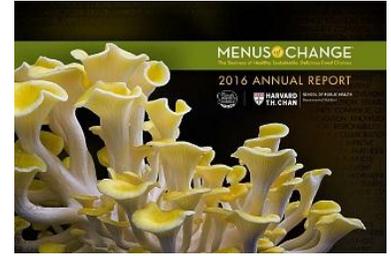


MENUS CHANGE[®]

From the 2016 Menus of Change Annual Report

CASE STUDY Investor Spotlight: Stifel

LOHAS It or Lose It



In December 2015, Paul Westra stood in front of a National Restaurant Association meeting of chief financial officers and declared that if you are in the restaurant business and you aren't addressing the "LOHAS movement," you're going nowhere. Westra is an equity research analyst covering restaurants for Stifel, an investment bank based in Baltimore, where he works as a "glorified scorekeeper," tracking who is losing and who is winning in the restaurant business and why. LOHAS stands for Lifestyle of Health and Sustainability; it includes everything from fitness culture and farm-to-fork dining to green cleaning products and taglines such as "free-range," "gluten-free," and beyond. Stifel estimates that LOHAS is already a \$150-billion supermarket business and is resonating with at least one third of American consumers. Stifel advises hundreds of institutional clients (i.e., those managing mutual funds) as well as individuals who are making decisions about investing in the restaurant industry, and LOHAS is at the core of their investing guidance.

One of the restaurant brands that most embodies Stifel's LOHAS ideal (and has the stock figures to show it) is Zoës Kitchen. The fast casual chain—which serves Mediterranean cuisine and encourages customers to "taste the many ways the Mediterranean lifestyle inspires goodness"—attracts customers for its brand identity of sustainable, all natural, wholesome, real food, made from scratch. According to Stifel, Zoës' sales trajectory indicates the potential for 10-fold growth, from the 150 locations they have now to 1,600. To Stifel, Zoës is the mathematical definition "that this LOHAS movement is true." But the power of the Zoës Kitchen brand, from Westra's perspective, extends beyond healthy Mediterranean food to the broader ethos of the Mediterranean lifestyle, which he describes as staying in shape and spending time outdoors, the same "psychographic profile" as consumers who do yoga. Stifel points to Roti Mediterranean Grill, whose tagline is "food that loves you back," as one of several other examples of successfully leveraging the broader Mediterranean lifestyle.

The focus on LOHAS doesn't mean operators must transition their menus to all vegetarian or make their brand 100 percent healthy, he says, but at least elevate the emphasis on better quality ingredients, and address the now mainstream request from diners to understand where

food comes from. “Whatever that means to your brand, it’s really important in today’s marketplace for that to be a part of it,” Westra says.

“Lifestyle” in the LOHAS definition goes beyond health and the environment, he explains. Take Shake Shack, for instance, which has tapped into what Westra calls “the experience economy,” where consumers, especially millennials, “want to be associated with brands that represent the values they believe in, and that represent our better halves, which includes how these companies treat the globe and how they treat their employees.” Shake Shack’s motto is “Stand for Something Good;” the company expresses that through ethical and transparent sourcing, donating to local communities, sustainable architectural design, and how it pays its employees. So Westra reports that Shake Shack does \$1,500 in sales per square foot, and notes that people will wait in line for 20 minutes for a burger not because of its nutritional value but because of how dining there becomes implicit support of the causes that Shake Shack represents. Stifel’s exact stock ratings for Zoës or Shake Shack will undoubtedly change from day to day, but generally speaking, it advises clients that LOHAS is a trend with staying power. It encourages clients to invest in the brands that have enthusiastic consumers, or “strong local influencers,” who champion the brand through habits like taking selfies while holding a Shake Shack bag in one hand.

Stifel insists that how companies do something is far more important than what they do—how they treat their customers, their community, their employees, and the planet. So what does that mean, exactly? Here are three rules of thumb Westra offers for designing a winning restaurant concept:

1. Think carefully about your three pieces of clay: the environment, the food, and the service.

Westra says the environment must be a from scratch kitchen, with high-quality ingredients. The food should be part of the LOHAS movement, because “that ties you to being part of a lifestyle brand, not just a restaurant brand.” And great service should come from again, the how of a company, specifically how it treats its employees. “People want to work for and patron brands that do things the right way...so that their consumers and employees effectively become brand ambassadors.”

2. Do more dinner sales than lunch sales; do more dine-in sales than takeout sales; and serve more women than men.

Westra reports that these three elements are required for a restaurant concept to make enough money that it’s worth building. He explains that lunch is very competitive, meaning consumers are less choosy about what they eat for lunch so they have low switching costs from one spot to the next. In addition, the barriers to entry for lunch are much lower than for dinner, i.e, you only need about \$25,000 to open a food truck and make sandwiches. The second reason is that brands don’t matter as much to people when eating at home, i.e, it’s rare to walk around your living room with what he calls “that self-esteem cup of Starbucks.” Lastly, women make three quarters of dining decisions, his data suggests, so they’ll choose where the entire family is going to eat on a given night. “What’s really exploding on the marketplace today is counter service restaurants that can do dinner, dine-in, and women,” Westra says. And what brand checks all of those boxes? Zoës Kitchen.

3. Understand your customers' purchasing behaviors beyond food.

Westra's consumer insights indicate that there are 52 types of people in America grouped by various types of purchasing behaviors. His research shows that most brands find that 20 percent of the types of people—about 10 of the 52 types—make up over 50 percent of their

sales. This means that it is critical to a foodservice operator's success to understand customers' "psychographic profiles": as opposed to demographic, psychographic relates to values, hobbies, how people spend their time, and so on. Stifel advises restaurateurs to find brands with which their foodservice brand can cross-pollinate, i.e. Athleta with Zoës, and locate new units near those places.

Ultimately, Stifel's investment strategy comes down to that old saying of those doing good doing well. "If you don't have a 'come to Jesus' speech for your employees about adopting LOHAS," he says, "you should." Because remember: LOHAS is not a fad or a trend. It's a movement.



HARVARD
T.H. CHAN

SCHOOL OF PUBLIC HEALTH
Department of Nutrition