A photograph of a concrete staircase with a metal handrail. A large, white, illuminated arrow is mounted on the wall, pointing upwards and to the right, symbolizing growth and progress.

Moving the Needle on Performance for FDRC

A PRELIMINARY REVIEW

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March 11, 2024

Agenda

1. A review of the input data
2. A review of the questions
3. My read on what the data indicates in terms of answers – and further questions
4. Some thoughts on possible further areas of pricing opportunity
5. A bonus topic

Our input consisted of 4 data sets. A preliminary review indicates that we have at least reasonably clean data.

YEAR	MONTH	STORE	DAYPART	CATEGORY_ID	REVENUE_NET	QTY
2018	1	1	B	10	11700	2050
2018	1	1	D	10	3700	570
2018	1	1	L	10	7700	1270

STORE	DAYPART	YEAR	MONTH	CUSTOMER_COUNT
1	B	2018	1	3312
1	B	2018	2	3366
1	B	2018	3	4116

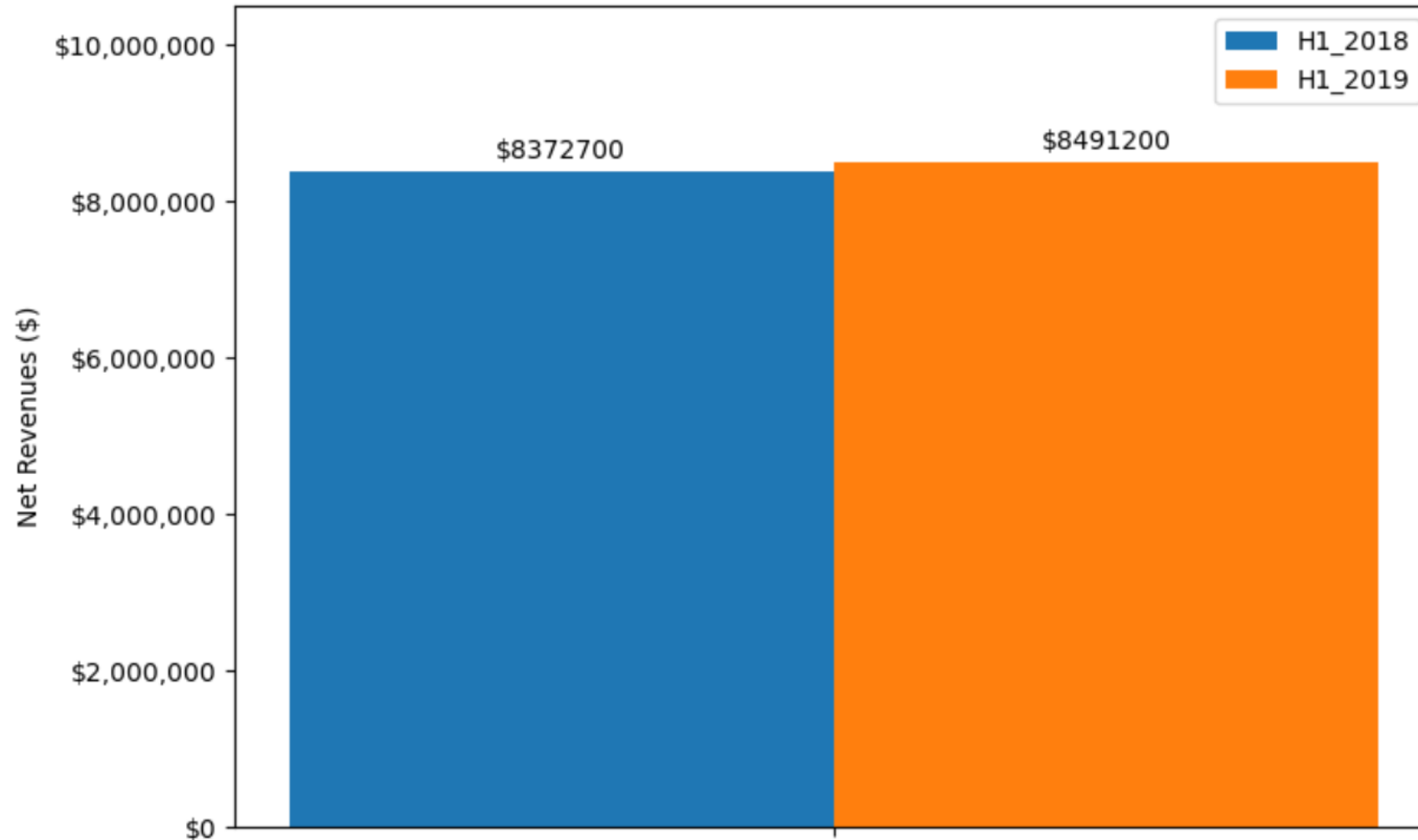
STORE	CITY	STATE	NAME	AREA	REGIONAL_DIRECTOR	REGION
1	RIO GRANDE	OH	RIO GRANDE	1	GREEN, JOE	GRANDE, OH
2	CHILlicoTHE	OH	CHILlicoTHE	26	YELLOW, JAMES	CHILlicoTHE, OH
3	COLUMBUS	OH	ROUTE 161	7	YELLOW, JAMES	COLUMBUS, OH

CATEGORY_ID	CATEGORY_DESC	COMMENTS
10	BREAKFAST	Breakfast items
15	SENIORS MEALS	Seniors Meals
20	DINNER	Dinner items

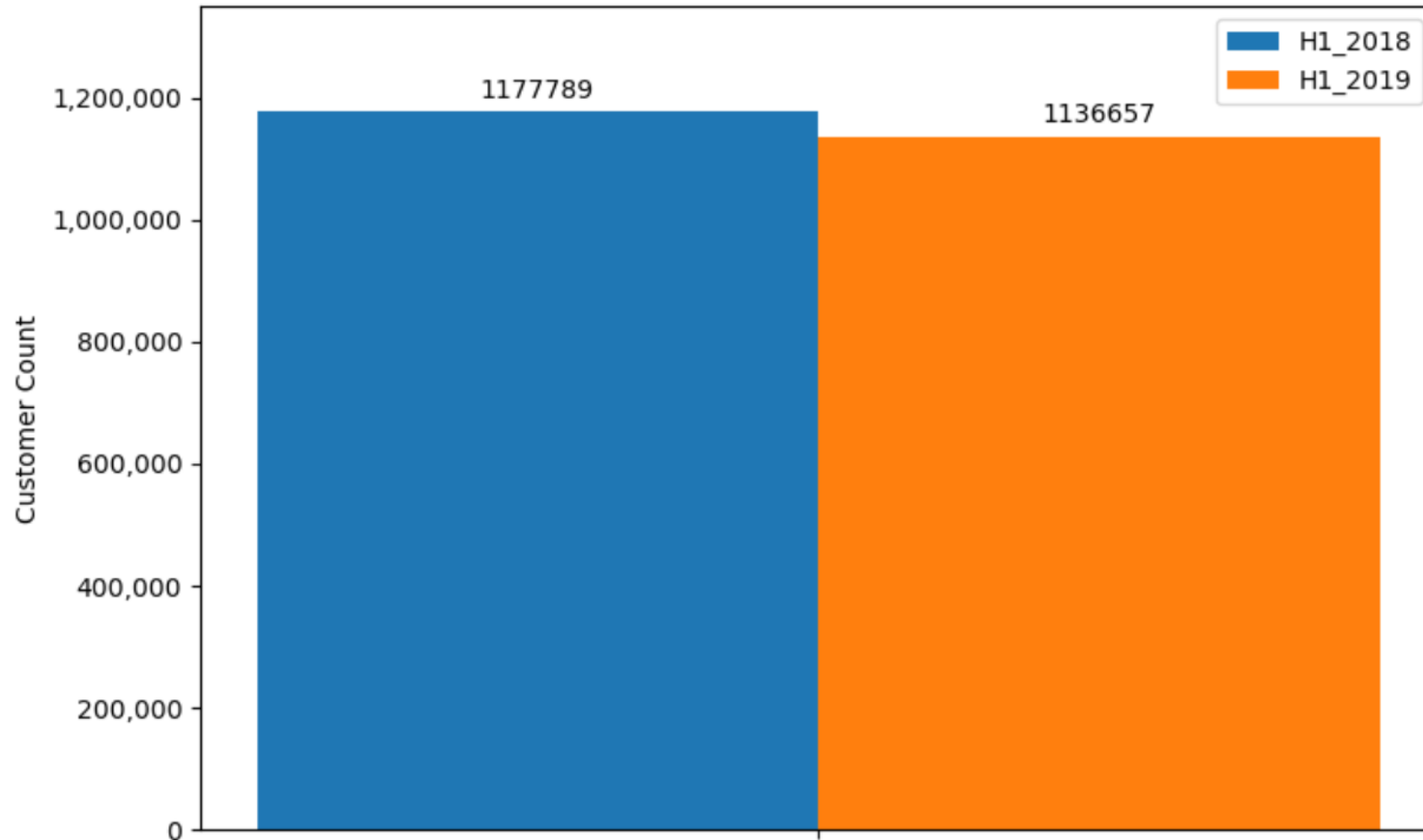
Our Initial Questions for FDRC

1. How has the revenue and customer count changed between 2019 vs 2018?
2. What is driving the change in customer count? Ex. Region, State, Daypart etc.?
3. When comparing revenue for 2019 vs similar months in 2018, which Regional Director is facing the biggest challenge? (and why)
4. What is a forecasted revenue for 2019? Briefly explain your forecast methodology. Give suggestions on how you would improve this if you had more time/data.
5. What can you tell us about price changes and its possible impact on the business?
6. If you could create one key graph for the Executive team that paints the story for 2019, what would you graph? Create that graph!
7. Based on this data are there any recommendations you would make to management?

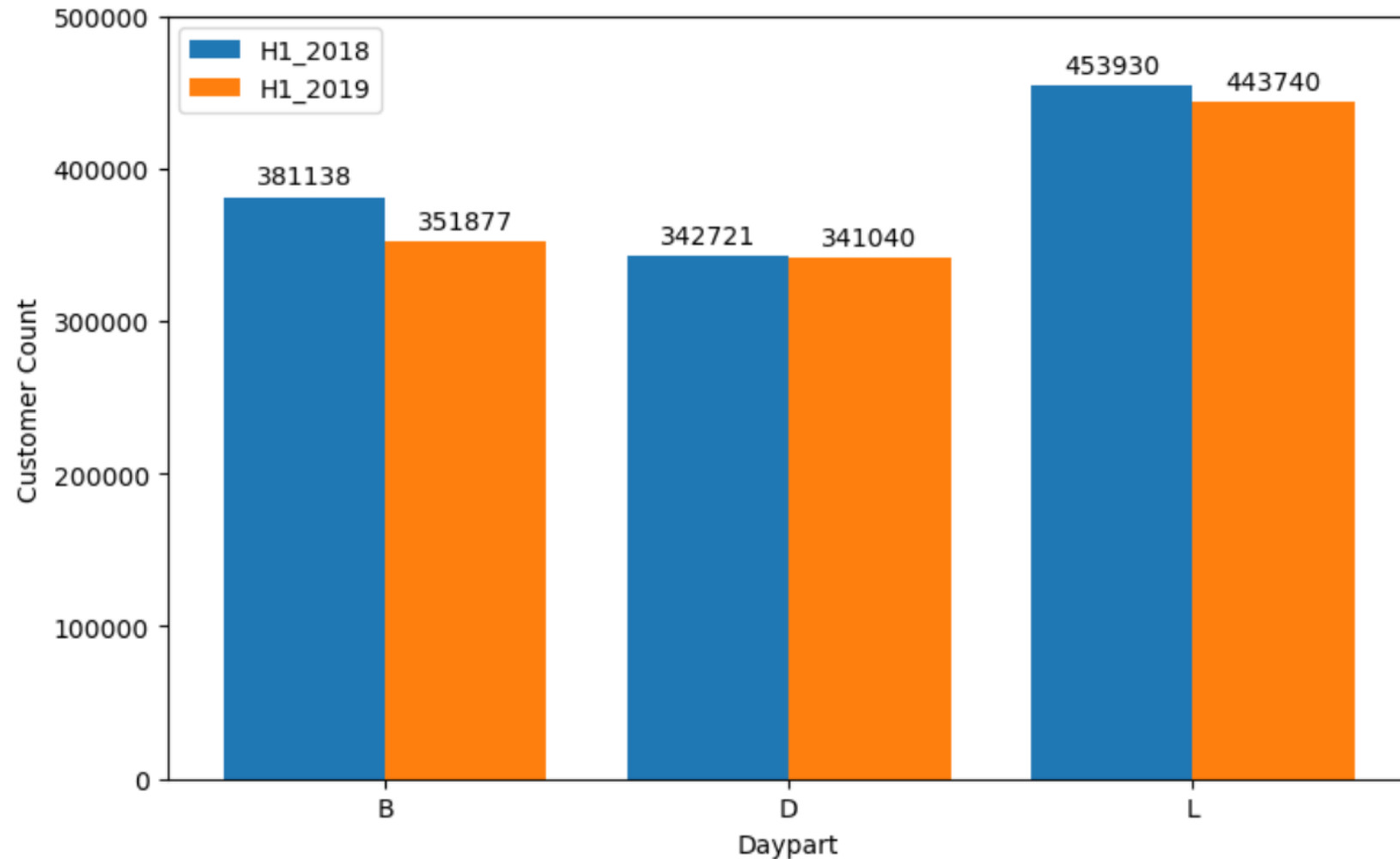
Overall, FDRC is doing ok – our sample store set saw net revenue growth of 1.4% in 2019 over 2018.



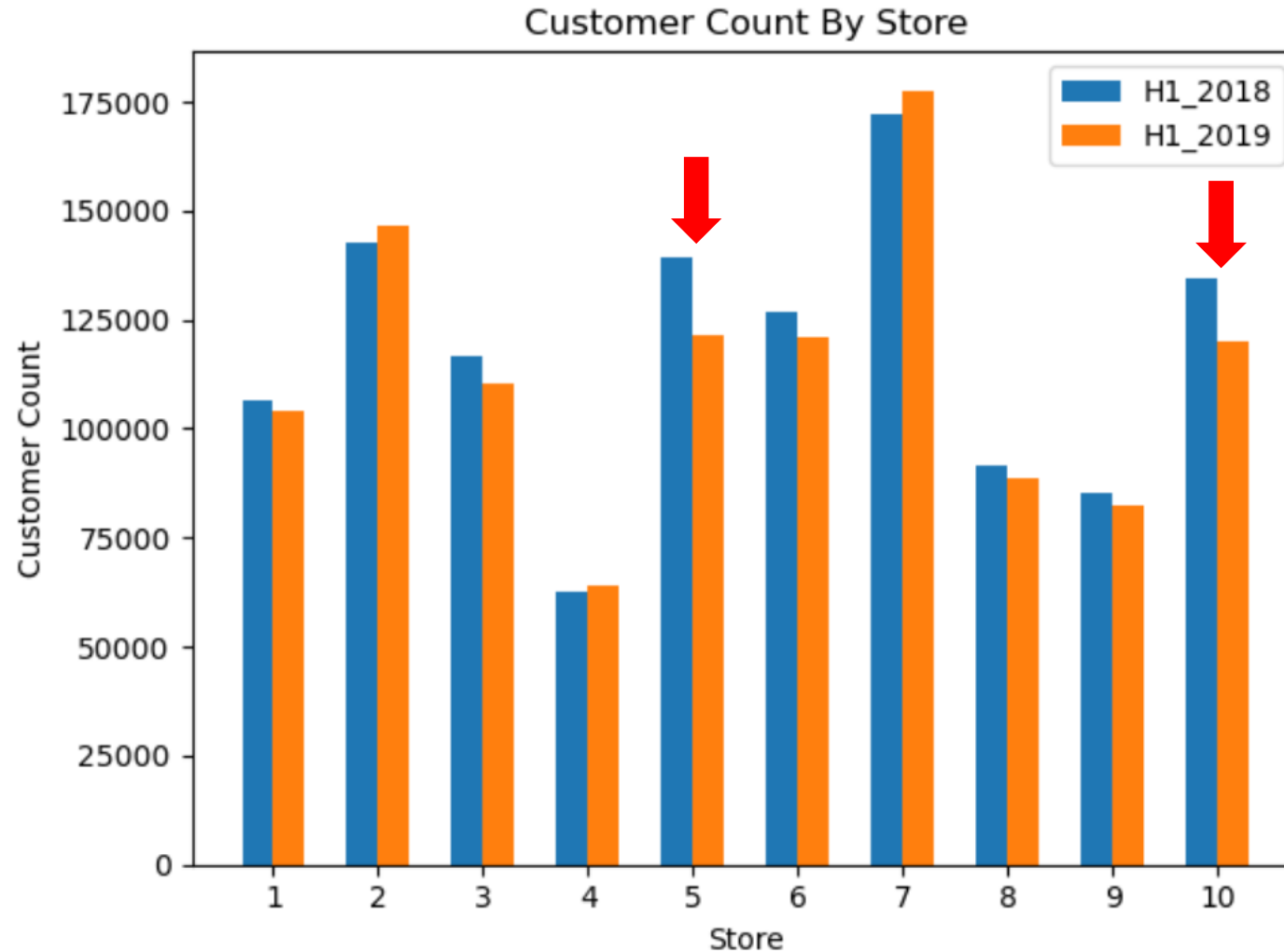
However, there is a somewhat worrying trend with a 3.5% decline in customer counts across the group.



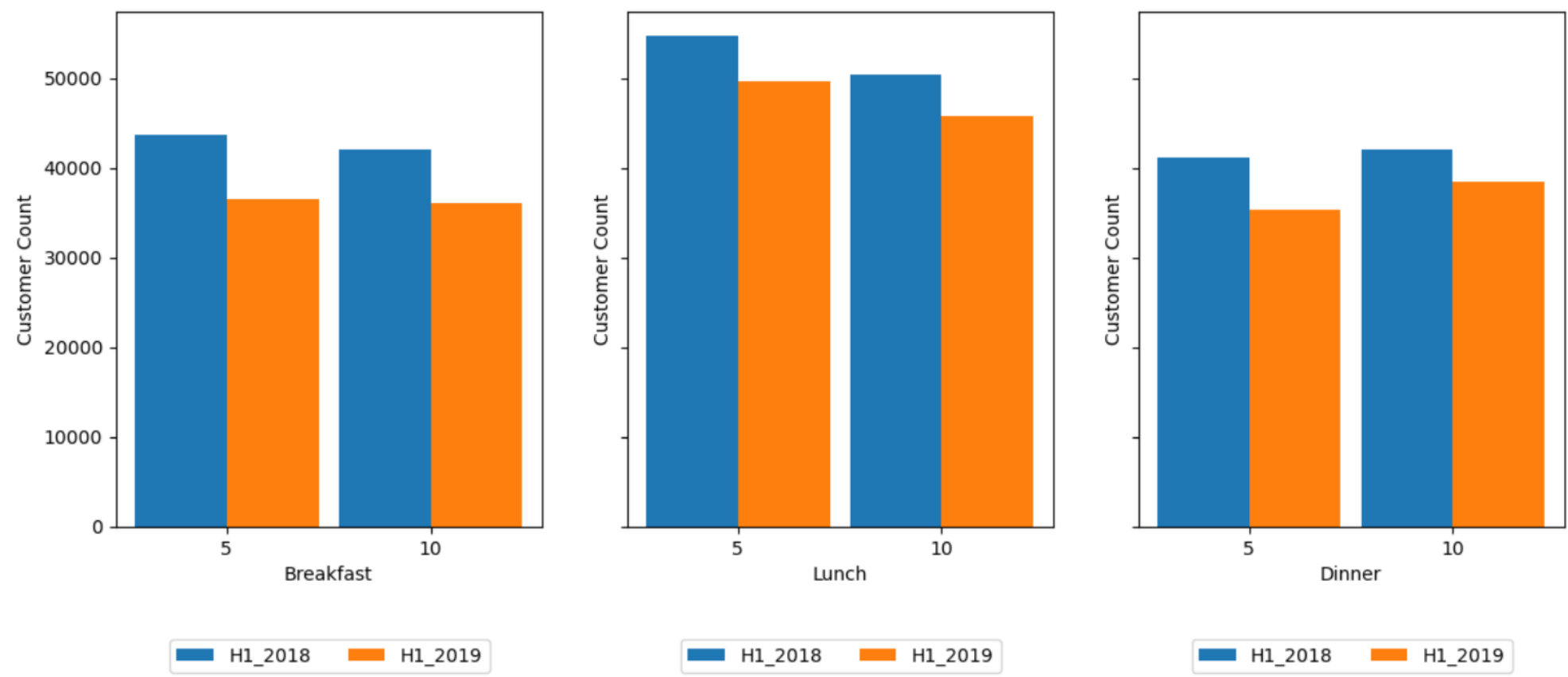
The breakfast and lunch dayparts accounted for the bulk of the decline in customer counts.



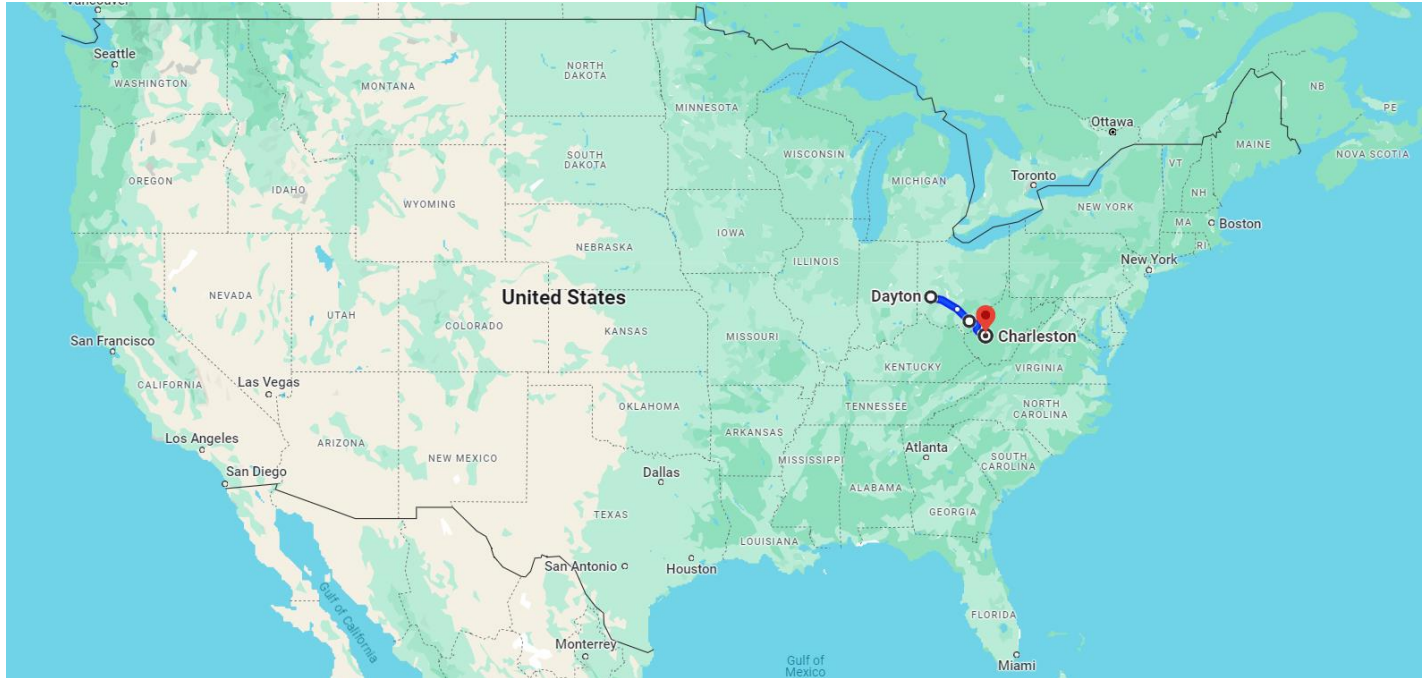
At the store level, we observe that Store 5 (-13%) and Store 10 (-11%) saw the most significant customer count declines.



Stores 5 and 10 saw declines across all three dayparts in the 5 to 15% range.



A conversation with Joe Green should likely be a near-term next step.



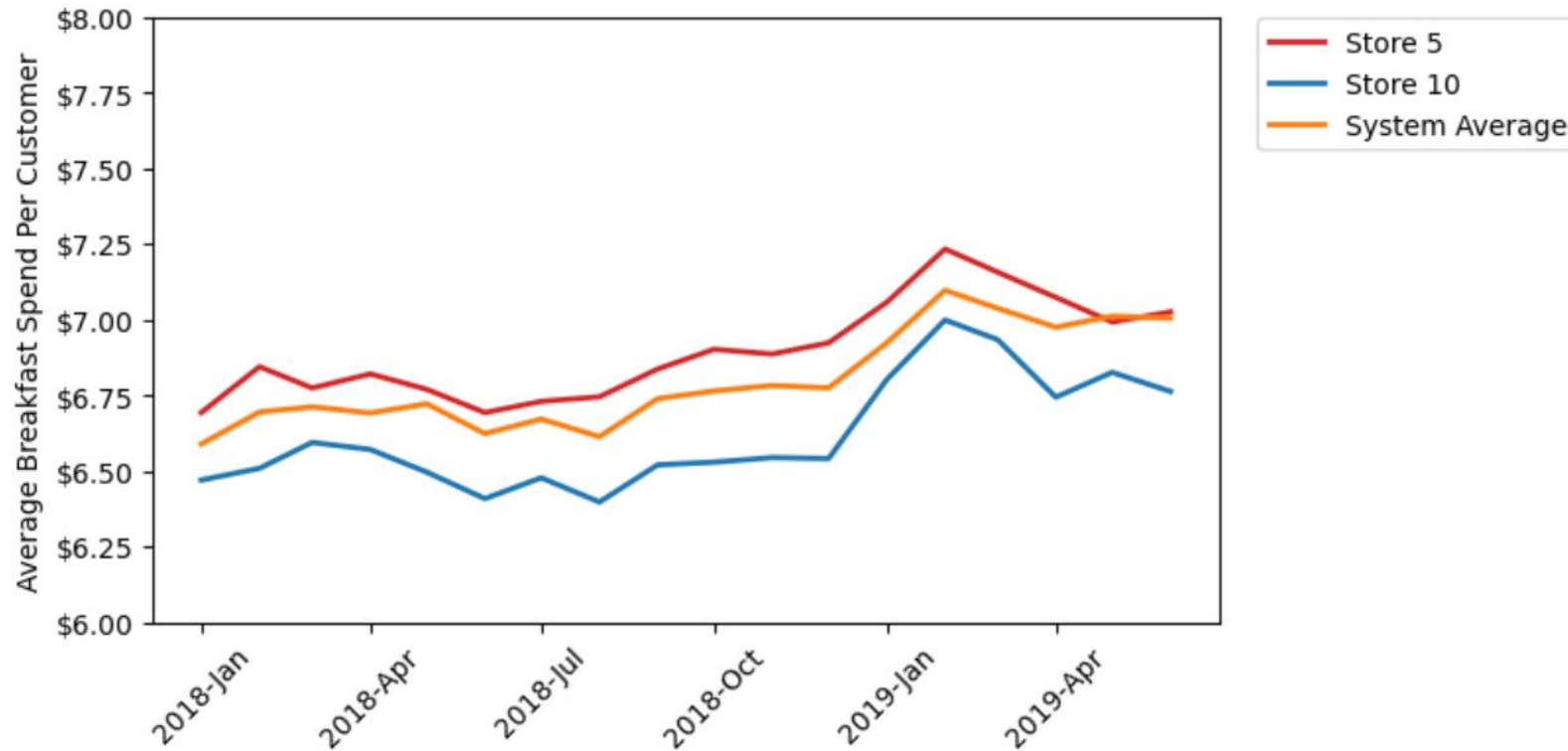
- all three of Joe's stores are seeing customer count declines
- of the 6 stores that saw declines, Joe is responsible for three of them
- Joe's 3 stores are within a 4-hour driving distance diameter

Question: What explains the declining customer counts?

1. labour shortages
2. sub-standard or inconsistent service
3. problems otherwise with how the strategy is being operationalized
4. a new competitor has arrived on the scene
5. price – customers in general have become more price sensitive
6. price – segment(s) of customers have become more price sensitive

Caution: There is some indication in the data that price is not fundamentally the issue.

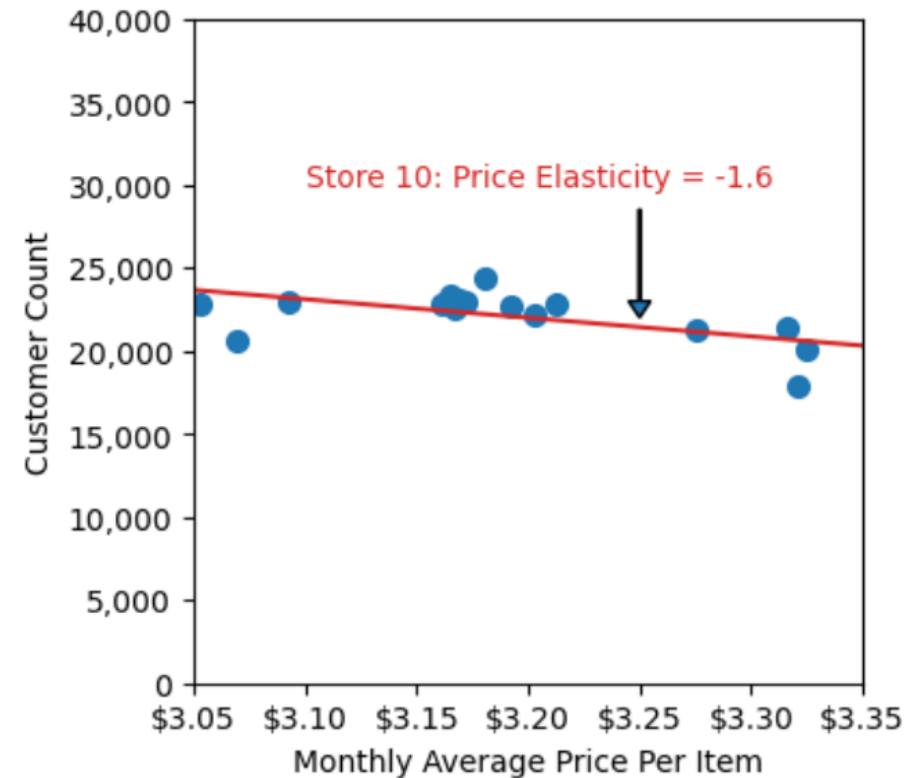
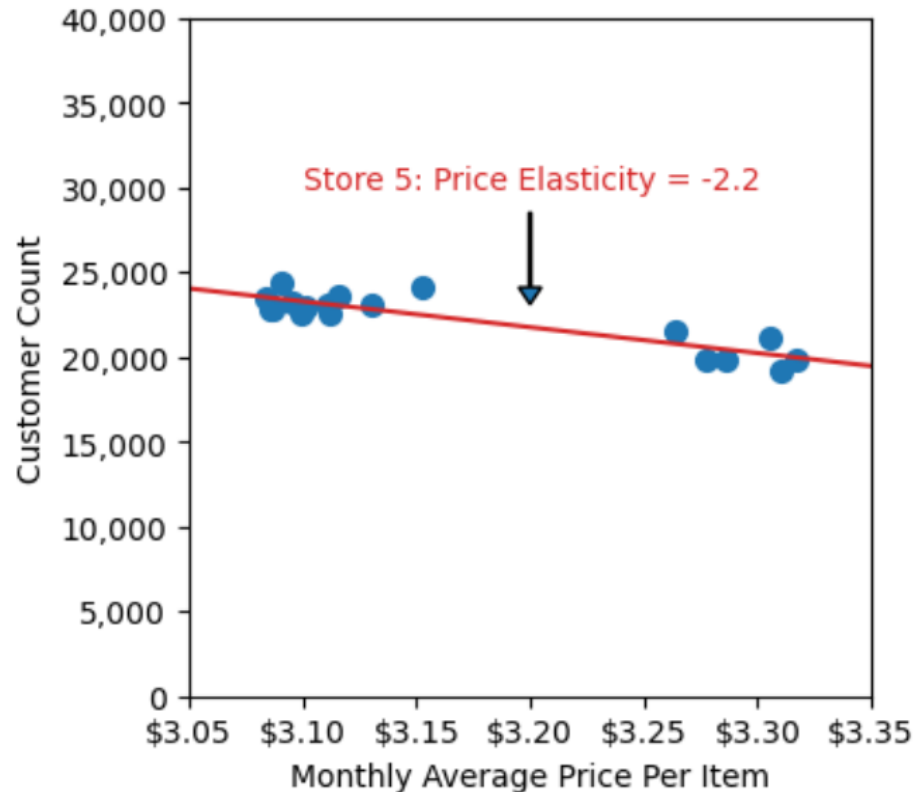
Average spend per customer in stores 5 and 10 is tracking system trends - suggesting price is not a driver.



Were most of Joe's customers becoming more price sensitive, we would expect to see a decline in average spend per customer – which we are not.

Were a segment of Joe's customers becoming more price sensitive, we would expect to see a faster rate of increase in average spend per customer relative to the system average – which we are not.

Quasi-price sensitivity models suggest elastic demand – but better price and cost data likely needed for optimization.



Key Graph #1: With Store 5, we see some softness in both strategic categories – likely warranting further attention

Senior Category:

QTY	
HALF YEAR	
H1-2018	33460
H1-2019	29190
H2-2018	31020

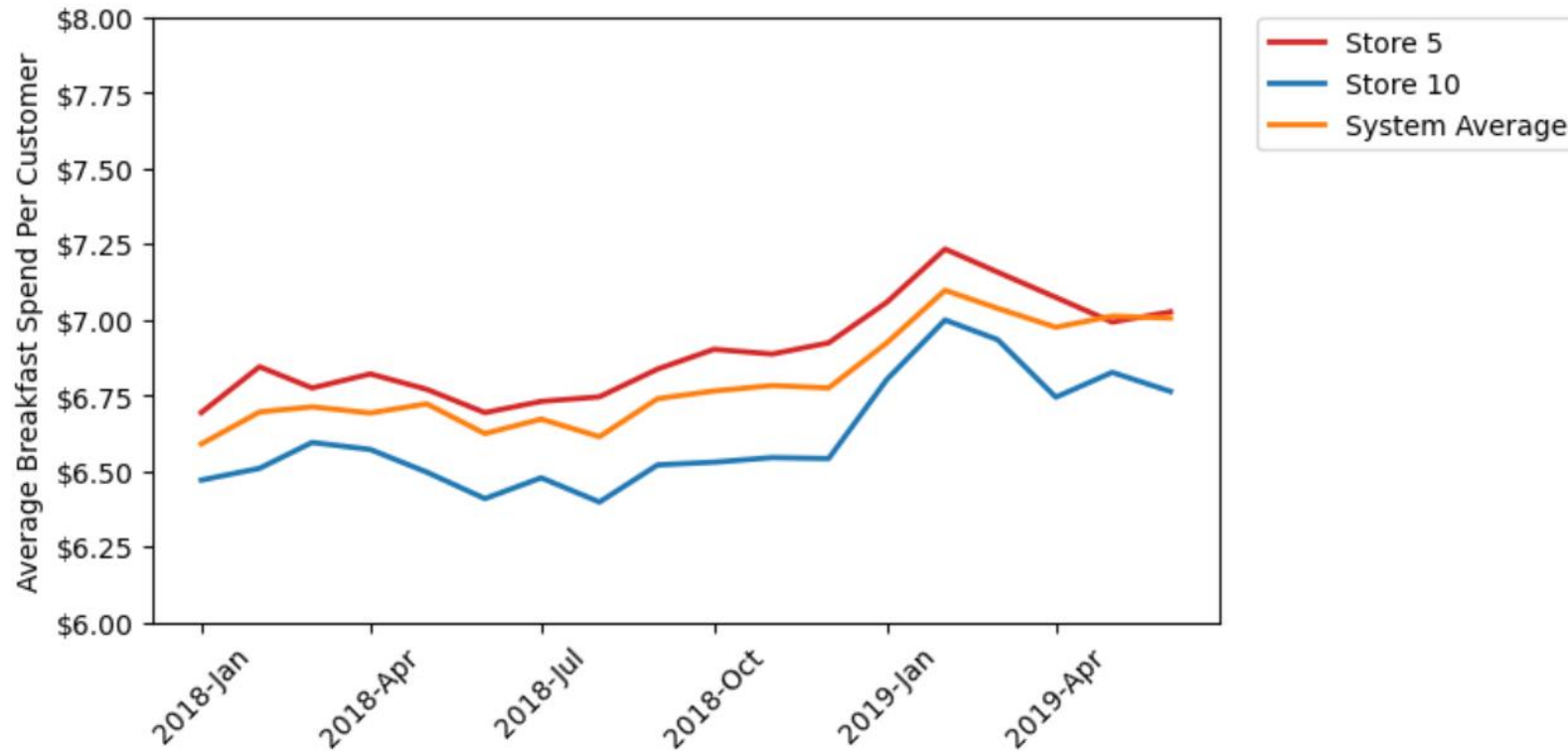
Kids Category:

QTY	
HALF YEAR	
H1-2018	10060
H1-2019	9150
H2-2018	9960

If we are seeing these kinds of declines in strategically important categories:

1. Is our strategy being operationalized in a reasonable fashion?
2. Is our strategy still fit for purpose?

Key graph #2: Why is average spend per customer growing ~2x as fast as core inflation?



Possible Drivers:

FDRC is taking price increases beyond core inflation. But are these changes helping profitability?

FDRC is seeing traction with new higher end menu options. Is this helping profitability?

A new competitor is taking share from FDRC at the low end – possibly indicating a disruptive threat.

One caveat . . . the pricing calculations in this analysis are very simple groupings across dates and stores . . .

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2018	1	1	B	15	3200	1210
2018	1	1	D	15	1200	400
2018	1	1	L	15	2100	740
2018	1	1	B	20	900	190
2018	1	1	D	20	4600	790
2018	1	1	L	20	10800	1980
2018	1	1	D	25	100	40
2018	1	1	L	25	200	70
2018	1	1	B	25	0	10
2018	1	1	D	30	16000	1950
2018	1	1	L	30	9800	1230
2018	1	1	B	30	300	50
2018	1	1	B	40	800	180
2018	1	1	D	40	4000	640
2018	1	1	L	40	3300	550
2018	1	1	B	45	300	120
2018	1	1	D	45	1000	390
2018	1	1	L	45	800	330
2018	1	1	B	50	4500	3420
2018	1	1	D	50	6400	5120
2018	1	1	L	50	7900	6420
2018	1	1	D	55	1200	440
2018	1	1	L	55	1100	400
2018	1	1	B	55	100	30
2018	1	1	B	60	800	540
2018	1	1	D	60	4100	1660
2018	1	1	L	60	4600	2250

Possible Issues:

We may have very different mixes across dayparts and categories between stores.

We may have very different mixes within dayparts and categories between stores.

We are thinking about: Are there approaches to producing price data that reflect these differences.

Beyond Joe's issues, a five-point framework might be useful in uncovering further pricing-related opportunity.

Advancing Customer Insights:

- customer segmentation
- buying group mapping
- customer value criteria identification and assessment
- economic value modelling
- price sensitivity estimation

Advancing Price Structure Design:

- price-offer configuration
- price metrics (i.e. the unit to which a price is applied)
- segmentation fences (i.e. fixed criteria the customer must meet to qualify for a lower price)

Advancing Price Level Planning:

- iterating towards price levels that maximize key outcomes

Pricing Execution:

- the approach to communicating price and value
- pricing policy
- approach to assessing pricing performance
- approach to collecting relevant external data

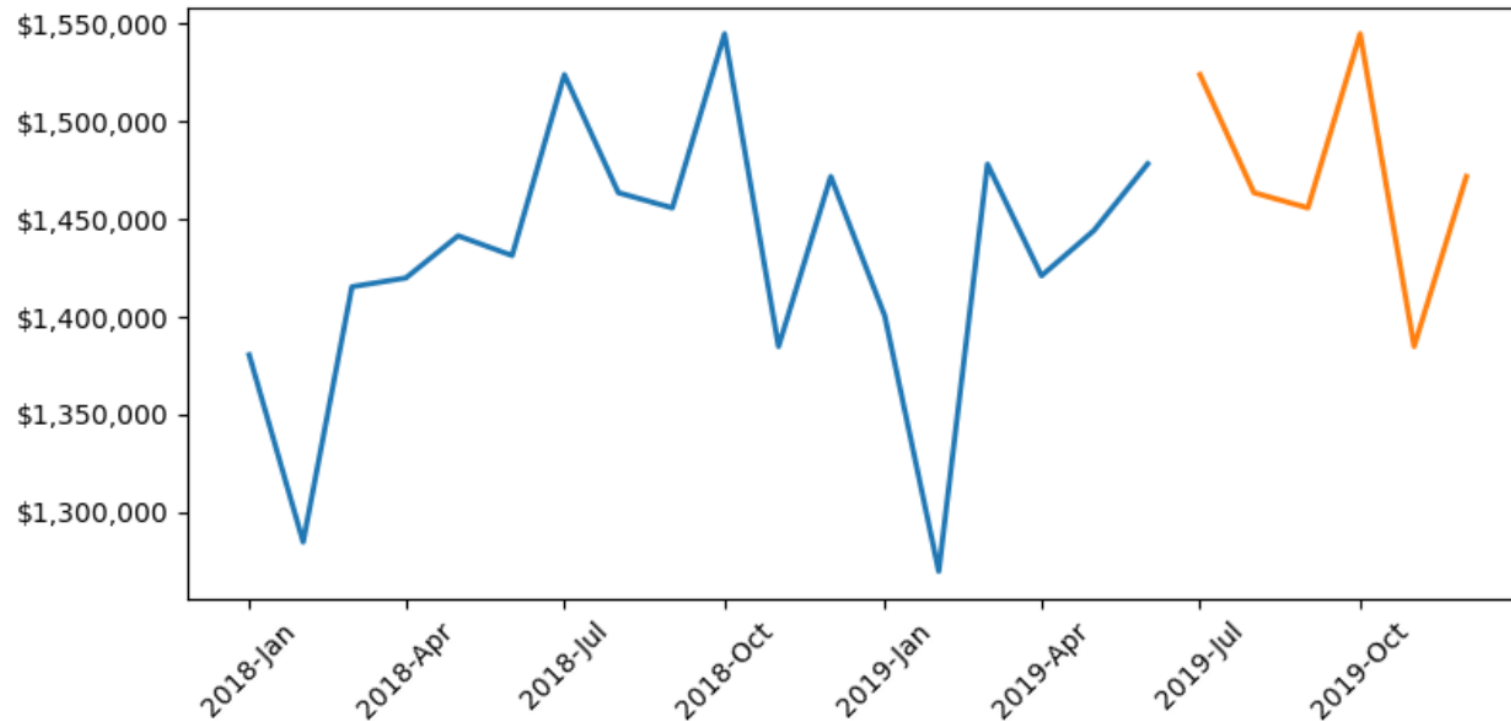
Influencing More Favourable Industry-level Pricing Conduct:

- profit and culture
- monitoring competitor actions
- pursuing constructive cooperation
- selectively increasing price transparency

The Decision Inventory as a
Tool for Uncovering Opportunities.

Re forecasting: The limited amount of data and the small amount of signal in the data make forecasting a challenge.

A Six Month Net Revenue Forecast for All Sample Stores (Seasonal Naive)



Some possible opportunities:

1. further develop the business problems that a better forecast might address
2. data for more months
3. resampling what we have as weekly data
4. looking beyond the system-wide revenue level
5. with more signal, look at time series models beyond seasonal naive
6. looking at SARIMAX and other modeling-types that factor in exogenous variables
7. adding a model evaluation regime
8. approaches that include and utilize uncertainty

What would RML be getting with me?

1. someone who will roll up his sleeves and do the work
2. someone with some technical skills
3. an enthusiastic mentor of developing talent
4. maybe: RML's next conjoint specialist
5. a useful contributor to the firm's visibility-building efforts
6. a passionate contributor to RML's intellectual capital
7. an able business developer – someone who can bring in some work

Bonus: Is known to be a little bit of fun from time to time. 😊

Questions?

Thank-you again!