

# LSR Loss Levers: A Wendy's Lapsed Guest Case Study



# Exploring “Loss Levers” In LSR

## A CASE STUDY

- Everyone’s taking price, which is buoying top lines. But what’s happening below the surface at the consumer level?
- When it comes to guest migration, two key behaviors drive losses in LSR
  1. Lapsed Guest Migration
  2. Leaked Guest Circuits
- The following analysis will explore the effect that these two phenomena are having on one of America’s most beloved Fast-Food chains: Wendy’s



# Looking for Lapsed Buyers



# America today differs from that of a year ago, and change will likely continue

Just in 2024 so far...

## INFLATION GROWTH

- Inflation rates are declining, but not fast enough as the government continues to weigh actions to curb it
- Leads to adverse affects on prices, spending power and other fiscal indicators
- Restaurants are increasing value menu options to win guest trips: McDonald's and Burger King's \$5 Meal Deal, Wendy's \$3 Breakfast Meal, Starbucks' \$5 Coffee + Croissant, and others

## CALIFORNIA WAGE INCREASE

- In April 2024, California enacted a minimum wage of \$20 per hour for fast food restaurant workers: Up from the \$16 per hour that began on January 1, 2024
- In effect for all fast-food chains with 60 or more locations nationwide
- Automated ordering kiosks and increased menu prices have taken effect to offset costs

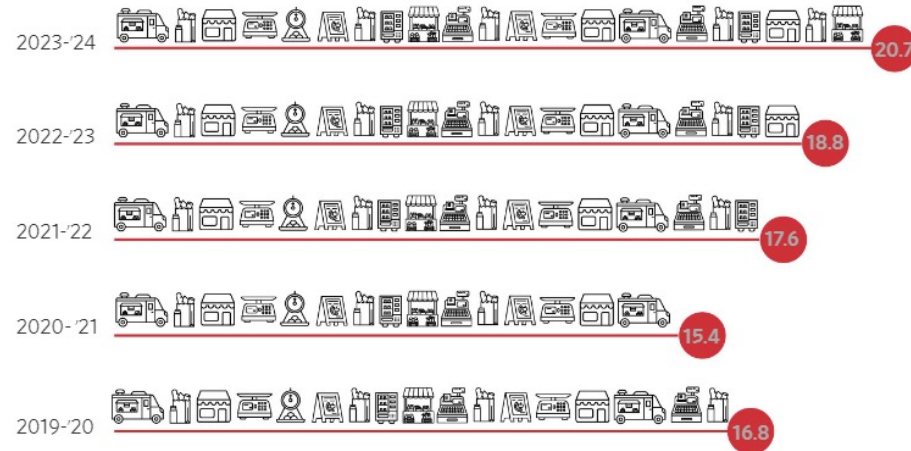
## ONGOING POLITICAL EVENTS

- Election year, world conflicts, and other governmental interests continue to shape H1 2024

# Americans are shopping at more stores than ever before

Since the COVID-19 pandemic, the number of unique retailers that households are shopping has grown consistently. With economic and inflationary pressures, HHs are diversifying their buying behaviors.

Average number of retailers where food and beverage were purchased



Note: Yearly data is March through February  
Source: Numerator

AND THIS ISN'T NOT JUST A GROCERY BEHAVIOR...







# 12.1

The average amount of LSRs dined/taken out from in the past twelve months is now 12.1, up from 10.9 YAGO.

Customers are diversifying *all* aspects of their buying life, which can be troublesome for brands/chains that rely on repeat visits.

# LSRs are going through a change in how guests visit and dine

Along with inflationary and economic pressures, restaurants are seeing new trends in guest behavior. Taking price to combat those pressures and new eating trends may have a profound effect on current and future projections.

	% HOUSEHOLD PENETRATION	HHP $\Delta$ (IN BPS)	BUYRATE	BUY RATE $\Delta$	PURCHASE FREQUENCY	PF $\Delta$
	86.7%	175	\$432.49	3.0%	50.7	-0.9%
	69.4%	71	\$132.93	4.1%	10.5	1.0%
	68.3%	113	\$142.45	4.1%	10.9	1.5%
	66.3%	116	\$107.14	6.4%	7.5	2.4%
	66.2%	332	\$235.17	22.2%	12.8	12.7%
	65.5%	22	\$113.68	3.0%	9.6	-3.1%

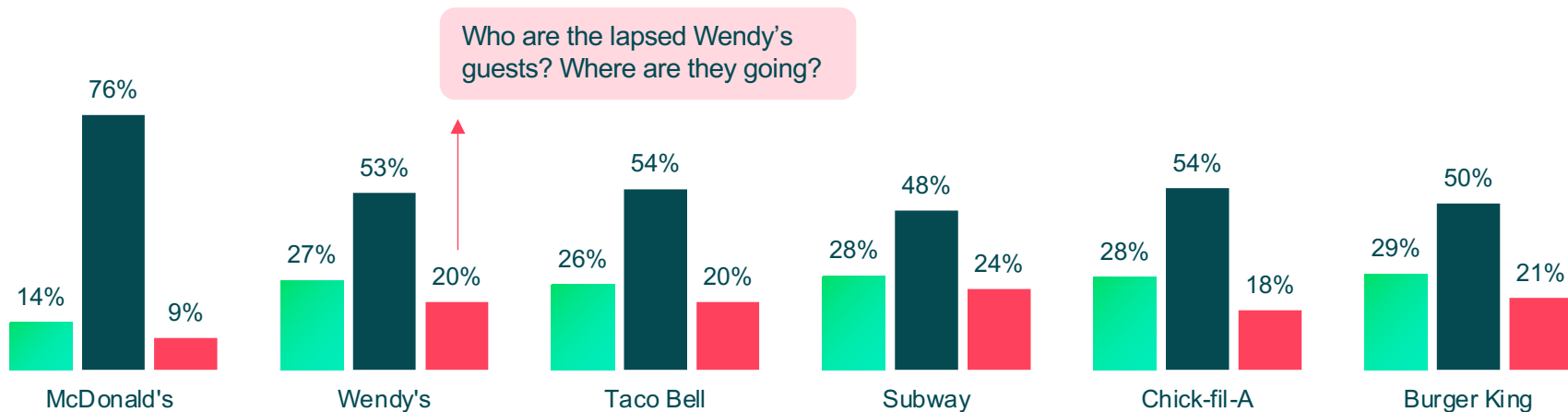
# Although household penetration remains strong, guest churn is happening beneath the surface

Americans are visiting more restaurants, driving varied new and repeat rates—which are a restaurant’s foundation. But many top restaurants churn ~50% guests year-over-year. *Just because there is growth does not mean it will be sustained.*

## LAPSED, REPEAT, NEW BY KEY CHAINS

% of Guests

■ New Guests ■ Repeat Guests ■ Lapsed Guests





# Lapsing behavior leads to losing valuable guests

Relative to Total Wendy's Guests, lapsed ones skew Millennial, higher income, and families. They are more likely to avoid meat while seeking organic options and managing their health. *How can Wendy's engage this guest to regain their trips?*

## STANDARD DEMOGRAPHICS



### AGE

**Millennial** (24%,111)



### INCOME

**High Income** (29%,115)



### ETHNICITY

**Caucasian** (65%,101) and **Asian** (5.1%,135)



### LIFESTAGE

**Adult Couple** (18%,101), **Large, Young Family** (10%,109)

## PSYCHOGRAPHICS

### 'We do not eat meat'

(6%, 113)

### 'I do not use social media'

(14%, 122)

### '(Very) committed to Organic'

(16%, 108)

### 'We actively manage our health'

(21%, 111)

## PREMIUM PROFILING

### Top indexing professions

- Physician
- Marketing
- Legal/Law

### Top "Side Hustles"

- Task Rabbit
- Shopper (ie- Instacart)
- Restaurant/Bar Work



# Tracking lapsed guests is the first step to regaining their spend

LSR guests are diversifying and visiting more chains than YAGO. That holds true here for Wendy's, as these lapsed guests are spending their LSR dollars at Chick-fil-A and smaller (some regional) chains.



The Lapsed Wendy's Guest was spending **4.6%** of their total LSR dollars at Wendy's

Where is that spend going now that they've left?

## CHAIN, CY SHARE OF WALLET, AND $\Delta$ VS. YAGO

### Top Chains by Share of Wallet



**17.0% SoW**  
-105 bps vs. YAGO



**10.0% SoW**  
-3 bps vs. YAGO



**7.9% SoW**  
+134 bps vs. YAGO

### Top Chains by Share of Wallet



**1.9% SoW**  
+34 bps vs. YAGO



**4.5% SoW**  
+34 bps vs. YAGO



**1.3% SoW**  
+29 bps vs. YAGO

Note: CFA is also the top gaining chain

# Reengaging lapsed guests in this economy: key takeaways

## DIVERSIFICATION

Shopping and dining decisions are more diverse than ever. Not only are Americans visiting more stores in total— they are diversifying their restaurant visits too.

## GUEST CHURN

All chains go through guest churn, and learning more about these lapsed guests helps guide successful re-engagement.

- Lapsed guests represent over 20% of Wendy's two-year guest traffic.
- These guests skew higher income Millennial and are shifting their spend to Chick-fil-A as well as smaller and regional chains.

## BOTTOM LINE

How are lapsed guests affecting Wendy's bottom line?

- When lapsed guests were still going to Wendy's, they were responsible for nearly \$1B in revenue the period prior.

# Share of Wallet Leakage



# Key Metric to Know: Share of Wallet



## Share of Wallet

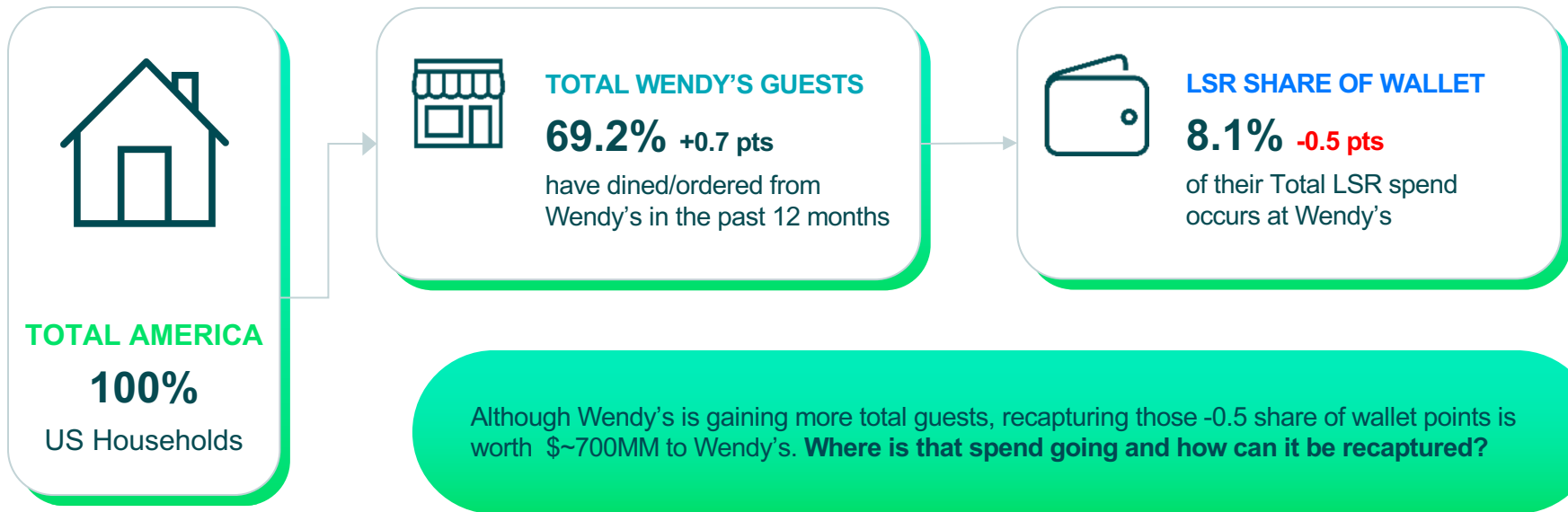
Panel-based metric that is “the percent of category share that your chain captures out of the total channel’s guests (including both closers and non closers).”

**Calculation:** Total LSR Spend by a specific restaurant’s guests at that store / Total Category Spend by a specific store’s guests (including category closers and non-closers) across all chains



# Wendy's leaky bucket is costing the restaurant millions in revenue

Wendy's closure rate is up vs YAGO, but gains in closure are drastically offset by losses in Share of Wallet. *Wendy's decreased share of wallet is one of the biggest reasons for its lack of revenue growth.*

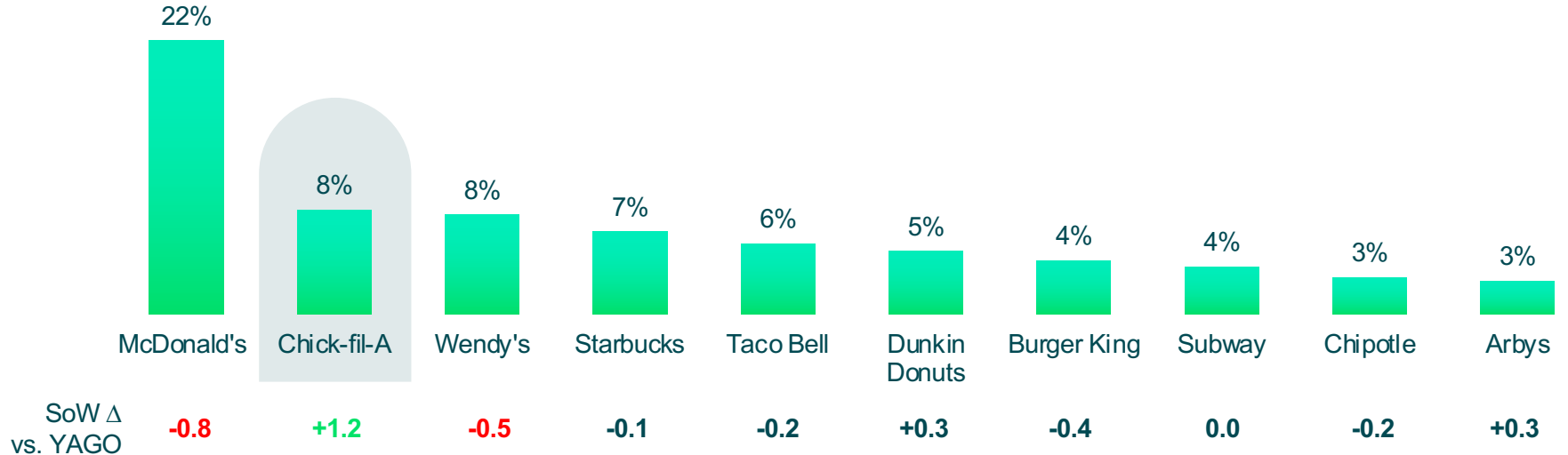


# “Southern Hospitality” is winning spend away from Wendy’s

Wendy’s Guest Share of Wallet is scattered across 100s of LSRs, but Chick-Fil-A has become the restaurant of choice. Why and to which categories are guests shifting their spend at CFA?

## WENDY’S GUEST LSR SHARE OF WALLET

% of Spend vs. YAGO



# No shock that it's chicken, but surprisingly, it's nuggets that lead the way

Furthermore, spicy chicken products make up two of the top six items. What is it about CFA that's winning guests away from Wendy's?

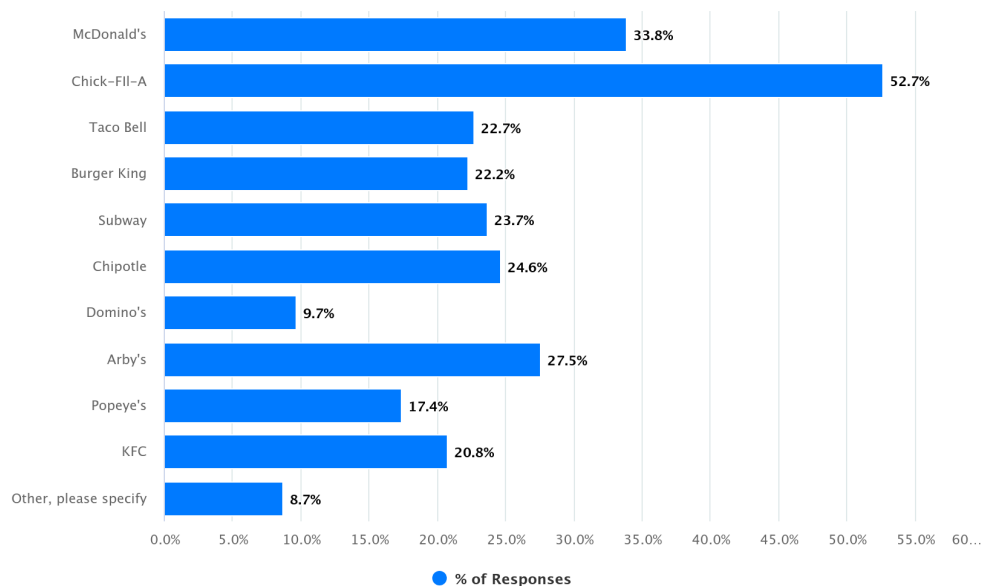
TOP ITEMS	% OF ITEM SPEND	AVERAGE ITEM UNIT PRICE	% OF TRIPS
Chick-fil-A Nuggets	18.9%	\$9.08	26.8%
Chick-fil-A Chicken Sandwich	16.4%	\$7.26	26.3%
Chick-fil-A Chick-n-Strips	5.0%	\$9.04	7.4%
Chick-fil-A Spicy Chicken Sandwich	4.8%	\$7.63	8.3%
Chick-fil-A Chick-n-Minis	4.3%	\$8.22	6.5%
Chick-fil-A Spicy Deluxe Sandwich	4.1%	\$9.19	5.9%
Chick-fil-A Deluxe Chicken Sandwich	3.8%	\$8.68	5.7%
Chick-fil-A French Fries	3.7%	\$1.85	24.2%
Chick-fil-A Cobb Salad	3.6%	\$9.62	5.2%
Chick-fil-A Chicken Biscuit	2.8%	\$5.16	5.7%

# And, hearing the “Why” behind lapsed guests’ “No Buy” will inform win-back strategy

We surveyed verified Lapsed Wendy’s customers to understand why they left and what would bring them back.

**QUESTION: What Fast Food chain do you prefer over Wendy’s?**

Lapsing Brand Survey, Wendy's – Jun 25, 2024 – Survey Responses



Lapsed Wendy’s customers preferred Chick-fil-A and McDonald’s amongst other top chains



# The reasons behind Wendy's lapsed guests' behavior spanned many needs and drivers

**QUESTION: Why have you stopped dining/ordering from Wendy's?**

## Top Reasons Customers Lapsed

- Service
- Convenience
- Price/Value
- Food Quality
- Decreased QSR behavior

**QUESTION: What would entice you to dine/order again from Wendy's?**

## Top Drivers to Win Them back

- Improved Service
- Improved Quality of Food
- Healthier Options
- Price/Value

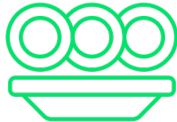
# Next, we explored what menu changes could drive return visits

QUESTION: What items would you like to see Wendy's add to their menu?

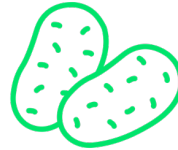
## TOP ITEMS LAPSED CUSTOMERS WOULD LIKE TO SEE



Salads



Onion Rings



Tater Tots



Dollar Menu Options



Alternative Drink Options



More Frosty Flavors



# Tracing Wendy's leaking Share of Wallet: key takeaways

## GUEST MIGRATION

In addition to lapsed guest understanding, leakage is the complement of guest migration.

## LESS SPEND

Wendy's saw more households "close" at their chain, but they are spending less of their LSR Share of Wallet at Wendy's (8.1%, -0.5 vs. YAGO)

- Spend is leaking to a variety of chains, but none more so than Chick-fil-A.

## NUGGETS

When looking at what Wendy's guests are buying at CFA, we see that nuggets lead the way. There are two spicy options in the top six items purchased by lapsed Wendy's guests.

## SURVEY

Lapsed Wendy's guests noted both in store and wider LSR factors for lapsing from Wendy's.

Improved food quality is a key driver to win lapsed guests back, as well as menu innovations.

- Salads, New Potato Sides, and a "Value" menu are key.

# Summary & Next Steps

## Economic pressures are driving household to behave differently

Americans are shopping at more stores and chains now than at any point in the past five years.

## Two forces are stealing Wendy's revenue

1. Lapsed guests are responsible for ~\$1B in revenue that is now flowing to Chick-Fil-A and "regional" players.
  - Higher Income Millennial Families are leaving the chain altogether.
2. Leaking guests are creating a Share of Wallet issue.
  - They are still going to Wendy's but are shifting their LSR dollars away from the chain.
  - Chick-Fil-A has benefitted most from this leaked spend: top items winning spend from Wendy's include Nuggets and Chicken Sandwiches.





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