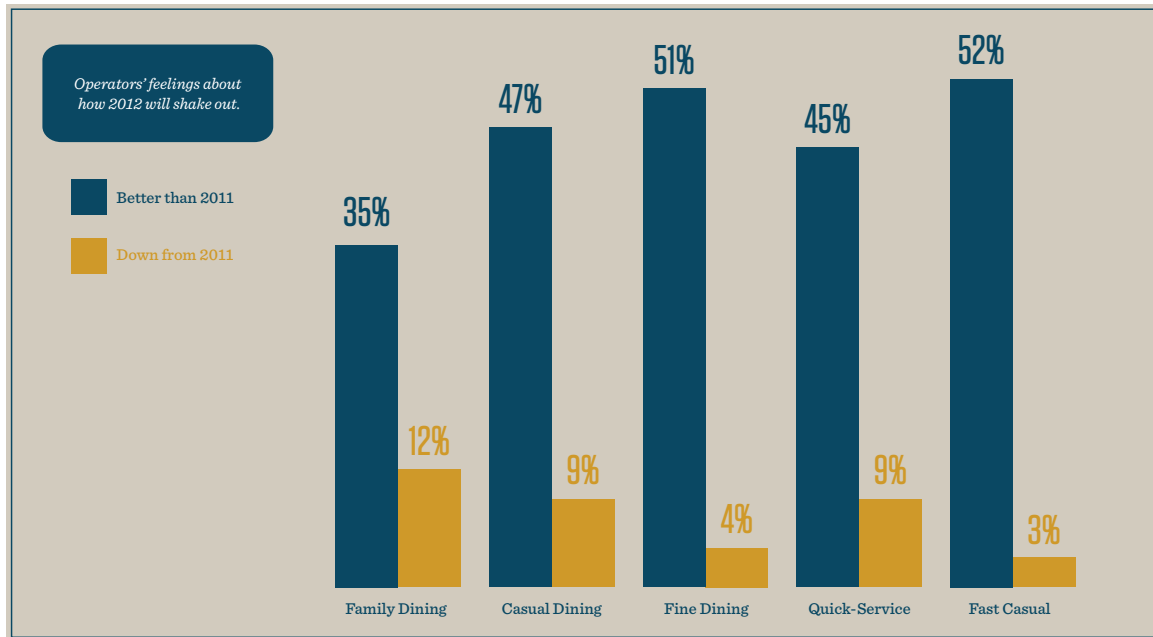
When compared to Retail pricing, foodservice menu price increases outpaced Retail Grocery prices during the past 12-months ending in July. For that period Retail Grocery price advances stood at 1.4%.

By Region, menu price increases are strongest in the Western United States at 3.7%, with other regions posting gains at or near the national average.



*The impact on our business and our Client's businesses*

- First, the foodservice industry seems to be holding its own in the face of some very challenging economic times. 2012 is shaping up to potentially be the springboard for better times ahead after 3-plus years of mixed performance.
  - We still have numerous issues out in front of us to deal with, specifically the rising national debt crisis, decisions on tax reform and healthcare mandates, but for now foodservice operators seem pretty upbeat and ready to move forward with a focus on better times ahead.



- As our calendar year Clients begin their planning cycles for 2013, they probably should do so with an “eye to caution” but an “ear to optimism”.
  - Cautious from the standpoint that in these times, doing “fewer bigger, more impactful things” might be the safest approach.
    - Just make sure that we can measure the results of everything we do.
  - Optimistic in the sense that now is a great time to build and/or reinforce Brands with restaurant operators and help them grow their revenues with business building ideas.
    - Consumers have a pent-up demand for the food, the service and the social environment that restaurants provide which is a reason for all of us in foodservice to feel optimistic about the future.
      - 40% of adults recently surveyed indicated that they are not using restaurants as often as they would like.
    - Help Operators take advantage of “daypart disintegration,” which is emerging as restaurants seek to broaden the occasions that they can serve their consumers’ fragmenting need-states resulting from busy lives and price pressures.
      - Heavy Snacking and off-hours eating is becoming popular, this is now called “linner” - eating a significant meal between lunch and dinner.
        - Brought on by 24/7 lifestyles, declines in 9 to 5 jobs, interest in less expensive meal options by consumers and the growth of the impact of the Millennial generation.
          - Example: the Publican in Chicago has just redesigned their format to offer their “afternoon menu” starting at 3:30pm and running up to dinner. It is driven by afternoon options and portions sizes at more affordable prices.