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Wendy's/Arby's Group, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Michael Gallo - C.L. King & Associates, Inc..

Michael Gallo - C.L. King & Associates, Inc.

The question I have is on the company margins at Wendy's. Could you talk in more detail, Roland, Steve, about where you saw the 100 basis points of improvement, what areas you're finding more opportunity or less opportunity versus your original expectations, and other than lower commodity costs, other areas that you'd expect to find additional opportunities to improve the Wendy's company operated margins for the remainder of the year?

Roland C. Smith

As I mentioned on the call, we were very pleased with the 100 basis point improvement at Wendy's in the quarter. That came from primarily three areas, labor in a couple of areas, but most predominantly in the area of reducing our labor grid because we spent significantly labor hours for more volume in this quarter than the volume that we had a year ago and that was a big part of our savings.

Second, in the area of what we call controllables or CROC, all the costs in the store that we actually manage, you know, kind of nickels and dimes, by our restaurant managers, we saved on average in our stores about \$50 a week over the first quarter by just more carefully managing all those expenses by kind of quartiling all of our restaurants and looking at the line-by-line P&Ls to ensure that we understood what restaurants were struggling and helping our restaurant managers cut those costs out of that area.

We also carefully managed our utilities. I told a story not long ago about actually having our restaurant managers going to our restaurants early in the morning and carefully decide which kind of circuit breakers they turn on. I know that sounds a little mundane, but if you do that more carefully you spend less energy and you don't peak your utilities. That's a very positive effect on actually how you spend money in the restaurant.

And then finally we actually improved in food from the standpoint of how we control our theoretical versus our actual. And what we were able to do was get much closer between theoretical and actual from the standpoint of managing our careful food costs as we went through the quarter.

We did have a corresponding negative impact which was commodities that I mentioned. We spent more on commodities in the first quarter of 2009 than we did in 2008, and so we would have actually

beat that 100 basis point improvement fairly significantly if commodities had been flat to year ago. I'm pleased to report, however, and I mentioned it in my previous comments, that we expect commodities to mitigate throughout the remainder of the year. And although we initially in our last call forecasted about a 2% to 4% increase in commodities, we now believe it's most likely that it will be below 2%.

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