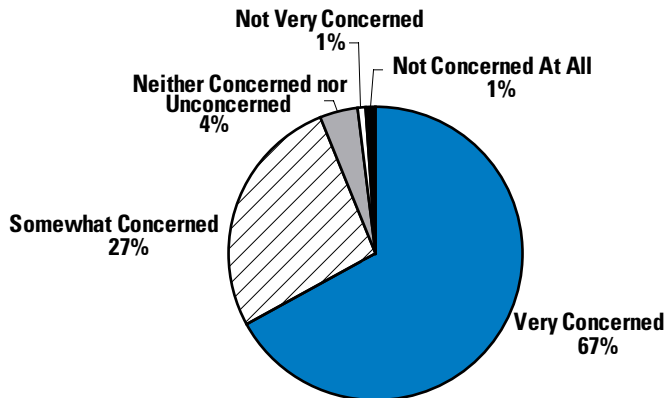




Impact of Politics on Restaurants and the Economy

It's no stretch to say that a majority of consumers are quite anxious these days about the precarious condition of our nation's economy. Case in point: in a November survey of 1,025 consumers, two-thirds of them (67%) reported that they are "very concerned" and another 27% "somewhat concerned" about the current economic situation. Taken together, this means that more than nine of 10 consumers (94%) report some degree of unease about the economy which, as one might imagine, has great influence on how they choose to spend their discretionary income.

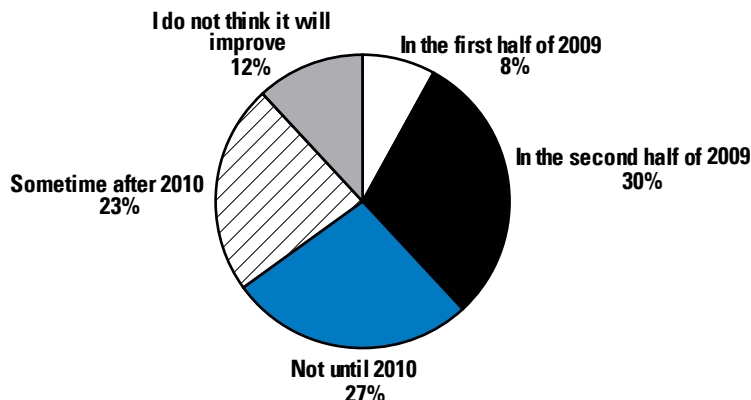
How Concerned are Consumers about the Economy?



WHEN WILL THINGS GET BETTER?

As for how long consumers' distress about the economy—and the volatile economic conditions themselves—will last, no one truly knows. It is apparent, however, that most consumers do not expect a quick fix to the present state of affairs. Indeed, fewer than one of 10 consumers (8%) predicts that the economy will improve in the first half of 2009. While 30% predict a rebound will occur in the second half of next year, a combined half of all consumers (50%) forecast that the economy will not right itself until 2010 (27%) or beyond (23%). And then, of course, there are some consumers who indicate that the economy simply will not improve (12%).

When do You Think the Economy will Improve?



INSIDE MARKETBRIEF

What Consumers Want From Restaurants Now p.3

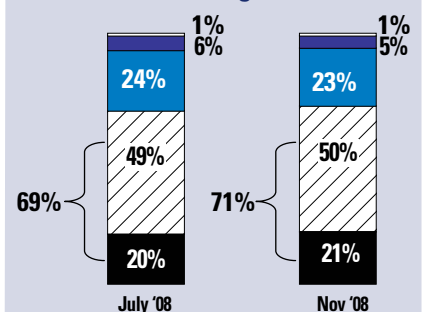
Lower Gasoline Prices' Effect on Dining Trends..... p.5

IDEAL WEIGHT TREND BAROMETER

Consumers' perception of their weight has not changed at all since July. While nearly a quarter of all consumers consider their weight "ideal," approximately seven of 10 consider it either "slightly above ideal" and or "very much above ideal."

This static situation suggests that perhaps more consumers are managing the weight at which they're at rather than trying to move into a different category altogether.

How Would You Describe Your Weight?



- Very much above ideal weight
- ▨ Slightly above ideal weight
- At ideal weight
- Slightly below ideal weight
- Very much below ideal weight

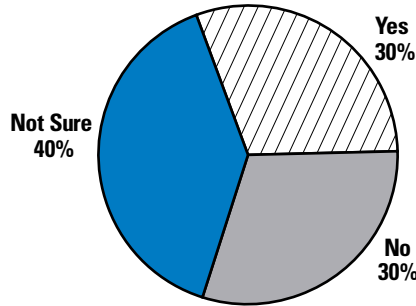
Editor's note: Look for several up-to-date metrics that shed light on key industry trends presented in this space in each month's MarketBrief. For comparison, you can find past Trend Barometer metrics online at: <http://m2.tm00.com/Technomic/newsletters/signup.asp>

**DIET TREND
BAROMETER**

THE EFFECT OF THE RECENT PRESIDENTIAL ELECTION

Interestingly, just as many consumers report that they do expect their personal economic situation to improve, based on President-elect Barack Obama's victory, as report that they do not expect their personal economic situation to improve because of it (30% in both cases). Two of five consumers (40%) indicate that they are unsure as to whether or not their personal economic situation will improve in light of the outcome of the recent presidential election.

Do You Think Your Personal Economic Situation will Improve Based on the Outcome of the Recent Presidential Election?



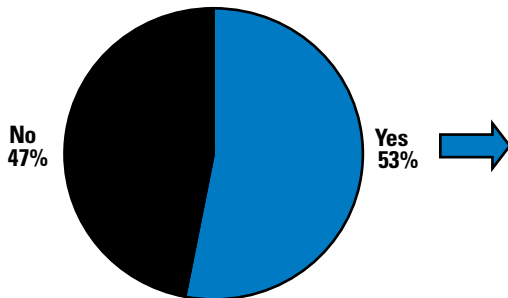
IF THINGS WERE TO GET BETTER

More than half of consumers (53%) report that were their personal economic situation to improve, they would eat at restaurants or order takeout more often. Among that set of consumers, there is a significant decrease in reported inclination to spend more money that is inversely related to the age of the consumer. Put another way, if the economic situation were to improve, of those who indicate they'd spend more money on restaurant food, many more fall into younger age brackets than older ones.

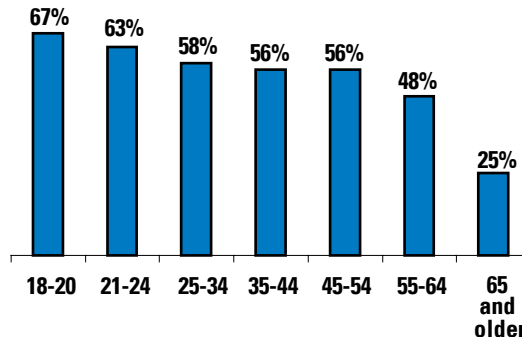
Whereas two-thirds of those consumers (67%) who are between the ages of 18-20 report that they would increase their expenditures on restaurant food if their personal economic situation were to brighten up, far fewer of those consumers in the 55-64 or 65 and older age brackets (48% and 25%, respectively) report that they would follow suit.

If Your Personal Economic Situation Improves...

Will you eat at restaurants or order takeout food more often?

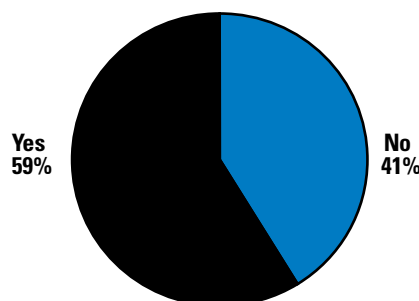


Percentage of Consumers Who Will Dine on Restaurant Food More Often, by Age



On a bright note, of the 53% of consumers who indicate they would eat at restaurants or order takeout food more often if their personal economic situation were to improve, almost three of five (59%) also indicate that they would spend more money when doing so.

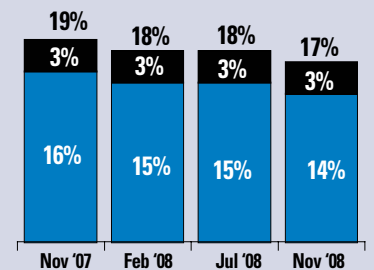
Many Consumers Will Spend More



There has been no significant change over the past year in the percentage of consumers who report they are on a diet, ranging from 17%–19% of the population.

The majority of consumers are likely focused on managing their lifestyle, rather than achieving a set weight point. Instead of adhering to a strict diet plan, healthy eating trends and a focus on an overall healthier lifestyle have gained favor.

% of Consumers on a Diet



■ "The Realistic Dieter"—On diet, but indulges occasionally
 ■ "The Disciplined Dieter"—On a Strict Diet (i.e. low-cal, low-fat, etc.)

Bottom Line: Taken as a whole, plenty of pessimism colors consumers' views of how the economy will perform in the wake of the election, yet it's worthwhile noting that consumers hold out hope for an improvement within the next year or two. In the meantime, restaurants need to perform at their best and continue to develop strategies to grow their customer base while retaining loyal patrons.

BUSINESS BUILDING IMPLICATIONS:

- The name of the restaurant game right now is "Survival of the Fittest" and to succeed, operators need to zero in on what is happening within their own four walls. Growing market share is tricky at times like these but beyond lowered prices and special deals, of which we've already seen plenty, the keenest path to follow may be one of simply offering better food, ambiance, service, etc. than the competition. If at all possible, avoid substituting cheaper ingredients, as regular customers will notice the change. Such practices will serve your operation well in the short- and long-run.
- Younger consumers, with perhaps fewer long-term financial plans affected by the recent economic turmoil, may be the last to give up dining on restaurant food as well as the first to return when things begin to improve. If your operation is a hit with the younger crowd, consider offering late-night frequent diner programs or employing other marketing tactics that are geared to retaining a steady stream of business from these young consumers. Denny's Allnighter program, featuring "Rockstar" menus, is one great example of this.
- While visits to restaurants are down, it's imperative that the focus within be on operational efficiency. To that end, restaurants should strive to minimize food waste, carry low inventories, and maximize labor efficiency. One positive byproduct of these efforts could be the adoption of more "green" practices than would otherwise have been the case.

What Consumers Want From Restaurants Now

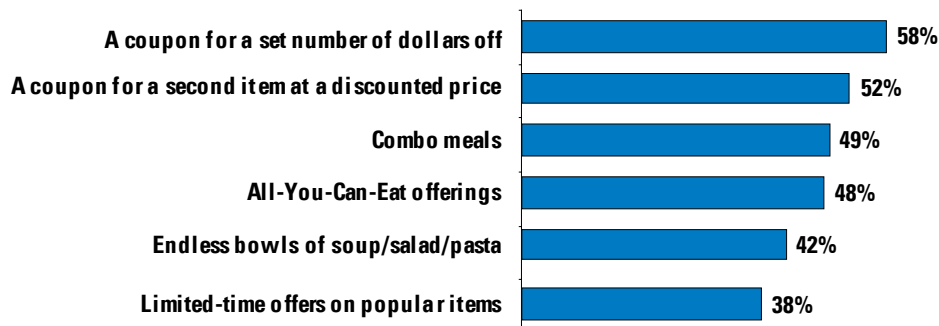
Over the course of the past year, restaurants have been pumping out coupons, all-you-can-eat promotions and myriad other marketing ploys in an attempt to build up consumer traffic. Set against a backdrop of gloom and doom emanating from Wall Street as well as the nation's job and housing crises, these deals are meant to relay a message of value to customers whose discretionary spending power has been pinched.¹ The question is, will they work?

WHAT BRINGS CUSTOMERS IN THE DOOR

Nearly three of five consumers (58%) indicated that a coupon for a set number of dollars off would be the most likely vehicle to get them to order food more frequently from a restaurant (either for dine-in or takeout). More than half of consumers (52%) also indicated that a coupon for getting a second item at a reduced price based on the purchase of a first item would be an attractive option, while nearly as many reported that combo meals (49%) and all-you-can-eat offerings (48%) would be effective lures to get them to order more often from restaurants.

Lower on the list, but still significant, about two of five consumers indicated that endless bowls of soup/salad/pasta (42%) and limited-time offers on popular items (38%) might encourage them to place restaurant food orders more frequently.

Top Draws to Persuade Consumers to Order Food from Restaurants More Frequently

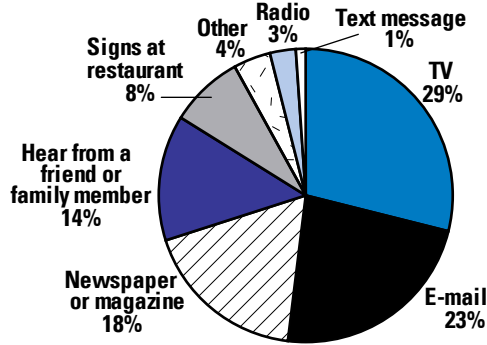


SPREADING THE NEWS

Getting the word out about restaurant deals is an essential component of a successful promotion. As noted on the following page, these days, consumers are most likely to report that they prefer to learn about special deals via television ads (29%) and email messages (23%). Newspaper or magazine ads (18%) and word-of-mouth from friends or family members (14%) are popular mediums as well. Although signs at restaurants (8%), radio advertisements (3%) and text messages (1%) don't rate as high as other options, it's quite likely that a combination of several of these approaches is more effective than going with just one mode of media to spread your message.

¹ "Restaurants Push 'Value' Meals," *The Wall Street Journal*, October 1, 2008; "All-You-Can-Eat Promos Catch on Amid Gloom," *Nation's Restaurant News*, November 3, 2008

Consumers' Favorite Ways to Learn about Restaurant Deals



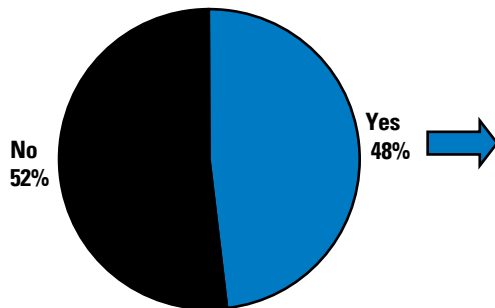
DIGGING INTO THE DEALS

Roughly half of consumers (48%) indicate that they are using special deals at restaurants more often than in the past. Notably, those consumers who have most upped their usage of restaurant deals are not necessarily those who earn the least amount of money. More specifically, while a bit more than two of five consumers (42%) whose household incomes are under \$25,000 indicate they are using more restaurant deals these days, nearly three of five (58%) whose household incomes are between \$75,000–\$99,999 indicate the same.

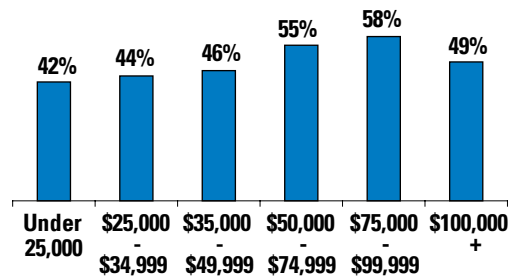
This situation could stem from many scenarios. First, it could reflect the fact that the current economic malaise is now pushing more upper-income individuals to take advantage of restaurant deals; second, it could reflect the fact that many consumers in lower household income brackets already use special deals, so their increase in usage lately is not as high as that of other groups, who are just now delving into the deals; and third, it could reflect the fact that on the whole, fewer consumers in the lower income brackets dine out than do those in the upper brackets, so fewer of these individuals would have use for restaurant deals.

Many Consumers Use Deals when Dining Out

Have you been using special deals at restaurants more often lately?



Percentage of Consumers Who Are Using More Restaurant Deals, by Annual HH Income



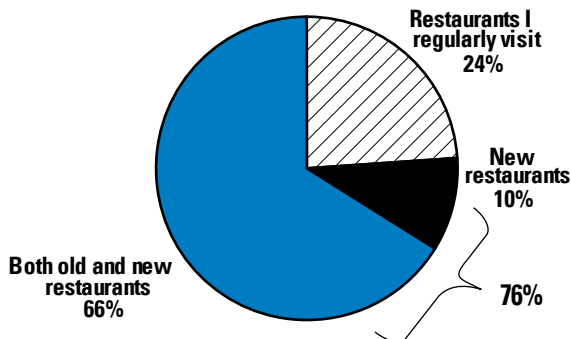
EXTEND YOUR REACH & LONG-TERM EFFECTIVENESS

A bit of good news about restaurant deals is that more than three-fourths of consumers (76%) report taking advantage of them at both new and familiar restaurants (66%), or just new restaurants (10%). Only about one quarter of consumers (24%) indicate that they use special deals exclusively at restaurants they already visit regularly. In essence, the special deals restaurants are extending to consumers could be helping to build more business down the road.

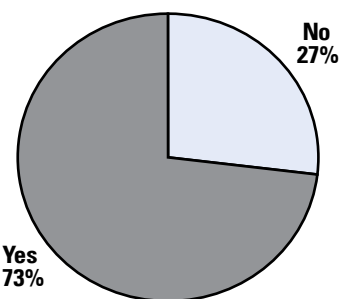
Further proof of the potential effectiveness of special restaurant deals comes from those consumers who have used them to try new restaurants: nearly three-quarters of these consumers (73%) report that they would return to the new restaurants they had tried even if a special deal were not being offered. This suggests that when the restaurant industry eventually returns to normal, people will once again be willing to pay full-price for their food.

How Consumers Use Deals When Dining Out

At what restaurants do you tend to use special deals?



Would you return to the new restaurants if a special deal were not available?



Bottom Line: *It may seem that special deals from restaurants are ubiquitous these days, but to not offer consumers some sort of a break on the cost of a restaurant meal could be more detrimental to your business than the cost of offering a deal and taking a temporarily lower profit margin.*

BUSINESS BUILDING IMPLICATIONS:

- Special deals should be as much about introducing new people to your restaurant and building loyalty as they are about boosting business. When customers come to your restaurant due to a promotion you're running, do your best to add them to your email/ mailing list so that you can keep in touch with them after their initial visit.
- All-You-Can-Eat food portions are some of the most highly visible promotions being offered right now, yet consumers have indicated that this is not the only type of deal that is likely to spur them to order more frequently from restaurants. If you plan to extend a special deal to patrons of your restaurant, be sure to offer one that best suits your concept's essence and value system.
- Know the extent of what you can offer: At Ruth's Chris Steak House, a gift certificate worth \$25 is a viable promotion because the average check is much higher than at a casual-dining restaurant, for example. Think about what your operation can honestly afford to offer and then stick to that plan, and leave deeper cuts to those restaurants that have deeper pockets.

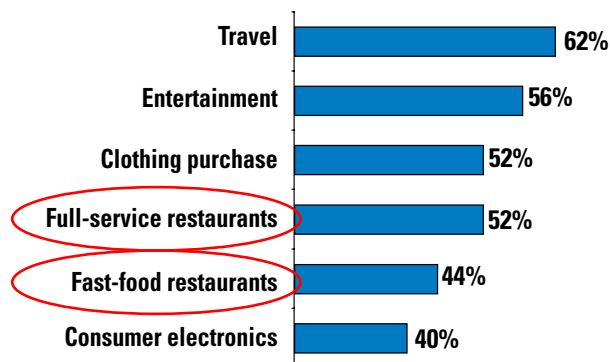
Lower Gasoline Prices' Effect on Dining Trends

Drivers are breathing a sigh of relief as gasoline prices plunge across the country. But even as worry about gas prices fades, it is being replaced by fear about the broader economy. Each 10-cent drop in gasoline prices puts \$12 billion a year back in consumers' pockets², but not every consumer is turning around and spending that cash right away.

WHAT WAS CUT WHEN PRICES WENT UP

Consumers' reactions to elevated gas prices over the past year are fairly well known and were confirmed in an early November survey. More than three of five consumers (62%) report that when gas prices increased they cut back on travel, while more than half of consumers report that they reduced spending on entertainment (56%) and purchases of clothing (52%). Where foodservice is concerned, consumers indicate they cut back on visits to full-service and fast-food restaurants (52% and 44%, respectively) when prices at the pump soared.

Where Consumers Cut Back on Spending when Gas Prices Rose



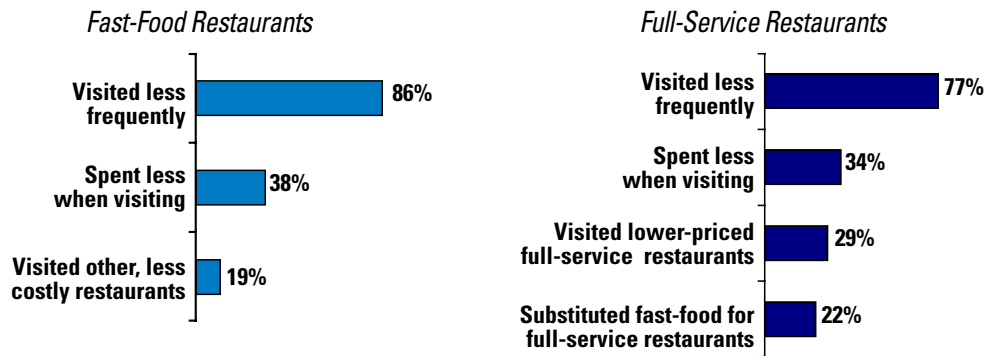
FURTHER IMPLICATIONS FOR RESTAURANTS

A majority of consumers (86%) report that when gas prices were too high, they visited fast food restaurants less frequently. Nearly two of five consumers (38%) indicate that they spent less when visiting fast-food restaurants, while close to one of five (19%) reports visiting other, less expensive restaurants instead.

Meanwhile, approximately three-fourths (77%) of those who go to full-service restaurants report having visited such places less frequently and one-third (34%) indicate they spent less when there due to higher gas prices. Trading down was common behavior for many of these consumers: 29% indicate that they visited lower-priced full-service restaurants and 22% indicate that they substituted fast-food for full-service restaurants.

²"Still Pinching, but Less at the Pump," *The New York Times*, November 14, 2008

When Gas Prices Rose, How Consumers Cut Back on Spending At:



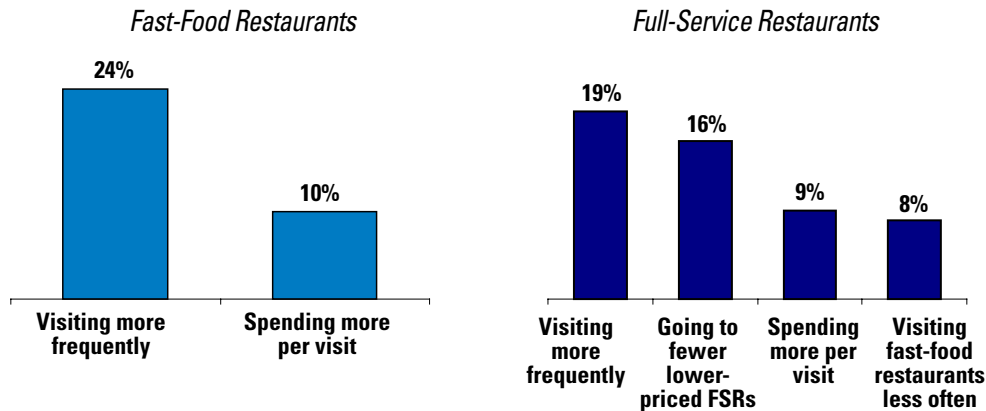
NOW THAT PRICES HAVE DROPPED

Of those consumers who reported cutting back on visits to fast-food restaurants because they were putting more money down at the pump, nearly a quarter (24%) have begun visiting LSRs more frequently again and one of 10 (10%) is spending more money when at LSRs since gas prices have fallen.

For patrons of full-service restaurants who cut back their spending there due to higher gas prices, the return to lower prices has led nearly one of five consumers (19%) to report visiting FSRs more frequently again, while slightly fewer (16%) indicate they are trading down less frequently to lower-priced FSRs. Nearly one of 10 (9%) FSR patrons who previously cut back on spending at such restaurants reports now spending more per visit, and 8% are substituting meals at LSRs less often for those at FSRs.

By and large, despite the now-lower gasoline prices, many fewer consumers are returning to their former spending habits at restaurants than had cut back over the course of the last year or so.

Since Gas Prices Dropped, How Consumers Have Returned to Spending At:



CAUSE & EFFECT: GAS PRICES AND FOOD PURCHASE BEHAVIOR

Overall, the robust rise and now decline in gasoline prices provides a window into consumers' reactions as manifested in food purchase behavior. As gas prices have dropped, more than a quarter of consumers (28%) note that they are purchasing fewer ready-to-eat meals, and almost as many (26%) are going to restaurants more often again instead of buying ingredients to cook meals at home. At the same time, exactly a quarter of consumers (25%) report they are bringing food from home less often now in favor of eating more frequently at restaurants, and with more meals being eaten away from home, more than one of five consumers (22%) indicate they are spending less money at the grocery store.

Although some consumers do report that lower fuel expenditures make them less likely now to choose restaurants that offer deals (21%), this does not mean that consumers are running out to pricier restaurants just yet; only 13% indicate that they are eating at more expensive restaurants due to the plunge in gas prices.

How Gasoline Prices Contribute to Food Purchase Behavior

As Gasoline Prices Drop	% Of Consumers Agreeing*
I am purchasing fewer prepared, ready-to-eat foods from grocery stores, convenience stores or club stores	28%
I am going less often to grocery stores, convenience stores, dollar stores and club stores to purchase ingredients to prepare meals at home, and instead am going to restaurants	26
I am bringing food from home less often and instead am eating more often at restaurants	25
I am spending less money on food from the grocery store	22
I am less likely to choose restaurants that offer coupons or combo meals	21
I am eating at more expensive restaurants	13

* Top two box responses "agree completely" or "agree somewhat"

Bottom Line: In the time that gasoline prices have dropped, consumers have modified their restaurant dining and food purchase behavior, but only moderately so. Most consumers are being quite cautious, likely due to other economic pressures beyond gasoline prices that still weigh heavily on their minds.

BUSINESS BUILDING IMPLICATIONS:

- When gas prices rose, consumers reluctantly adopted new habits and buying patterns which they may now be slow to let go of. If promotions and other marketing deals are working well for your restaurant in these tough times, don't drop them too quickly, as many consumers may still need a special offer to get them in the door.
- Consumers report that they are purchasing fewer ready-to-eat meals from retailers now that gasoline prices have dropped, but this does not mean they are flocking into restaurants right away. At this stage, a well-executed (and advertised) curbside pick-up and takeout food and delivery business can boost sales even if diners are not filling restaurants.
- The fact that in light of rising gasoline prices, fewer consumers cut back on restaurant visits than on such discretionary expenditures as travel and entertainment, speaks to how dearly many consumers hold the practice of dining out (and perhaps to how little many of them like to cook). It is of vital importance, however, to keep in mind that gasoline prices are but one piece of a very complex economic picture at this time, and so lower prices alone will not fix any restaurant's business overnight.

Editor's note: Except where otherwise noted, source of data is a periodic overnight survey of 1,000 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in November 2008. Margin of error \pm 3%.

About MarketBrief Through MarketBrief, American Express provides chain restaurants with research-based analysis of key industry developments. Data is collected and analyzed by Technomic, Inc. To subscribe or find past issues of MarketBrief go to: www.technomic.com/marketbrief If you have questions, comments or topic suggestions, please contact Kimberly Perman at kperman@technomic.com or directly at (312) 506-3831.



To find out about more American Express services to help you grow your business, go to www.americanexpress.com/restaurantresources.