



2011 Outlook for the U.S. Restaurant Industry

Bob Bielinski, Head of the Restaurant Industry Practice within Corporate Finance at CIT

Elliott Forrest: Welcome to **5 Minute Capital (www.5minutecapital.com)** CIT's executive insight series, which takes on financial issues in about five minutes.

Today we're discussing the 2011 Outlook for the U.S. Restaurant Industry with **Bob Bielinski**, head of the Restaurant Industry Practice within **Corporate Finance** at CIT. Thanks for being here.

Bob Bielinski: Thank you.

Forrest: How important really is the restaurant industry to the overall U.S. economy?

Bielinski: The restaurant industry plays a very significant role in the U.S. economy. According to the National Restaurant Association, the industry is the nation's largest private sector employer, and next year sales will be around \$600 billion, which is 4% of GDP. Statistics aside, the industry plays a very important role in providing critical entry level jobs. A quarter of Americans today had their first job in a restaurant.

Forrest: And how many people over all does the restaurant industry employ?

Bielinski: It's close to 13 million people, which is 10% of the U.S. work force.

Forrest: Are there meaningful signs of recovery in the restaurant market, or has this Great Recession just caused long-lasting problems?

Bielinski: Consumers have frugality fatigue. They're ready to come back and spend some money and restaurants are a very easy way for them to have a little indulgence, but not break the bank. So, you've seen casual dining firms rebound quite nicely and I think people are very optimistic about 2011 that you're going to see increased sales and, hopefully, increased profits as well.

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Forrest: Part of this is trying to predict behavior of consumers. Is that easy to do?

Bielinski: Obviously predicting the future is very difficult to do. But, I will say businesses that are executing well, companies that mean something to their consumers, they’re going to continue to succeed and I think over all the industry is going to do well in 2011.

Forrest: You talk to restaurant executives. What are their challenges and opportunities today?

Bielinski: The restaurant industry is a very competitive business and CEOs are always looking for ways to grow their businesses. The good news is that people do expect improvement in 2011, but CFOs are watching commodity costs very carefully right now. We’re seeing a lot of commodity cost inflation, in particular in foods, and unemployment is still stubbornly high, and until we really get the country back to work there won’t be smooth sailing for the restaurant industry.

Forrest: What’s your advice regarding brands and how important that is for a restaurant franchise?

Bielinski: That’s really all a restaurant company has in terms of competitive advantage. Anyone can start a restaurant business. The barriers to entry are fairly low, but a brand that’s meaningful to the consumer is a true competitive advantage.

I read a column last year written by Ron Schaich, the co-founder of Panera Bread, obviously a guy...

Forrest: Favorite in my family.

Bielinski: and a guy who knows something about building brands and he said you need to develop true competitive advantage. And how do you do that? Well, you find a niche and it has to be big enough that you can build a business and then you have to recognize that you can’t please everyone all of the time, so be the best choice on some days rather than second best choice all the time. Once you’ve found your niche, you’ve got to stand for something; you have to be consistent and the recession was a very tough time for CEOs to be consistent. Everyone was discounting, everyone was couponing, and not to follow the crowd was very hard, but the best brands didn’t and they prospered.

Forrest: What restaurants concepts are poised for growth?

Bielinski: Everyone is talking about the fast casual industry.

Forrest: So, is that different than a fast food restaurant?

Bielinski: Yes, exactly. Fast casual, Panera and Chipotle, are the best examples out there and they are by no means price leaders, but why are they successful? Because people see the value in their food. There are a number of smaller chains that are considered fast casual that are succeeding. Noodles & Company has a new owner and that private equity firm is going to be investing in growth. Einstein Noah, which is a

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publicly traded company, recently announced that it plans to accelerate growth. And you know the better burger crowd. It seems like there is a new better burger establishment opening every day, but Five Guys is by far the industry leader there and they’re following the same formula.

Forrest: Is there a difference in success between an established franchise and one that’s just getting started?

Bielinski: It’s difficult to be a start-up restaurant company today. It’s hard to find capital; it’s hard to get the consumer’s attention. The large, established brands, in particular the ones that have the benefit of television advertising, can get their message out to consumers. The smaller start-up brands need to rely on word-of-mouth and word-of-mouth just necessarily takes longer. But if you get that momentum, you can really build on it. And if you can show the capital markets that you have momentum, and you have a brand, you’ll attract the money you need to grow.

Forrest: So, is there financing available for the restaurant industry?

Bielinski: There is. The larger brands are actually enjoying quite favorable terms right now as middle market lenders who had left the restaurant industry are now coming back. So you actually have quite a bit of capital available for the larger brands. Smaller brands are more difficult. Often times it will be equity. Private equity firms are interested in finding growth companies, though.

Forrest: There has been some news coming out of the Small Business Administration. Tell us about that.

Bielinski: It’s actually very exciting for smaller businesses. Congress made changes to the SBA (Small Business Administration) program last year and most importantly it raised the maximum loan size to \$5 million from \$2 million. That’s very significant for smaller companies because with \$5 million you may actually be able to grow enough to the point where you are funding your own growth. That’s very important for entrepreneurs to know that they’re not going to have to rely on outside sources to meet their business plan.

Forrest: Bob Bielinski from CIT. Good to talk to you.

Bielinski: Thank you.

Forrest: And thanks for you for listening. Please visit cit.com/restaurants for more information. I’m Elliott Forrest. This has been a production of CIT.



Robert (Bob) Bielinski is a Managing Director who leads the restaurant industry practice within **Corporate Finance** at CIT. He has more than 20 years of restaurant and retail financial management, investment banking, and transaction experience.