

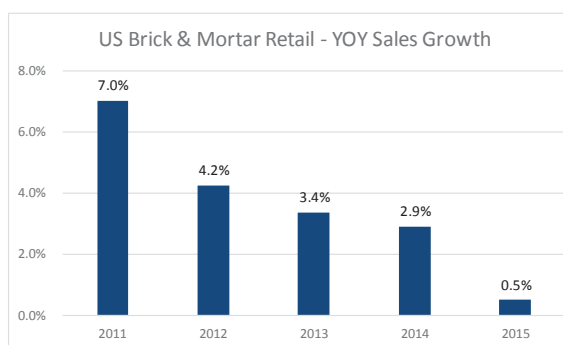


## Insights: Essential Steps to Address Declining Sales in a Turnaround – Restaurant and Retail Brands

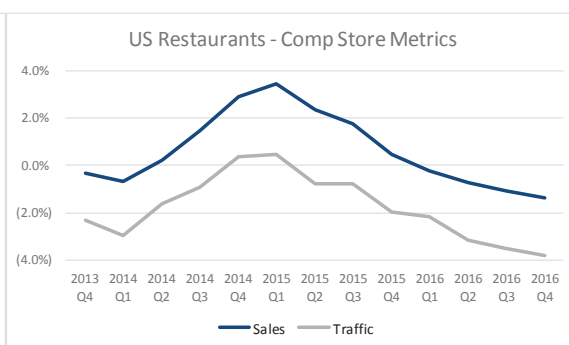
The consumer landscape is constantly evolving and competition within the retail and restaurant space continues to intensify as legacy brands fight for market share. Margins continue to shrink as pricing tightens and costs escalate, often further exasperated as companies chase sales through discounting and aggressive pricing promotions. In the current calendar year alone, approximately 20 restaurants and “brick and mortar” retail chains have filed for Chapter 11 bankruptcy protection.

As these challenged brands focus on restructuring and turnaround efforts to restore value, it is critical that they focus on all aspects of the business. Building a sustainable platform goes beyond store closures, overhead rationalization and cost management. While those initiatives provide essential runway, a true turnaround is established through top line growth. Companies must tackle the inherent issue impacting sales by focusing on their brand experience, brand identity and the use of digital platforms to communicate their marketing message.

The “on demand” economy of the 21st century has fundamentally shifted how consumers experience goods and services, setting a new precedent for modern-day value chains. Legacy brands struggle with establishing themselves in today’s digitized economy where newer brands are thriving and this is evidenced by the continued decline in top line results. As illustrated in the charts below, there has been an alarming decline in sales within the retail “brick and mortar” space and the restaurant space. A large part of this decline is driven by legacy brands.



Source: Wall Street Research



Source: Black Box Intelligence

Based on our assessment of the industry and experience working with a variety of storied brands, the fundamental issues that legacy retail and restaurant brands face with today’s consumer are three-fold:

- Know Your Consumer** – Legacy companies are often disconnected from the values and new needs of today’s consumer. The way they purchase goods and make decisions has evolved dramatically since the rise of social networking sites, transforming customer service expectations for consumers of all age groups. To effectively engage these consumers, organizations need to rework their strategies to focus on convenience, value perception, and fundamental expectations of the “on demand” economy.

- **Know Your Brand** – Legacy companies are straying from the roots of their brands in pursuit of a younger consumer, often resulting in brand confusion and erosion of core customers as they chase after millennials. Gauging the needs of the brand's primary consumer and understanding reasons for lapsed use must be identified prior to reaching out to new consumers or shifting messaging.
- **Know How to Communicate** – Legacy companies do not typically maximize the power of digital media or consumer data to drive strategy and their decision making process. The digitization of systems on both the operations and consumer side provides companies with invaluable information on consumer transaction habits and consumer behavior. This data is often times under-leveraged or misinterpreted.

The blueprint for pivoting legacy organizations towards the future starts with the following three strategic shifts that we have implemented with proven success, across a variety of consumer facing industries.

## Evolve From a “Retail Exchange” to a “Brand Experience”

Brand to consumer relationships are no longer transactional, they are now emotional. Understanding the brand's existing consumer and/or the correct target consumer must be the first step toward building a plan to emotionally resonate with the larger consumer base. To successfully do this, companies need to thoroughly evaluate consumer perception in the following ways:

- Evaluate Brand Health.** In our experience, insights garnered from customers often provide the basis for your future messaging strategy. We start by auditing existing systems, consumer research studies, and any analysis available to gauge unaided and aided brand awareness, the brand's net promoter score (NPS), and key insights from customers garnered through every touchpoint. In addition to leveraging the tools already in place, we dig deeper into lapsed users by conducting surveys and listening reports that seek to understand why some consumers are no longer loyal to the brand. We study the consumer and their perception of the brand, which provides key data points to identify the issues facing the brand.
- Leverage Systems to Engage Consumers.** Managing your online reputation and servicing customers through online channels is essential to brand relevance as the demand for instant feedback is a reality for brands today. Additionally, this feedback will be invaluable to your topline strategy as a result of being able to distinguish anecdotal truisms about your consumers from quantifiable trends.
- Understand Gaps in the Consumer Experience.** Despite an evolution in how goods and services are marketed vis-a-vis the rise of on demand apps, research shows that consumers simply want traditional brands to catch up to new standards. A recent report by BI Intelligence showed that 60% of U.S. consumers have not completed an intended purchase based on a poor customer service experience, which translates into an estimated \$83 billion in lost sales for U.S. retailers. Legacy brands need to carefully identify their weaknesses when it comes to the consumer expectations and define a comprehensive and integrated strategy to bridge the gaps, without alienating their existing consumer base. In our experience often times this is the step that brands struggle with the most and a misstep could further impact guest perception and following.

## Tell Your Brand Story

Studying the consumer data will help management teams understand their core customer and that will in turn help drive their brand and marketing strategy. It is important that these legacy brands develop a very clear and effective

narrative that tells a story that their consumers can connect with and one that is consistent across all mediums. Often times organizations try and innovate themselves out of a position of underperformance, without fully understanding their customer or the core aspects of the brand that appeal to consumers.

As a part of our turnaround process we always focus on the core attributes of the brand that made it successful. Thoroughly evaluating those core attributes relative to the consumer is a key component in determining whether the core attributes are relevant and need a “refresh” or if the company needs to change its offering – evolution versus revolution. The key steps to successfully telling your brand story are as follows:

- a. **Be Transparent and Embrace Who You Are.** Part of making a brand relevant is embracing its history and effectively communicating that story with its customers. Legacy brands have roots and stories that are often not told but that can connect with consumers and reignite the passion for the brand, if done right.
- b. **Develop a Personality and Voice.** The brand story needs to be consistent and must be embodied by senior leadership and employees throughout the organization. Consumers need to believe it and it must become part of the company’s culture for it to truly connect.
- c. **Create a Lifestyle Around Your Brand.** Expectations of shopping experiences have changed drastically, with the rise of e-commerce, apps, and smartphone usage generating more curated and customizable solutions for consumers but one click away. Given these trends, creating a brand experience around your promotions and product offerings has never been more crucial to compete with the growing number of digitally sophisticated brands. A recent study showed that 44% of Millennials believe brands say something about who they are, their values and where they fit vs. 36% of Gen Xers and 33% of Baby Boomers. As legacy brands compete for the Millennial share, these are key components that should be factored into their strategy.

## Enhance the Consumer Experience with Digital

The majority of legacy organizations recognize the value of digital, but few have maximized the platform and the related systems to extract customer data and effectively use it to engage their customers. While many leverage tools like social media, loyalty programs, and web analytics they often fall short when it comes to dissecting the consumer data to drive strategic decisions.

Hiring the right resources to bridge the gap between topline key-performance-indicators (KPIs) and opportunities through digital is essential in developing a comprehensive plan that highlights the brand DNA, integrates with traditional media, targets core consumers and clearly tracks results. Digital programs cannot be done in a vacuum and must be fully integrated into the overall brand message and strategy, to effectively regain consumer confidence and rebuild market share. As part of our turnaround efforts we typically work on developing integrated marketing strategies and leverage digital to study consumer behavior, target specific segments and build awareness. In evaluating and maximizing digital it is important to keep the following in mind:

- a. **Embrace the Heightened Connectivity.** In a study earlier this year, Facebook concluded based on their algorithm that everyone in the world (among their 1.59 billion active users) is connected to every person in the world by exactly 3.57 connections, and not the “six degrees of separation” we as a society have known as a point of reference for years. We are more connected as a world than we have ever been, and businesses can leverage that to rapidly build awareness and traffic.

b. **Establish a Toolkit.** In building a media strategy it is important to develop a toolkit of platforms that together can drive more value than any individual platform. A healthy media mix not only allows you to find efficiencies in spend as you transition weight from print to digital, but it will generate different ways to target, interact, and sell product to a larger pool of consumers. Further, this approach generates more data and insights than a traditional campaign alone.

c. **Map Out Your Customer's Journey.** There is a growing opportunity through digital to attribute consumer purchases back to their original source, and understand the path to purchase from awareness to advocacy. When working with clients to address how to best leverage digital in their marketing efforts, our focus is in the customer journey, or that path from awareness to advocacy. At every stage of how a potential or repeat customer engages with your brand, there is an opportunity to engage them (or remarket to them) by using digital efforts to link up with offline tactics such as radio, TV, or print. Strategically mapping out this journey and layering in key business metrics will support your overall business plan and clarify ways to best target and re-engage your customer base.

## Conclusion

Legacy brands are fighting an uphill battle as they continue to compete with each other and with new entrants that have inherent qualities that appeal to today's consumer. Legacy brands need to evolve and they need to strategically position themselves to remain relevant. Most often changes within the marketing strategy have less to do with marketing budgets and more to do with allocation and drawing on the key components of the brand that resonate with consumers. To be successful, companies need to study their customer, they need to identify the core attributes of their brand and they need to effectively craft the right message and use the right medium to communicate that message. A great message communicated across a medium that doesn't resonate with the consumer, will fail.

Now more than ever, companies must address challenges and opportunities with financial and operational tenacity, deliver strategic plans that reflect real-world dynamics, and maintain a leadership team that is decisive and pragmatic.

Mackinac Partners' turnaround approach is focused on working with management teams to both develop and implement comprehensive marketing/branding strategies and to drive cost saving initiatives to grow EBITDA and enterprise value. Our experience with legacy brands is spread across multiple industries.

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## About the Authors

**Nishant Machado** is a Senior Managing Director at Mackinac Partners. Nishant runs the firm's restructuring and turnaround practice on the West Coast and is the head of the firm's Food and Beverage practice. He has extensive financial restructuring and turnaround experience across multiple industries and has served as CRO, CEO, CFO, COO and Lead Restructuring Advisor for middle-market clients, in and out of bankruptcy. He and his team have advised clients in both distressed and non-distressed situations, with a focus on creating enterprise value across organizations through strategic and operational changes. Nishant has served as an advisor to clients through divestitures and carve-outs to maximize value and maintain stability across the broader organization. Nishant is a Certified Insolvency & Restructuring Advisor, has earned the M&A Advisors 40 Under 40 award and is a member of YPO – Global One chapter.

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## About Mackinac Partners

Mackinac Partners is a leading financial advisory and turnaround management firm that steadfastly helps clients address and resolve financial and operational crises and pursue new growth opportunities. With extensive financial and operational experience across industries as both operators and executives, our team can help identify limitations, challenges and opportunities in our clients' businesses, and drive plans to create more stable, responsive and higher performing operating environments.

Our diverse team of professionals have extensive experience advising troubled companies and partnering with management teams to identify core issues, develop a strategy and execute a plan that addresses revenue growth and EBITDA maximization. Mackinac's operational and financial restructuring capabilities combined with our expertise in driving branding and marketing strategy provides clients with a comprehensive service that addresses all aspects of their business.

- Turnaround Management & Financial Restructuring
- CRO and Interim Management
- Strategic, Operational and M&A Services
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