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Analysis of the Upscale/Fine Dining Sector in the Restaurant Industry

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Analysis of the Upscale/Fine Dining Sector in the Restaurant Industry

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Executive Summary

Upscale segment of the restaurant industry makes up approximately 10% of total U.S. restaurant sales (Trends in Fine Dining, 2011a). Severe impact of the economic downturn on the fine-dining segment demonstrated the 13% decline in customer visits in 2009 what triggered steep decline in sales.

In 2011 industry experienced positive tendency and renewed interest to high-profile steakhouse chains and upscale seafood restaurants. As National Restaurant News stated "…fine-dining restaurants will remain popular as long as they continue to offer individuality, food quality and more casual setting …"(Trends in Fine Dining, 2011a). Trend of casualization in fine dining led to the implementing of two different concepts within one establishment: casual bar area with small-plate offerings and formal dining space for the whole experience.

Ruth's Hospitality Group, Inc. (Ruth's) is one of the leading companies in the segment that demonstrated positive trend in revenue within five years (2007- $319.17M, 2008 - $393.65M, 2009 - $344.63M, 2010 - $357.63M, 2011 - $369.57M) (Ruth's Hospitality Group, Inc., 2012a). Balance sheet of the company confirms Ruth's capability of paying its bills and investing in the future growth.

Dealing with economical factors, change in customer preferences and strong competition Ruth's proved the strength of the company with overall success. Leaders of the company use its competitive capabilities and resources with reasonable and fair adjustments in order to stay true to the tradition and culture of Ruth's, obtain the profits, expand nationwide and internationally.

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Industry Analysis

Introduction

The American restaurant industry was contributing and changing American culture since the early twentieth century (Huber, 2011). Significant development of the industry in early twenty-first century brought it to the nation's largest private-sector employer. Today industry employs approximately 12.9 million people (National Restaurant Association, 2012a). According to the projections the job count will increase to 14.1 million by 2020, what brings a very important point to consider: necessity of learning the major segment of the industry in order to operate effectively not only for the big strong chains but also small business owners (Akers, NA).

Restaurant industry in 2011 let the business owners to be more optimistic about the turn around after the first in 40 years decline in sales that lasted for three consecutive years because of the recent global downturn in the economy (Duff & Phelps, 2011).

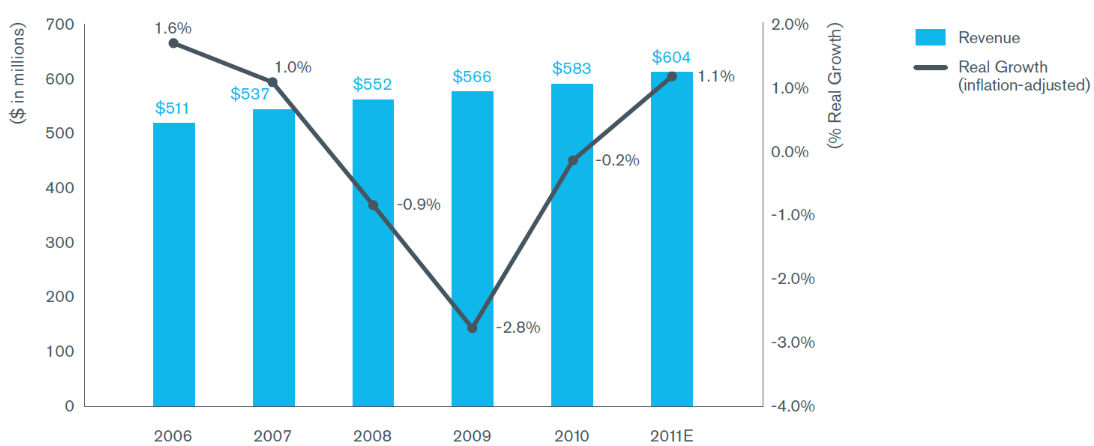


Figure 1. Restaurant Industry Sales Trend (Duff & Phelps, 2011).

Key trends that help the restaurant industry to keep the balance and improve the sales are mergers and acquisitions, driven by private equity firms with greater access to the capital markets; open credit markets with improved rates, terms and required equity contributions (Duff & Phelps, 2011) and the focus on the local sourcing, sustainability, and nutrition that top menu trends (National Restaurant Association, 2012b).

Upscale Segment Overview

Restaurant industry has four general segments according to the service customers receive: full service, quick service, eating and drinking place and retail host (Akers, NA). Full service dining locations do not require any food preparation by customer as well as service of food. Fast-food chains that offer buffets and take-out service represent quick service locations. Eating and drinking place sector includes caterers and refreshment stand vendors. And the retail host is located within the gas stations and retail-host restaurants (Akers, NA).

The 2011 Restaurant, Food & Beverage Market Research Handbook states:

> Fine dining restaurants are full-service restaurants with an upscale menu and extensive beverage offerings. The restaurants generally have a more sophisticated décor and ambiance, the wait staff is usually highly trained and often wears more formal attire, and there is often a dress code for patrons (Trends in Fine Dining, 2011a, p. 102).

Authors of The 2011 Restaurant, Food & Beverage Market Research Handbook also highlighted the most important factors that customers expect from the upscale dining establishment: food quality, service and VIP treatment (Trends in Fine Dining, 2011a, p. 103).

Fine dinning restaurants are generally classified as independents but in the last decade rapid growth of the higher end dining establishments in the full service segment like PF Changs, Legal Seafoods, McCormick and Schmick's, Ruth's Chris, Morton's and other brands was driven in some cases by corporate growth (Lagesen, NA, p. 38). Fast expansion in order to provide the customer with more dining options was delivered through acquisitions: Morton's and

McCormick and Schmick's were acquired by Texas based Landry's Inc. at the end of the year 2011, Mitchell Fish Market and Cameron Steakhouse were acquired by Ruth's Hospitality Group, Inc. in 2008.

According to the Restaurant Management Magazine 8 out of top 10 restaurants in fine dining segment experienced upward-trending sales numbers in 2010 (2012).

Table 1
Sales of the Leading Fine Dining Restaurants

Company	Sales ($000)			Units		
	2010	**2009**	**% change**	**2010**	**2009**	**% change**
Ruth's Chris Steak House	478,500 *	465,875 *	2.7	117	116	0.9
Morton's Steak House	296,126	281,104	5.3	77	77	0
Capital Grille	253,000	228,000	11	44	40	10
Melting Pot	224,500	229,350	-2.1	140	145	-3.4
Fleming's Prime	211,000 *	199,000	6	64	64	0
Fogo de Chao	130,000	141,000 *	-7.8	16	16	0
Texas de Brazil	121,000 *	110,000 *	10	16	15	6.7
Shula's Steak House	119,700 *	106,500 *	12.4	31	32	-3.1
Palm Restaurant	118,500 *	112,000 *	5.8	28	27	3.7
Smith & Wollensky	112,000 *	108,000 *	3.7	10	10	0
TOTAL	**2,066,366**	**1,982,838**	**4.2%**	**2,553**	**2,551**	**0.1%**

(Rmgt, 2012)

Upscale dining segment is trying hard to drive the sales up and keep them steady since

Figure 2. Customer Visits trend (The 2011 Restaurant, Food & Beverage Market Research Handbook) (Restaurant Industry Trends, 2012)

the customer visits to the fine dining restaurants have been declining in the past several years.

The profit of fine dining establishments depends for the most part on business entertaining, and the volume of the business people that charge their dinners on expense accounts declined dramatically as well. As the result upscale segment is reconsidering their offerings very carefully in order to be able to compete on the market and attract the customer. Since the consumers are still watching their spending majority of upscale dining restaurants went in the direction of new pricing strategies and innovations as well as casualization in fine dining.

Companies

Ruth's Hospitality Group, Inc.

History. Ruth's Hospitality Group, Inc. portfolio includes legendary Ruth's Chris Steak House brand, Mitchell's/Columbus Fish Market, Mitchell's/Cameron's Steakhouse brands, which were acquired by the Company in February 2008. Ruth Fertel found the Ruth's Chris Steak House in 1965 when she mortgaged her home for $22,000 to purchase the "Chris Steak House" that had 60-seats and was located in New Orleans, Louisiana (Ruth's Hospitality Group, Inc., 2010a). First franchise was opened in 1976 in Baton Rouge and started the growth of the company that was expanding and competing with other upscale steak houses that were getting on the market (Fundinguniverse, 2012a). With acquisition of Mitchell's Fish Markets, two Mitchell's Steakhouses and one Cameron's Steakhouse in February 2008 Company changed the name form Ruth's Chris Steak House, Inc. to Ruth's Hospitality Group, Inc. since it owned not only steak houses but also seafood restaurant (Ruth's Hospitality Group, Inc., 2010a).

Vision and Mission. "The mission of Ruth's Chris Steak House is to build a growing, profitable restaurant business in which the highest standards of quality, value and hospitality are expressed" (Fundinguniverse, 2012a).

Strategy. As stated in the annual report company's growth and strong competitive position reflect in its strategies of continuous sales and profitability improvement (consistency of food quality, educational programs for management, brand awareness through media and innovative marketing programs) and relationship expansion with New and Existing Franchisees by providing operational guidance and sharing "best practices" (Ruth's Hospitality Group, Inc., 2010a).

Ruth's Hospitality Group Competitors.

Fertitta's Morton's Restaurants, Inc.

History. *Morton's Restaurant Group, Inc. owns and operates Morton's of Chicago, a* high-end steakhouse restaurant chain and Trevi that offers Italian specialties. Arnie Morton and his partner Klaus Fritsch opened first Morton's, a Chicago steakhouse in 1978. Restaurant with the short and simple menu to be done by broiler cook, as well as already aged and cut meat developed by 1987 to \$ 12.4 million chain and was sold to Lexington Investment Co. First public offering of stock was made in 1992 when chain belonged to Quantum Restaurant Group, its first profitable year. Morton's of Chicago remained Quantum's high-end restaurant chain with trained chefs that prepare and present every dish to exact company specifications, with the same ingredients and recipes. Quantum Restaurant Group renamed itself in 1996 to Morton's Restaurant Group (Fundinguniverse, 2012b). December 16, 2011 Tilman J. Fertitta announced that his wholly-owned company, Fertitta's Morton's Restaurants, Inc. and his wholly owned subsidiary Fertitta Morton's Acquisition, Inc. have signed an Agreement to acquire 100% of Morton's Restaurant Group, Inc. (PR Newswire,2011).

Vision and Mission. *Fertitta's Morton's Restaurants, Inc. mission statement is* " Identify, acquire and grow time-tested restaurants groups which are clearly distinguished in their market niches". Two strategies were refined: expanding and replicating the continuing success of the Morton's of Chicago steakhouse and Trevi (Fundinguniverse, 2012b). Since Morton's of Chicago steakhouse accounts for the most part of the company's revenue it is important to mention the mission statement of the high-end steakhouse chain - "Our mission at Morton's The Steakhouse is always to exceed our guests' expectations" (Morton's, 2012).

Strategy. *Morton's business strategy is continuous focus on the mission statement, core* values and simplicity that will allow delivering an exceptional dining experience. As well as maintaining operating margins through a combination of menu price increases, cost controls, careful evaluation of property and equipment needs, and efficient purchasing practices (Morton's, 2012).

Il Fornaio Corporation.

History. *Creating Il Fornario Baking School and gathering centuries-old recipes from* different regions in Italy was the starting point for Il Fornario Corporation in the year 1972 – New Italian Bakery Concept. Concept was introduced to the U.S. in 1980 when the company acquired exclusive rights in the United States to the Il Fornaio trademark and to certain recipes that remained central to the company's bakery concept. Development of full-service restaurant with creatively prepared, premium-quality Italian cuisine based on authentic regional recipes was new business strategy in 1987. Restaurants, wholesale bakeries, and retail markets worked together to reinforce the image of Il Fornario's as a provider of authentic Italian food. Today Il Fornario Corporation owns and operates 22 full-service restaurants, two "Panificios" (wholesale bakeries) that produce fresh, handmade breads, pastries. In conjunction with the restaurant and bakeries, Il Fornaio also operates catering facilities at such prestigious locations as The Hotel St. Claire and The Garden Court Hotel in Palo Alto (Il Fornario, 2012a).

Vision and Mission. *Il Fornaio's mission is to provide customers with the most* authentic Italian experience outside of Italy by being students and teachers of Italian culinary traditions, preparations and presentations, by putting employees first so that customers can come first. Company realizes its mission by executing a profitable business strategy that rewards shareholders without compromising the quality of the products and by developing an atmosphere of camaraderie and fun in all endeavors (Fundinguniverse, 2012c).

Strategy. *Since company was acquired by Atlanta-based Roark Capital Group last year* in June it is not really clear what direction it will go and if the new private owner will shift away from the strategy of continuous growing and expanding of the concepts with pursuing the mission of the company.

Competitive Advantage. *Il Fornaio's strategy focused on differentiating its* restaurants from other restaurants in the Italian food segment by offering creatively prepared, premium-quality Italian cuisine based on authentic regional recipes (Fundinguniverse, 2012c).

Del Frisco's Restaurant Group, LLC.

History. *Del Frisco's Restaurant Group, LLC was founded in 1981 and has its* headquarters in Wichita, Kansas (Bloomberg BusinessWeek, 2012). Today with about 30 locations in more than 15 states Del Frisco's Restaurant Group operates two upscale steakhouse chains, Del Frisco's Double Eagle Steak House and Sullivan's. Together with casual chain Del Frisco's Grille restaurants company offers service of premium cuts of beef along with seafood, lamb, and pork dishes as well as an extensive wine list. Del Frisco's Restaurant Group controlled by Dallas-based private equity firm Lone Star Funds that filed to go public in 2012 (Hoovers, 2012c). Formerly company was known as LSF5 Wagon Investments, LLC and changed its name to Del Frisco's Restaurant Group, LLC in 2006 (Bloomberg BusinessWeek, 2012).

Vision and Mission. *Research of the company demonstrated that mission and vision are* not defined clear, but their webpage gives one loud statement that describes their culture "Do Right and Fear No Man" (Del Frisco's Restaurant Group, LLC, 2012a). Company strives to embody the "rich tradition of fine American steak houses, amazing guests through the impeccable chef-driven cuisine, extensive award-winning wine list and unparalleled hospitality" (Del Frisco's Restaurant Group, LLC, 2012a).

Strategy. *Main strategies that Del Frisco's pursues are focused on the growth of the* company through disciplined new unit expansion, growth of our existing restaurant sales and further growth of private dining business (Del Frisco's Restaurant Group, LLC, 2012b

Companies' Key Performance Indicators

Each level of operations in the company has its objectives that are defined as key performance indicators. For the upscale segment of the restaurant industry there are several indicators that could be used: guest/check average, sales, average volume per unit.
Guest/check average is easy to find by dividing revenues by the guest counts for a certain period of time. The check average data is usually presented in the annual filing of the company. It reflects menu price influences, menu mix and helps to track guest's preferences in order to achieve effective menu changes and successfully balance the price.

Sales reflect the financial performance of the company. This indicator allows evaluating the execution of the organization from period to period or company's performance in comparison to the rivals on the market and industry average.

Average volume per unit is calculated by dividing the sales of the company for the fiscal year by the number of units (restaurants) that are in the operations.

Table 2
Key Performance Indicators

Indicator	Ruth's Hospitality Group	Fertitta's Morton's Restaurants, Inc.	Il Fornaio Corporation	Del Frisco's Restaurant Group, LLC
Guest Average	$70	$97-$99.19	$15-30	$58-98
Sales (in thousands)	$357,625	$296,130	$232,400	$52,500
Average volume per unit (in thousands)	$2,730	$3,846	$5,000	$1,750

(Yahoo Finance, 2012a)

External Environment Analysis

General Environment

Environment that company operates goes far beyond the industry and even farther than the industry segment where company has business. That environment is defined as company's Macro-Environment and has seven components that have potential to affect the company and its competitive environment: trends of technology, demographics, economic conditions, political and regulatory factors, social forces and global factors (Thompson, Peteraf, Gamble, & Strickland, 2011). These entire factors can influence the company in different ways and to different degrees, but company itself has no power to make an impact on the macro-environment (P. Boyd, personal communication, March 2012).

External drivers of the upscale dining segment in the restaurant industry are per capita disposable income, employment status, healthy eating index, consumer spending and consumer sentiment index.

Per capita disposable income determines the ability of the population to spend money on goods and services. Rising corporate profits and boosted customer sentiment led to the positive 0.9% in 2010, but the lower income population will still remain under the pressure of rising prices. Wealthier group will be influenced by the tax rates and rising prices on the high end and luxury goods that will slow down the real income growth in 2013-2017 (IBISWorld, 2012a). This trend defines limited amount of visitors to the restaurants within the time period 2013-2017, especially fine dining establishments.

Figure 3. Principal Key External Driver. Per capita disposable income change (IBISWorld, 2012a).

Employment status is positively correlated with the dining out and choice of where and how often. Rising national unemployment rate can negatively affect the restaurant traffic, the upscale segment specifically. As research shows dining out by full-time employed adults was consistent in the past three years what can turn the trend around because of rising trust and confidence of the population (Packaged Facts, 2012).

Healthy eating index is the percentage of a recommended diet that an average American consumes. The overall trend towards vegetable drove up the vegetable prices as well as produce prices that where affected by high oil prices for the most part. Another trend is low-carb, high-protein diets that will increase the meat consumption. Recovering economy and growth in the income leads the overconsumption of the produce and drives the healthy index down (IBISWorld, 2011b).

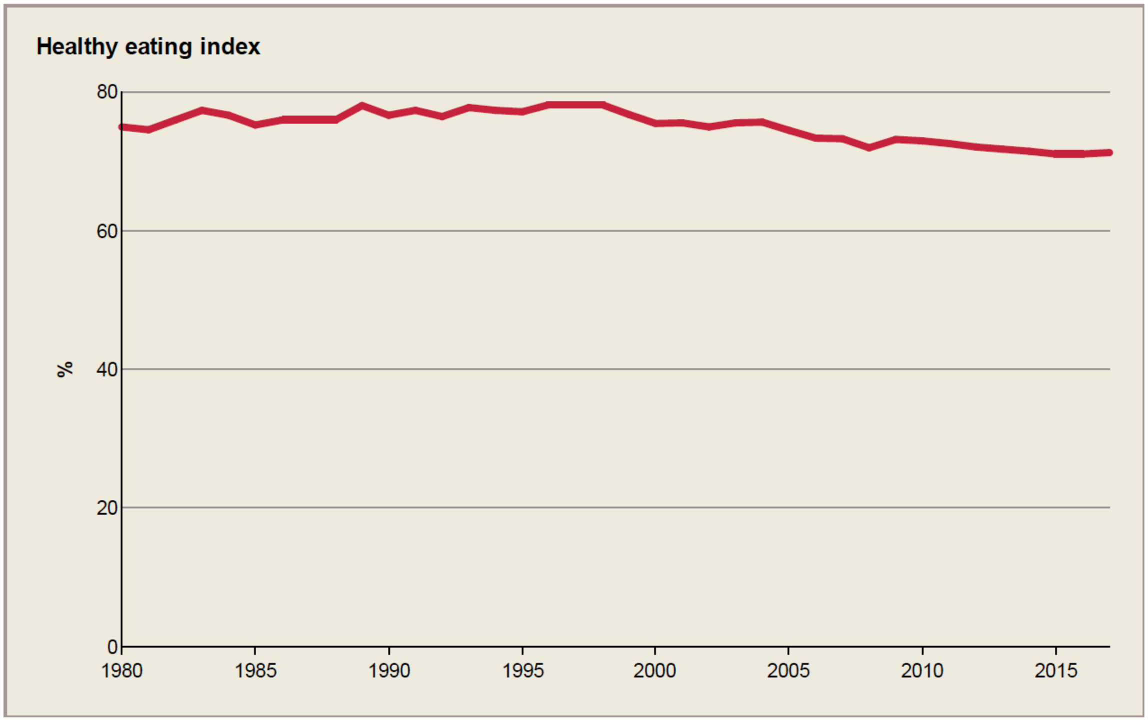


Figure 4. Principal Key External Driver. Healthy Eating Index. (IBISWorld, 2012b).

Consumer spending is defined as amounts spent by the population on services and goods inside the country and abroad. Extended payroll tax cut was favorable government policy that will support the growth of spending power. Brighter outlook of the economic recovery and higher employment drive the increase in consumer spending rather than savings (IBISWorld, 2011c)

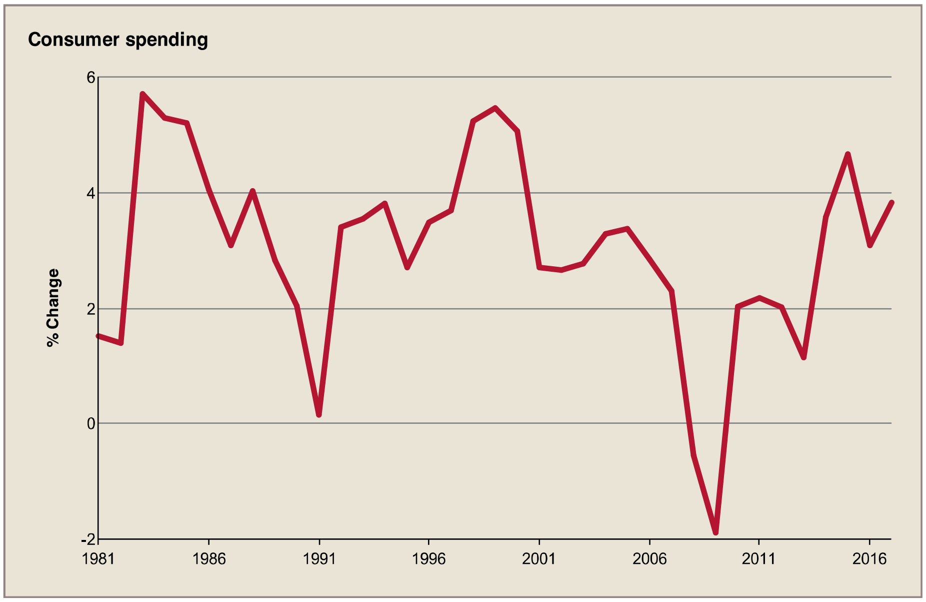
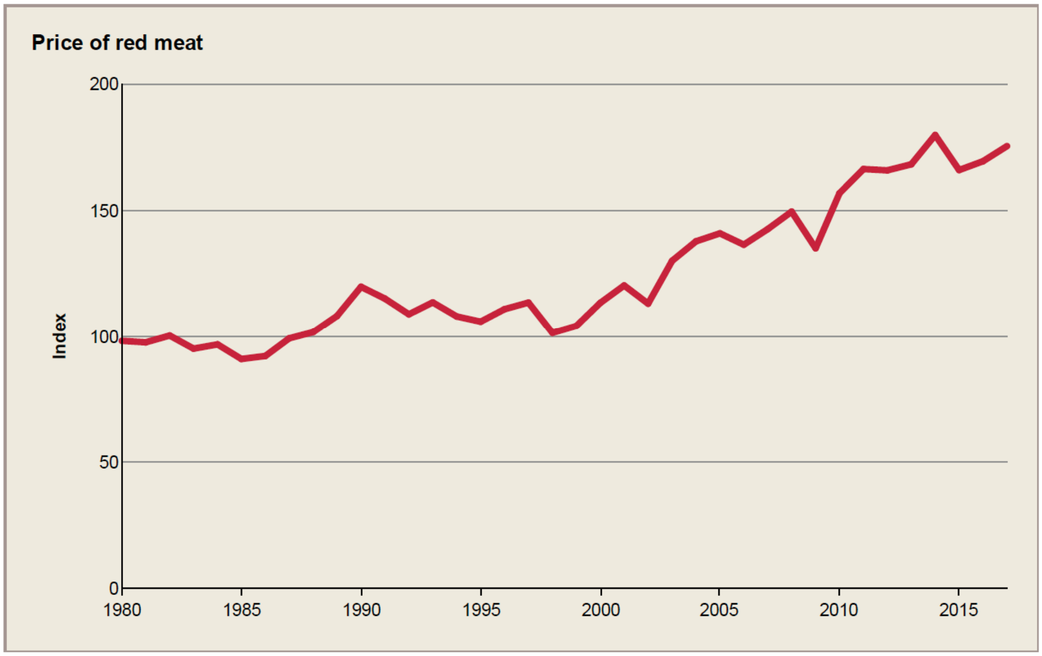


Figure 5. Principal Key External Driver. Consumer spending (IBISWorld, 2012c).

Consumer sentiment index was affected by growing corporate profits in the last two years and ability of businesses to keep wage costs down by restoring the stock portfolios and generating income. All of that stimulated the customer sentiment. Population finally experienced a slight relief because of getting on the way of stabilization. In April 2012 consumer sentiment index reaches its highest for the last year that will be reflected hopefully later in the increase of restaurants visits (Woeller, 2012).

Price of red meat and beef consumption, two external drivers that move in opposite directions. Red meat especially beef and pork have been in higher demand till the consumer preferences, diet concerns and price point change the trend. Preferences shift towards the poultry did not affect the increasing price of the red meat because oil prices went up simultaneously. Beef consumption decreased because of health concerns and consumers awareness of the outbreaks (IBISWorld, 2011d). Both drivers negatively affect the upscale restaurant industry because increased prices on beef increase the food costs and declined beef consumption leads to the choice of cheaper product like fish and poultry that bring less income.



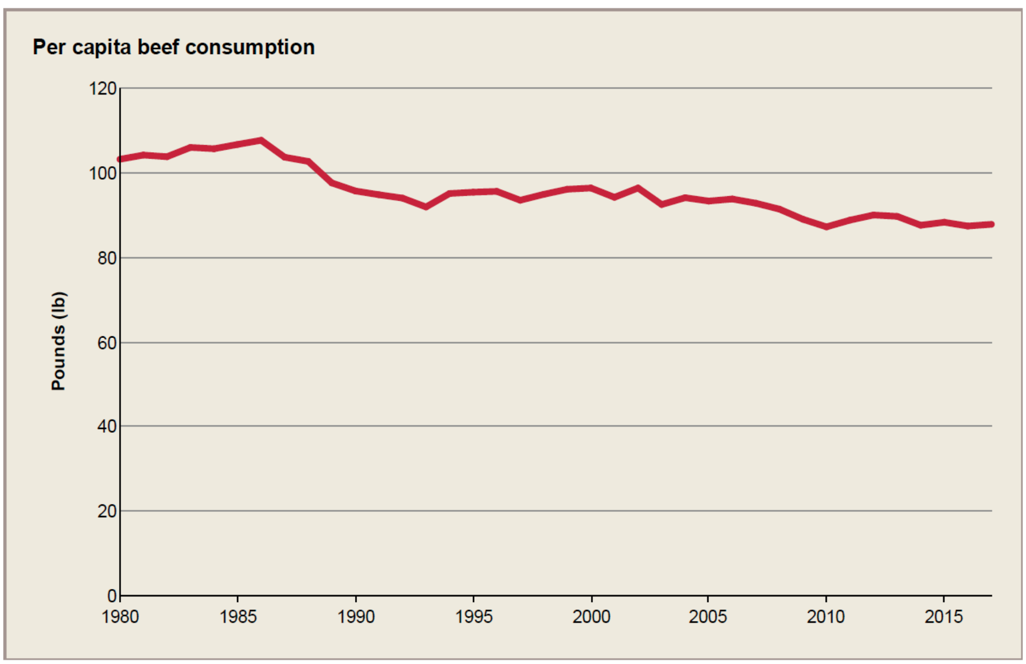


Figure 6. Principal Key External Drivers. Price of Red Meat. Per Capita Beef Consumption. (IBISWorld, 2011d).

Trends and Factors of Technology

Going mobile and moving faster is the technology trend in the restaurant industry that shapes all the segments through different innovations. Use of a smartphone and ability to access restaurant booking system from anywhere decreased the number of phone calls for reservation as well as allowed the restaurant operators to gather certain data for marketing purposes. Another trend is “check in services” like Foursquare that represents “context-aware” type of advertising and attracts the customer with its sophistication. Mobile payment system like GOOGLE wallet that stores all the credit cards and loyalty cards as well as enables redeeming of promotional offers will speed up the payment process and secure the customer information (Packaged Facts, 2012).

Demographic Factors

Results of survey conducted by Packaged Facts in June 2011 revealed that population of age 24-35 is the most frequent visitor to the fine dining establishments – 31% compared to other age groups; based on the income the leader is the population with House Hold income of $100K+ (2012). Returning back to growth economy influenced the earnings of the higher income households and showed a slight increase over the past two years; according to the IBISWorld the momentum will retain and by 2016 growth rate will reach 22.9% (2011). That is great insight for the marketing department of the fine dining segment to study the preferences and address them as well as it is a clear target for the attraction.

Economic Factors

Still low measures of consumer sentiment and cautiousness of firms about the full-speed operations, still weak labor market conditions and slight gains in manufacturing production as well as elevated risk premiums indicate slow process of economic upturn. But the situation will improve cautiously through 2014 with bringing positive outcome for all the industries as well as fine dining sector of food service (Packaged Facts, 2012).

Political Factors

There are many policies and regulations that can affect the upscale segment of the restaurant industry, many of them related to the health and food issues, jobs and career as well as profitability of the business.

If final regulations that are related to nutrition disclosure issues will be published in 2012, when the law takes effect, restaurants with 20 or more locations will be required to provide calories on menus (National Restaurant Association, 2012c).

There are two bills still pending in Congress to make the 15-year restaurant depreciation schedule permanent, which will allow restaurants to write off, or depreciate, the cost of improvements and new construction over 15 years, rather than 39 years. This uncertainty is holding many companies from capital expenditures since it reduces the cash flow by approx. 4.1 K a year (National Restaurant Association, 2012c).

Business meal deduction from 100 percent to 50 percent in 1992 decreased the profitability of restaurants and affected the upscale segment that is heavily relies on conference room business. Proposed 80 percent business meal deduction would increase business meal sales by $7 billion (National Restaurant Association, 2012c).

Sociocultural Factors

Sociocultural forces that include attitude of the society, families' lifestyles and change in values impact the industry over the time. Shift in preferences is obvious: people are looking for healthy and freshly prepared food, leaning towards premium products and value. Another trend is that people prefer to eat home to going out, which was the consequence of the economical downturn. The NDP group defined two different mindsets when it comes to spending: people that spend free and those who cannot. It is clear that dichotomy between these two groups shapes the restaurant segment of upscale dining. The agency defined that 24 percent are optimists and 76 percent are controlling their spending (Restaurant Industry Trends, 2012).

Global Factors

Global forces correlate with the economic situation in the world that is slowly reviving and demonstrating healthy indicators. Another factor that can influence the industry – change in climate. Environmental matters lead to new initiatives of reducing water consumption and pressing with tax on the emission. Paying out the tax and possible requirements of equipment change can create extra operational costs for the companies.

Industry Environment

In order to analyze the industry environment of upscale dining segment, define competitors and mark the position of the company Porter's Five-Force Model will be used. Five-Force Model of Competition is the most powerful and useful tool in order to diagnose the competitive pressure in the industry. It enables to identify different parties that are involved and specific factors that bring about competitive pressures (Thomson et al., 2012).

The five-Forces Model of Competition

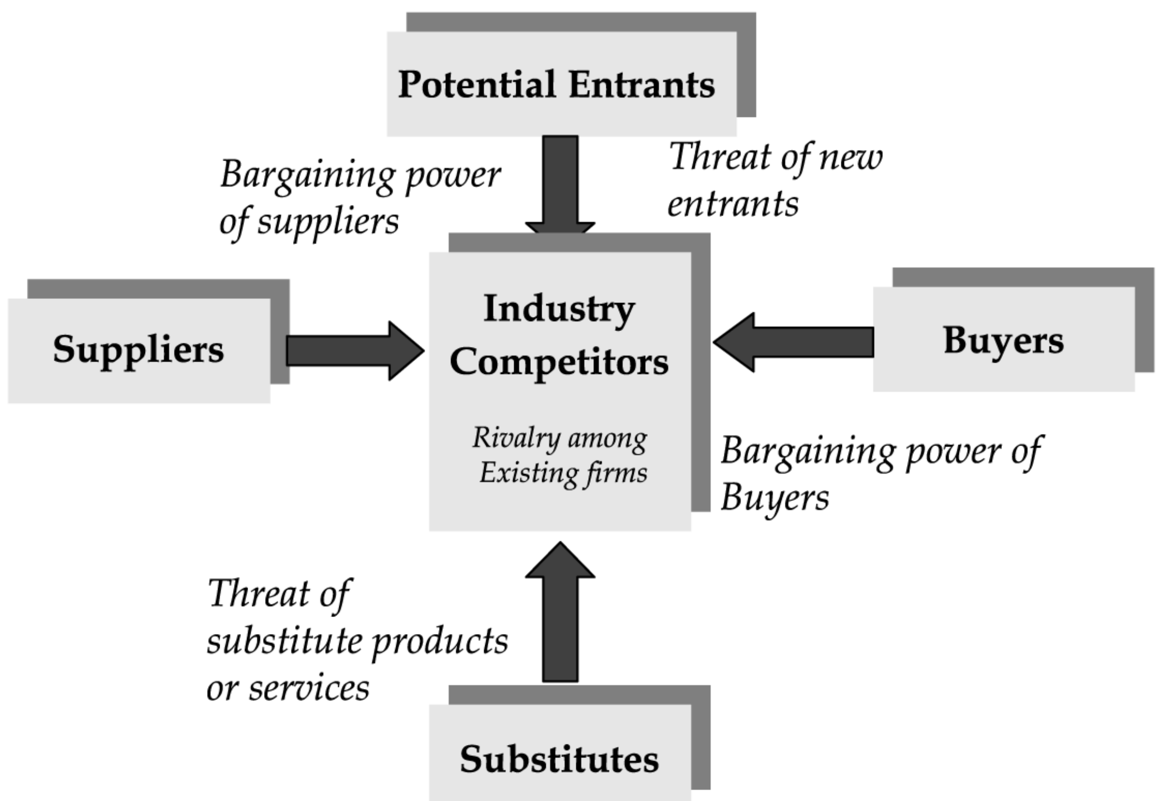


Figure 7. *Porter's Five-Forces Model of Competition (Thompson et al., 2011).*

Rivalry. The upscale segment in restaurant industry is highly competitive because of slowly growing buyers' demand, no cost of choosing another restaurant to dine, substantial amount of restaurants. Customers are expecting great value of food and quality of service with respect to price and promotions. Revenues of the restaurants depend on customer traffic that can be influenced by strong and aggressive marketing. Competitive advantage can be also obtained through changing prices and differentiating strategies.

Threat of new entrants. The threat of the new entrants is extremely high because of low entry barriers. Buyers' demand is in the stage of growing after the economic downturn and promises to be steady. Product differentiation is relatively weak because all the upscale restaurants are offering the highest quality product and striving to provide quality service. Capital requirements to start a new business are relatively low. The cost of opening of a new restaurant is on average $500,000 (Restaurant Owner, 2012). That is relatively low to start up a new business. Another factor is franchise component of the industry that allows new business owners obtain equipment, premises, furniture from the owner, which lowers initial cost of a start-up (IBISWorlde).

Threat of Suppliers. Suppliers' bargaining power in upscale segment of the restaurant industry is very weak, since each company in the segment accounts for the big fraction of the supplier's sales. For example Ruth's company owned restaurants purchase more than 60 percent of their USDA Prime and Choice grade beef from one supplier, more than 80 percent of their seafood is purchased from two vendors (Ruth's Hospitality Group, Inc., 2012b). The reason behind it is maintaining consistent quality throughout all the restaurants in the chain. The cost of switching to a different supplier is relatively low as well as there are good substitutes for supplier's product.

Threat of Buyers. Buyers' bargaining power is very strong due to absence of switching costs when choosing different restaurant to dine. Customers are very well informed about the pricing and quality of the product that upscale segment offers as well as there is an option existent of postponing the visit to the fine dining establishment. In todays slowly reviving economy buyer is very price-sensitive, which puts upscale segment on the spot of reconsidering their price point and offering the alternative.

Substitutes. Competitive pressure from the sellers that offer substitute products goes both ways: if there is a substitute of equal quality available there is almost no difference to switch over and customers loyalty comes in to play as well, but if guest is looking for quality food with less focus on the overall experience and atmosphere that fine dining offers they switch to lower cost provider, casual dining.

Strategic Group Map

In order to assess the market positions of a key competitor it is helpful to use strategic group map. The competitive characteristics that differentiate fine dining restaurants in the segment of the restaurant industry are amount of units (geographical coverage), check average (price range) and sales. According to the results of the group mapping it is clear that Ruth's Hospitality Group, Inc. is located in the favorable position with high level of geographical coverage and relatively high price range. In terms of the amount of units Darden Inc. can be one of the competitors, but Darden, Inc. offers different types of restaurants with casual service, there are not many steak houses on the list that can compare to Ruth's. On the other hand Morton's is a strong competitor, but Ruth's has advantage of the price range that matters today more than ever and geographical coverage.

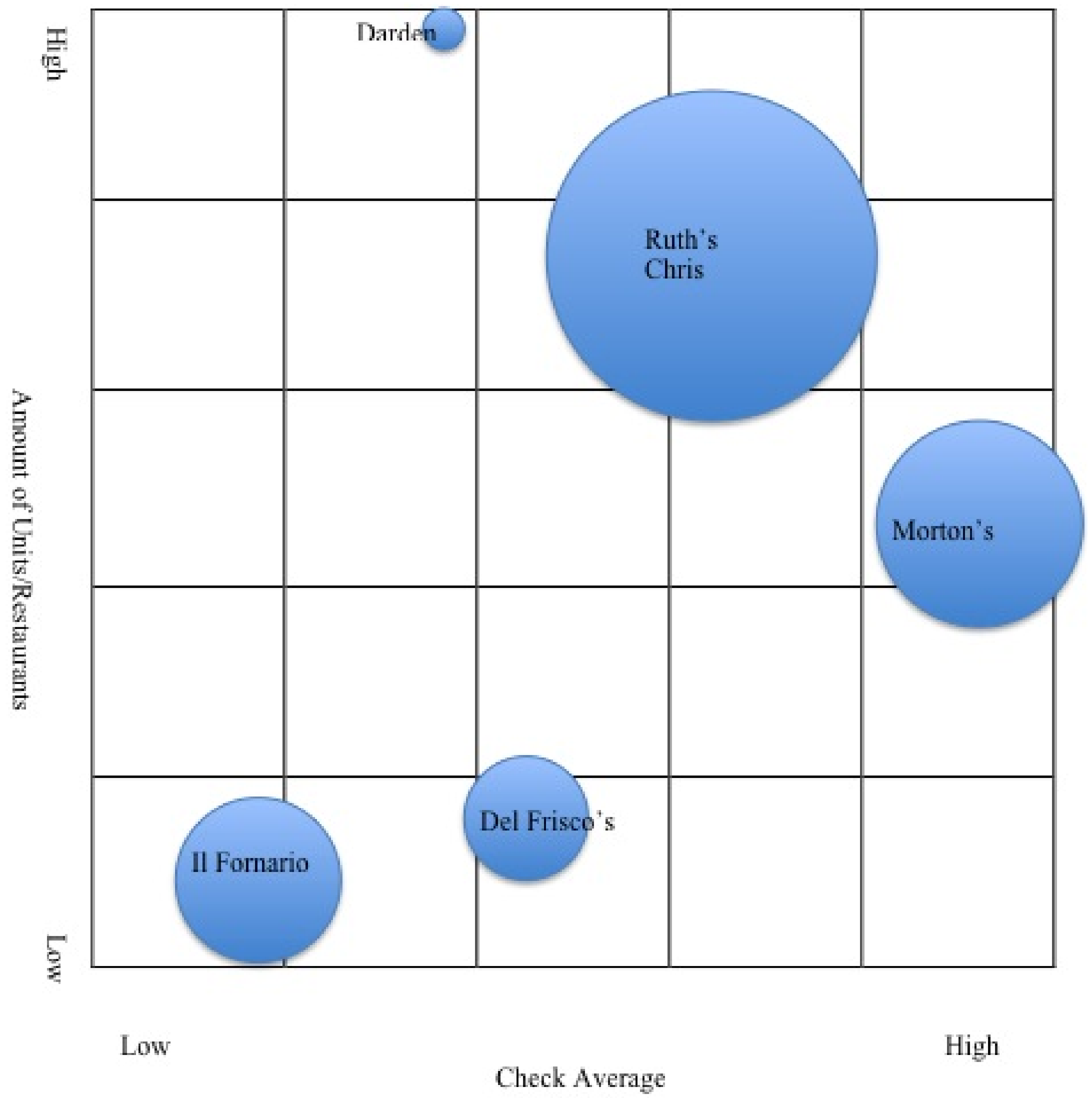


Figure 8. *Strategic Competitive Group Map. Circles are drawn roughly proportionally to the worldwide market share of the company*

Competitor Environment

Restaurant business is very competitive in general and highly fragmented. Upscale segment of the industry is competing based on the quality of the food, price, customer service, reputation of the brand name and locations. Upscale chain restaurants that offer prime quality steak and seafood compete with family owned restaurants in their markets and within the region or nationwide. Level and degree of the competition depends on the degree of rival's establishment in the market where company intends to expand (Ruth's Hospitality Group, Inc., 2012b). Competition increases due to amount of culinary schools graduates that enter the industry with intention to provide that fine dining and introduce their skill. Revenues of the restaurants in the upscale segment depend on the business travel and corporate dinners at higher degree than in casual segment (Morton's, 2010). According to the Inc.com the best places for business dinner are only fine dining restaurants (2012).

Current Strategies and Future Objectives

Most of the upscale segment chain restaurants are focused on the expansion strategy nationwide or internationally. Companies strongly believe that one of the best ways to grow the revenue is opening of new units. Another strategy that is common for the segment is focus on sales and profitability through marketing, cost control, monitoring of financial statements and quality control (Del Frisco's Restaurant Group, LLC, 2012b) (Ruth's Hospitality Group, Inc., 2012b). One of the future objectives is improvement of customer service that is critical for fine dining overall experience and is a differentiating point in restaurant industry. Close attention to the changes in the customer's tastes and preferences and adequate reaction to it are critical objectives in order to be attractive to the guest and generate the revenue.

Driving Forces

Many of driving forces come from the external environment, but many of them are generated in the competitive environment. The key driving force of the upscale segment in the restaurant industry is marketing of the product as well as the way of differentiating the product from other competitors. Providing and maintaining great quality product under the brand name is another driving force in the fine dining industry.

Key Success Factors

According to the IBISWorld (2011f) there are several key success factors:

- Ability to react fast and adequate to the changes and regulations in areas of food safety and handling;
- "Access to multi-skilled and flexible workforce". In order to meet customer demand due to the seasonality of the business it is important to be able to obtain skilled and trained staff (IBISWorld, 2011f).
- "Ability to control stock on hand" (IBISWorld, 2011f). Cost control can improve profit.
- Adaptability of new technologies will increase profitability and lower the cost of labor.
- "Proximity to key markets" (IBISWorld, 2011f). Following customer's preferences in favorable location increases guest traffic.

Internal Environment

Tangible Resources

Tangible resources of a company are represented with physical resources, financial resources, organizational resources and technological assets (Thompson et al., 2012). Ruth's Hospitality Group, Inc. has 131 Ruth's Chris Steak House restaurants (63 are company-owned and 68 are franchisee-owned), operates 19 Mitchell's Fish Markets and three Cameron's Steak House restaurants. Geography of the locations goes beyond the U.S. boundaries; there are Ruth's Chris restaurants in Aruba, Canada, China, Mexico, Japan, Taiwan and United Arab Emirates. (See Appendix A) Restaurants range in size from approximately 6,000 to approximately 13,000 square feet with approximately 180 to 375 seats across the board in all the concepts of the Company. Future expectations for new opened restaurants range from 8,000 to 10,000 square feet with approximately 230 to 250 seats (Ruth's Hospitality Group, Inc., 2012b).

Total revenue for the fiscal year 2011 was $369,573 thousand that included $353,606 (95.7%) thousand from restaurant sales, $12,464 (3.4%) thousand from franchise income and other operating income brought $3,503 (0.9%) thousand. There is a slight difference between Steak house restaurants and Seafood restaurants of the company in terms of the sales mix: average check of the Ruth's Chris is $70 and Mitchell's Fish Market - $35; wine sales account for 64 percent of liquor sales in Ruth's Chris, at Mitchell's Fish Market it is only 49 percent (Ruth's Hospitality Group, Inc., 2012b).

Company is using point-of-sale system that provides efficiency to the company by generating financial and marketing reports and reducing corporate and administrative costs and time. Company's corporate system provides management with performance reports and restaurants comparison data from previous data (Ruth's Hospitality Group, Inc., 2012a).

Financials

Balance Sheet Analysis

Table 3
Balance Sheet

	Dec 24, 2011	Dec 25, 2010	Dec 26, 2009
Assets			
Current Assets			
Cash And Cash Equivalents	3,925	5,018	1,681
Short Term Investments	-	-	-
Net Receivables	14,338	13,649	11,640
Inventory	7,358	7,521	7,368
Other Current Assets	1,448	1,314	1,346
Total Current Assets	**27,069**	**27,502**	**22,035**
Long Term Investments	-	-	-
Property Plant and Equipment	99,154	105,151	114,204
Goodwill	22,097	22,097	22,097
Intangible Assets	49,346	53,056	53,880
Accumulated Amortization	-	-	-
Other Assets	3,626	4,468	3,953
Deferred Long Term Asset Charges	38,928	36,795	38,246
Total Assets	**240,220**	**249,069**	**254,415**
Liabilities			
Current Liabilities			
Accounts Payable	30,055	29,240	23,152
Short/Current Long Term Debt	-	-	-
Other Current Liabilities	36,264	36,623	36,936
Total Current Liabilities	**66,319**	**65,863**	**60,088**
Long Term Debt	22,000	51,000	125,500
Other Liabilities	5,333	6,023	6,419
Deferred Long Term Liability Charges	23,037	22,284	20,643
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**116,689**	**145,170**	**212,650**
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	23,891	23,538	-
Preferred Stock	-	-	-
Common Stock	341	339	236
Retained Earnings	(101,225)	(118,282)	(132,061)
Treasury Stock	-	-	-
Capital Surplus	200,524	198,304	173,590
Other Stockholder Equity	-	-	-
Total Stockholder Equity	**99,640**	**80,361**	**41,765**

Note. (Yahoo Finance, 2012a)

Overall the financial situation of the Ruth's Hospitality Group, Inc. demonstrates positive trend from the previous years: decreased Total Liabilities, increased Total Stockholder Equity and relatively stable Total Current Assets.

Decrease in total assets by 3.6% depends for the most part on the change in plant and equipment assets (-$5,997) and intangible assets (-$3,710). Decrease in plant and equipment assets is the result of closure of one of the Company-owned Ruth's Chris Steak House in the fiscal year as well as accumulated depreciation. There are no others restaurant opened due to new position of the CEO in terms of focusing on existent property and its marketing and filling the pipeline for new developments for the coming 2012 (Seeking Alpha, 2011). Depreciation is computed on a straight-line basis over the estimated useful lives of assets (Ruth's Hospitality Group, Inc., 2012). Intangible assets change is the result of the annual impairment test that reduced the value of the Mitchell's Fish Market trademark to $9,2 million (30 %) (Ruth's Hospitality Group, Inc., 2012b). Despite the recorded deficit of $101,225 in retained earnings company managed to increase the total stockholder equity to $99,640 what makes a 20% increase compared to 2010 and 68% increase compared to 2009. Positive trend from the previous 2010 and 2009 in retained earnings was possible due to increased Net Income over the past two years which also allowed the Company to pay out some of the preferred stock dividend in the amount of $2,178 in 2010 and $2,493 in 2011.

Even though Balance Sheet of the Ruth's Hospitality Group shows ability to pay their liabilities and have resources for growth, current liabilities in 2011 increased due to potentially longer collection period or change in the collection methods (accounts payable), because negative trend is clear if compared to the previous 2010 and 2009 fiscal years (-$815, -$6,903).

Analysis of Total Liabilities demonstrates that Ruth's did better in 2011 compared to the previous two years which is reflected in the decrease of liabilities by $28,481 (20%) in 2010 and $95,961 (80%) in 2009. The change was the effect of the decreased long-term debt. The amount of $29,0 million was paid out to senior credit facility in the fiscal 2011 with an aggregate of $22,0 million outstanding at the interest rate of 3.56% and approximately $103.4 million available for borrowings.

In addition to the Balance Sheet analysis it is important to mention that the Company entered new Credit Facility Agreement with Wells Fargo Bank that allowed reducing the overall facility by $29.6 million, reduce commitment charges and fees and extend the maturity of borrowings to February 14, 2017 (Ruth's Hospitality Group, Inc., 2012).

Key ratio analysis.

Table 4
Key Ratios

Fiscal Year	
Fiscal Year Ends:	Dec 25
Most Recent Quarter (mrq):	Dec 25, 2011
Profitability	
Management Effectiveness	
Return on Assets (ttm):	6.91%
Return on Equity (ttm):	16.79%
Income Statement	
Revenue (ttm):	369.57M
Revenue Per Share (ttm):	10.84
Qtrly Revenue Growth (yoy):	7.10%
Gross Profit (ttm):	76.70M
EBITDA (ttm)[6]:	42.13M
Net Income Avl to Common (ttm):	12.87M
Diluted EPS (ttm):	0.39
Qtrly Earnings Growth (yoy):	-43.60%
Profit Margin (ttm):	5.29%
Balance Sheet	
Total Cash (mrq):	3.92M
Total Cash Per Share (mrq):	0.12
Total Debt (mrq):	22.00M
Total Debt/Equity (mrq):	17.81
Current Ratio (mrq):	0.41
Book Value Per Share (mrq):	2.92
Operating Margin (ttm):	7.32%
Cash Flow Statement	
Operating Cash Flow (ttm):	39.34M
Levered Free Cash Flow (ttm):	23.53M

(Yahoo Finance, 2012b)

Profitability or the bottom line of the Company is pretty strong, which means that Ruth's has a potential for investments and future growth. Operating margin matches the industry. Basically, Ruth's Hospitality Group, Inc. has healthy profit margins which attracts the investor. Very important to keep in mind that the profit margin is fluctuating with changes in sales, since restaurant business has its seasonal ups and downs, investor has to pay attention to overall stability of the profit margins.

Management effectiveness that shows that company is operated in order to earn the most profit is reflected through Return on Equity and Return on Assets ratios. Return on Equity is not great but it is positive and gives the Company room for improvement and indicates for the investors that Company is not very risky to invest.

Solvency ratios are not at a glance but Ruth’s does not have a lot of debt as of December 25, 2011. This fact will allow the Company to lend more money if needed for the expansion and development.

Liquidity of the Ruth’s is very week since it is 0.41, which indicates that Company is not capable of paying its current liabilities with cash and assets that can be easy converted to cash. But Ruth’s defines its liquidity as adequate since the Company is using cash straight from operating activities to pay out liabilities. In restaurant business the purchase and payment happen at the same time without any credits, that gives the Company the ability to use the cash from the operations immediately.

Free cash flow amount allows the Company to fund any activities: invest in new development, expand or repay the debt. That is a positive trend that defines company’s strength and potential.

Intangible Resources

Human Resources. Workforce diversity became a business strategy for Ruth Fertel when she opened her first restaurant in 1965; just one year after the Civil Rights Act of 1964 was passed. She was always protecting women and minorities in the workplace because she understood the value of each employee that was contributing to her success despite the race, gender and age. Ruth Fertel was challenged as a female pioneer in the restaurant industry herself, but managed to be successful and value the differences of each member of the team.

Ruth's always took care of the employees as much as of the guest that as the tradition evolved in great amount of benefits that Company offers: "…excellent compensation package, management incentive performance plan, 401(k), profit sharing, medical, dental and vision benefits, life insurance, short-term and long-term disability benefits for management, excellent training and leadership development program, vacation…" (Ruth's Chris, 2012).

Great management team of the Company with President and Chief Executive Officer Michael P. O'Donnell have valued experience in finance, leadership, investor relations, operations, franchise and supply chain management. Each of the members has 20 and more years of experience on executive level positions within the industry that provides Company with powerful engine of intellectual capital (Ruth's Chris, 2012).

Trademarks, Franchise Rights and Goodwill. Service marks of the Company "Ruth's Chris" and its "Ruth's Chris Steak House, U.S. Prime & Design" logo, "Mitchell's Fish Market" and "Mitchell's Steakhouse," "Columbus Fish Market" and "Cameron's Steakhouse," were registered with the United States Patent and Trademark Office and in the foreign countries in which its restaurants operate. The Company has also registered in other foreign countries in anticipation of new store openings within those countries. The Company believes that its trademarks are valuable to the operation of its restaurants and are important to its marketing strategy (Ruth's Hospitality Group, Inc., 2012).

Having franchise rights Ruth's collects all the fees from development and operations as well as monitors and provides all the technical support in training, assistance and guidance.

Trademarks, franchise rights and goodwill of the Company appeared after the big acquisitions in 1996, 1999, 2006, 2007 and 2008; they are not subject to amortization. Annual test for impairment is conducted and recorded in financial statements. For the fiscal year 2011 there is no impairment recorded for the Goodwill and Franchise Rights after the completed test except the Trademark of the Mitchell's Fish Market that was reflected on the Balance Sheet (-$3.0 million) (Ruth's Hospitality Group, Inc., 2012b).

Relationships. Company has a distribution arrangement with national food and restaurant supply distributor, Distribution Market Advantage, Inc. that purchases products for Ruth's from various suppliers. More than 60% of beef used in the Ruth's restaurants is bought from one vendor - New City Packing Company. These relationships allow Company to maintain consistent quality and obtain better price for the product when it is possible, which reduces costs (Ruth's Hospitality Group, Inc., 2012b).

Capabilities. Capabilities are built from resources and utilize resources as they are exercised (Thompson et al., 2011). Capabilities of Ruth's Hospitality Group, Inc. draw on the consistent quality of the food, following traditions, company's brand name as well as knowledge of the management of the Company. Ruth's is known for its high quality USDA Prime and Choice grade steaks that are served in Ruth's Chris signature fashion – "sizzling" and topped with seasoned butter (Ruth's Hospitality Group, Inc., 2012). Proficiency in delivering quality food with professional service in great atmosphere under the well-known brand name is the capability of the Company.

Resource and Capability Analysis

In order to determine if the company's resources and capabilities are actually potent enough to produce a sustainable competitive advantage it is important to identify first the competitive valuable resources and capabilities and measure their competitive power (Thompson et al., 2011).

Ruth's capability of "delivering quality food with professional service in great atmosphere under the well-known brand name" is absolutely competitively valuable since it is directly relevant to the Company's strategy of improving profitability by focusing on the food quality, manager's education and brand awareness. Ruth's has something that rivals do not and it is its strong brand name and close relationship with vendor that provides consistent quality of food (60% of beef comes from one Chicago based vendor, 80% of seafood comes from only two trusted vendors) as well as long years of tradition and style. Service mark and logos of the restaurants are registered as trademarks, which eliminate the option of coping it and using it. Advantage in geographical coverage and reasonable pricing of the overall experience and food are good substitutes for certain resources that contribute to the success of the Company.

SWOT Analysis

Table 5
SWOT Analysis

Strengths	Weaknesses
• Leading restaurant company in upscale segment • Well established business with strong brand name • International units • Professional customer service • High quality Food	• High price point • High operations costs • Limited amount of vendors might be risky • Increasing price of beef
Opportunities	**Threats**
• Expand internationally and nationwide • Development of the alternatives on the menu to lower the price point • Look for alternative vendors and make price arrangements	• Slow economic recovery • Government regulations • Impossible compliance with company’s policies internationally • Increasing competition

Strategy Analysis

Ruth's Hospitality Group, Inc. has differentiation strategy that is oriented on the customers with unique value proposition. By offering high quality USDA prime and Choice grade steaks as well as high quality seafood with providing professional service Company differentiates itself from other restaurants in the industry. Company provides many product variations in terms of food and wine selection by focusing specifically on the quality. Ruth's managed to command and keep its product price, increase sales and gain the loyalty to the brand name. Despite the downturn in the economy in the last four years, Company demonstrates a strong positive trend in Revenue in the past five years (Ruth's Hospitality Group, Inc., 2012b). There are many ways to enhance the differentiation by using unique drivers. Management of the Company strongly believes that differentiating advantage of the Company can be created through:

- Continuous quality improvement through streamlined preparation and presentation
- Creating and adding new services like private dining, HD satellite programs
- Increasing the intensity of marketing and sales activities through websites and social media
- As well as education and improvement of employee skills.

Unfortunately the market circumstances are not the best for the differentiating strategy due to a few rival Restaurant Companies that pursue a similar differentiating approach (Morton's, Del Frisco's, Smith & Wollensky).

There are several negative trends in the industry that affected the Company's profitability: economic downturn and change in customer's preferences. As mentioned above economic downturn provoked the decline in customer traffic and consequently decrease in sales.

Despite the positive trend on the financial statements of the Ruth's economy is still recovering slowly and upscale segment of the restaurant industry is still suffering. In addition to that the new movement of healthy eating triggered change in customer preferences.

In order to stay competitive Company chose the offensive strategy of offering new products with the same quality but at lower price. Company came up with pre fixe menu that allows to experience Ruth's atmosphere while spending less money: summer celebration for two for only $89 and three course dinner for $79. Restaurants started the promotions as soon as they experienced decline in traffic. Participation in the nationwide program "Restaurant Week" that offers pre fixe menu as well brought guests in the restaurants and boosted the sales. And as CEO Michael O'Donnell mentioned it on the Earnings call for the Q4 2010 pre fixe seasonal mix made up 30% of the restaurant sales what is huge add to total Revenue (Seeking Alpha, 2011).

Strategic move for the fiscal year 2011 was its utilization and positioning of the company for the future pipeline development in 2012 and '13. From the marketing standpoint CEO M. O'Donnell emphasized the focus on targeting younger demographics through social media and adventure-focused campaign (Seeking Alpha, 2011). And that makes absolute sense since the population of age 20-35 is the most frequent visitor according to the report by Packaged Facts in June 2011.

Final Analysis

Key Areas of Concerns

In order to keep the successful and strong position in the still reviving market Ruth's Hospitality Group, Inc. has to address the following concerns.

- High price point. Being weakness for the Company it also a starting point to analyze and offer an alternative in order to stay competitive. Ruth's did a great job so far by developing distinctive pre fix menu that attracted the customer and strengthened the brand loyalty. Company has to be careful with the costs of food and service while offering the lower price for the same quality.
- High operations costs. Upscale segment of the restaurant industry requires more money and dedications in terms of running the operations and keeping the service and food quality consistent (more qualified management team, valet service, more qualified kitchen staff).
- Risk of having only three major vendors for the whole company. Ruth's obtains 60% of its beef from one vendor and 80% of seafood is delivered from two major vendors and did not have any arrangements in terms of favorable price in 2011.
- Increasing price of beef. Prices on beef increased by 12% in 2010 and drove up the overall cost of food. Company is actively pursuing to set price arrangements for certain amount of beef used in restaurant operations. There were none made in 2011 (Seeking Alpha, 2011).
- Impossible or troubled compliance with Company's policies and regulations internationally. For international expansion it is one of the major points to pay attention to because of the strive of keeping the brand name, staying true to the traditions and maintaining the same quality of the product as in U.S.

- Government policies and regulations. Regulations in safe food handlings as well as requirements of ingredients disclosure can affect the costs of operating and consequently bottom line.

Objectives

Ruth's Hospitality Group, Inc. maintained the momentum of increasing the brand name awareness and attracting new demographics through its new advertising campaign, new offering on the menu and design updates throughout the 2011.

Franchise system. Company obtained 19 franchise development commitments to open restaurants nationwide and internationally by 2016; that will bring up to $12,0 million of income to the company annually and increase the geographical coverage nationwide (Seeking Alpha, 2011). One of the Company's strategies is to expand and develop the relationship with new and existing franchisees in order to grow business (Ruth's Hospitality Group, Inc., 2012a).

Profitability improvement. Ruth's defined several ways of driving the sales up and keeping the expenses under the control: creating and promoting of sustainable awareness, leveraging the seasonality of the seafood and pre fixe menu allows balancing the price point, focus on the social media and new marketing strategies are designed to attract more people (Seeking Alpha, 2012)

Conclusion

Ruth’s Hospitality Group, Inc. is a company with a very strong brand name and rich traditions, dedicated management team and competitive capabilities. Company pursues its strategy of differentiation since the moment the first steak house was open by Ruth Ferel in Chicago, while growing through franchises in expansions and facing increased competition nationwide and internationally.

Ruth’s was named throughout many listings as one of the best restaurants in U.S. and due to operational and financial performance is one of the leading companies in the upscale segment of the restaurant industry. But even being strong financially Ruth’s was affected by the economy downturn heavily. Competence and knowledge of the management team demonstrated adequate reaction and action by developing pre fixe menu, focusing on the sustainability of the business and attracting new demographics.

Positive shift in the economy renewed interest in the upscale segment by younger crowd and business people that increased their travel significantly. Ruth’s has been client-friendly dining choice for long time before the flow of the expense account dollars decreased due to economical situation. Today Company demonstrates strong earning power and strong cash flow according to financials reported as well as ability to pay bills and invest in future expansion (Ruth’s Hospitality Group, Inc., 2012b). Operating efficiency is weak though due to slower assets and equity turnover.

Despite all the economical factors and strong competition Ruth’s is in a leading position in the industry because of the capabilities and resources that company has.

Recommendations

It takes a lot of effort, work and knowledge to maintain a leading position in the upscale segment of the industry; Ruth's is great example of consistency and success. Despite all power and position on the market there is still big room for improvement.

When faced with economic downturn the company did a good job by adjusting the menu and offering alternatives, but now when situation is turning around and it is time to pay close attention to the demographics and their needs. For the younger people that are the most frequent visitor at the restaurants would be good idea of developing bar/lounge concept with special offerings of the restaurant. With increase of business travel and consequently business people traffic Ruth's should consider to move the restaurants closer to the guest, by that I mean to open restaurants in new trendy hotels that attract generation Y (millenniums).

For the expansion of the business Ruth's has to focus on the international market and consider opening more locations in developed countries. Franchise option or joint venture could be appropriate move in order to balance the knowledge of market and regulations of that particular country with the experience and assets of the company as well as facilitate the resource and risk sharing.

Since Mitchell Fish Market concept still demonstrates a negative trend in revenue the Company needs to focus on the following concepts: focus on seasonal seafood and pre fixe offerings, possible remodel of the restaurants and aggressive marketing, study the locations and demographics as well as competitors for the given concept.

As noted in the conclusion Ruth's has weak operating efficiency that could be influenced by improving the assets and equity turnovers (boosting income strategy or decreasing the assets).

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Appendix A

Company-Owned Ruth's Chris Restaurants			Franchisee-Owned Ruth's Chris Restaurants	
Year Opened	**Locations**	**Property Leased or Owned**	**Year Opened**	**Locations**
2003	Walnut Creek, CA	Leased	2007	Waikiki, HI
2005	Roseville, CA	Leased	2007	Columbia, SC
2005	Boston, MA	Leased	2007	Mishawaka, IN
2005	Sacramento, CA	Leased	2007	Tokyo, Japan
2006	Pasadena, CA	Leased	2007	Madison, WI
2006	Bonita Springs, FL	Leased	2007	Calgary, Canada
2006	Providence, RI	Leased	2007	Rogers, AR
2007	Lake Mary, FL*	Land Leased	2007	Park City, UT
2007	Anaheim, CA*	Land Leased	2008	Aruba
2007	Biloxi, MS	Leased	2008	Myrtle Beach, SC
2007	Knoxville, TN	Leased	2008	Wilmington, NC
2007	Tyson's Corner, VA	Leased	2008	Ridgeland, MS
2007	West Palm Beach, FL	Leased	2008	Wilkes-Barre, PA
2008	Ft. Worth, TX	Leased	2008	Raleigh, NC
2008	New Orleans, LA	Leased	2008	Savannah, GA
2008	Princeton, NJ*	Land Leased	2009	Dubai
2008	Fresno, CA	Leased	2009	Greenville, SC

2008	South Barrington, IL*	Land Leased	2009	St. Louis, MO
2011	Portland, OR	Leased	2009	Durham, NC
			2009	Kennesaw, GA
			2009	Carolina, Puerto Rico
			2010	Salt Lake City, UT
			2011	Grand Rapids, MI
			2011	Asheville, NC

Company-Owned Mitchell's Fish Market Restaurants

Year Opened	Locations	Property Leased or Owned
2008	Grandview, OH	Leased
2008	Crosswoods, OH	Leased
2008	Pittsburgh, PA	Leased
2008	Newport, KY	Leased
2008	Louisville, KY	Leased
2008	Lansing, MI	Leased
2008	Birmingham, MI	Leased
2008	Cleveland, OH	Leased

Company-Owned Cameron's Steakhouse Restaurants

Year Opened	Locations	Property Leased or Owned
2008	Columbus, OH	Leased
2008	Birmingham, MI	Leased
2008	Polaris, OH	Leased

2008	West Chester, OH	Leased
2008	Carmel, IN	Leased
2008	Livonia, MI	Leased
2008	Pittsburgh, PA	Leased
2008	Tampa, FL	Leased
2008	Rochester Hills, MI	Leased
2008	Brookfield, WI	Leased
2008	Sandestin, FL	Leased
2008	Jacksonville, FL	Leased
2008	Stamford, CT	Leased
2010	Winter Park, FL	Leased

* The Company owns the building and leases the land pursuant to a long-term ground lease.

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