



ONE SIZE DOES NOT FIT ALL

THE ROLE OF REGIONALITY IN DUE DILIGENCE

From cowboys to cheese-heads to lobster-lovers, each region of the United States has its own unique identity—and is quite proud of it.

Naturally, these differences extend down to the retailers and restaurants that have the strongest brand equity in a given region. But the concept of regionality—that certain brands will thrive in some regions but not others—is often left out of the due diligence process.

As a result, potential investors often overlook regional differences in brand equity in their store growth analyses and may end up overstating the expansion potential of a given target.

The following case study illustrates the impact of regionality at work.

Battle of the Regional Brands

WestCoast is a quick-serve restaurant (QSR) with an almost cult-like following in much of the West and Southwest, due in part to its reputation for higher-quality fast food. In fact, the brand's net promoter score (NPS) ranks highest in a survey of more than 500

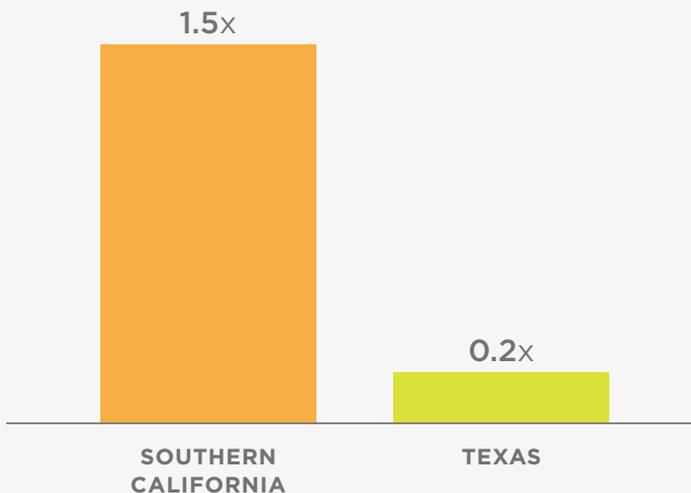
Southern California current diners—where WestCoast has more than 130 locations.

But what about the brand's viability beyond these regions—will it be equally well received? The answer may be no.

We compared our Southern California diners' opinions of WestCoast to those of current WestCoast diners in Texas, where WestCoast has slightly over a dozen doors, and found net

EXHIBIT 1: Texans Are Lukewarm on WestCoast

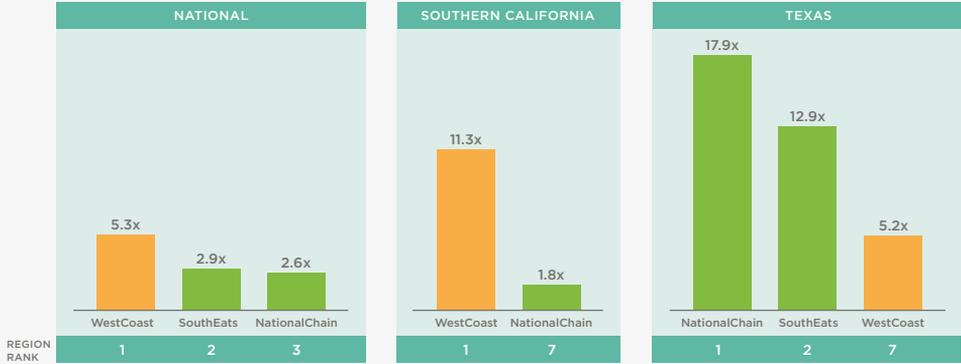
WESTCOAST REGIONAL NET ADVOCACY (AS MULTIPLE OF NATIONAL NET ADVOCACY)



Note: Current diners by region.

EXHIBIT 2: QSR Popularity Is Not Universal

REGIONAL NET ADVOCACY BRAND COMPARISON (AS MULTIPLE OF REGION'S AVERAGE NET ADVOCACY)



Notes: 1. Current diners by brand. 2. Survey question was “When thinking about fast and casual restaurants, how likely are you to recommend the following restaurants to your friends and family?” 3. Southern California ranking out of 21 restaurants; Texas ranking out of 18 restaurants.

promoter scores to be substantially lower. In fact, WestCoast’s NPS was more than six times higher than what it was in Texas. (See Exhibit 1.)

And WestCoast’s shiny first-place regional ranking in Southern California slid to seventh in Texas. Taking WestCoast’s place at the top were two QSRs that serve similar cuisine and are also considered higher quality than their competitors—SouthEats, a regional chain, and NationalChain, which has more than 1,000 locations across the United States and Canada. (See Exhibit 2.)

The bad news goes both ways. NationalChain fares as poorly in WestCoast’s stronghold as WestCoast does in Texas, even though NationalChain has more than 30 Southern California doors. In fact, on a national level, NationalChain actually fares worse than both WestCoast and SouthEats in both net advocacy and repurchase intent.

These differences carry over to repurchase intent—current diners in Texas say they’re less likely to develop an appetite for WestCoast than their Southern California counterparts. But those same Texans claim

EXHIBIT 3: SouthEats Wins Repurchase Intent in Texas

REPURCHASE INTENT BY REGION



Note: Survey question was "How likely are you to dine at each of the following casual specialty burger restaurants in the next six months?"
 Source: Kurt Salmon Consumer Survey

they'll continue to have a strong hankering for SouthEats in the future, as illustrated in Exhibit 3.

Several factors may drive these regional differences. First, WestCoast is a relatively new entrant to Texas, putting down its first roots in 2011. Likewise, NationalChain opened up shop in California starting only in 2009. In contrast, WestCoast has been in Southern California since the 1950s, which is exactly when SouthEats first opened up in Texas.

But we don't expect WestCoast to gain more fans in Texas over time, considering how strong competitors like SouthEats are when it comes to net advocacy.

WestCoast is also troubled in Texas because its traditional niche as a high-quality QSR option is already occupied. In fact, WestCoast's net advocacy among current Texas consumers who consider themselves "quality seekers" is a measly 1.7—fifth in the region—versus its first-place score of 19.5 among Southern California's quality-seeking diners.

Interestingly, WestCoast's profile in Texas is actually more heavily stacked toward cost-conscious consumers. In fact, in Texas, 34%

of the chain's current customers identify themselves as "value seekers" versus only 21% in Southern California.

These differences help highlight why WestCoast shouldn't necessarily expect to experience the same levels of success as it expands out of its historical home. And for investors, they illustrate why regionality is an important concept to consider in future diligences, lest lower-than-expected growth leaves them hungry. ❖

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