



Market Brief

Tracking and interpreting restaurant trends



How Sweet It Is: Valentine's Day Dining

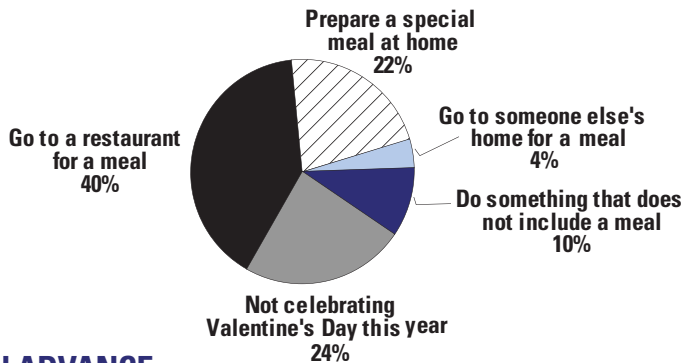
For many, Valentine's Day conjures up images of romantic dinners served in restaurants. According to the National Restaurant Association, Valentine's Day is the third most popular occasion for dining out, after birthday celebrations and Mother's Day. Restaurateurs typically do well on Valentine's Day, and especially so when the holiday falls on a Saturday, as it does this year. Given the current economic malaise, however, consumers' plans for dinner a deux on February 14th may not be all that they've been in years past.

SOME WILL CELEBRATE, BUT NOT ALL

In a January 2009 survey of 500 consumers, two of five (40%) report that they plan to go to a restaurant for a meal to celebrate Valentine's Day, and slightly more than one of five (22%) intend to prepare a special meal at home. One of ten consumers (10%) indicates they will celebrate the holiday of hearts without plans that include a meal, while 4% will include a meal in their plans, but at somebody else's home.

Still, there are plenty of folks—24%, or nearly a quarter of those polled—who do not anticipate celebrating Valentine's Day this year. Even though many consumers plan to prepare a meal at home, restaurants may be called upon for last-minute reservations or takeout meals when recipes go awry or when consumers decide they just don't feel like cooking after all.

Consumers' Plans for Celebrating Valentine's Day



MOST PLAN IN ADVANCE

Of those consumers who intend to dine out in honor of Valentine's Day, the majority (65%) will make reservations. Some 8% of consumers had already made their reservations by the first few days of January when this survey was fielded, while another 7% report that they planned to make reservations at some point early in January as well. The findings indicate that late January and early- to mid-February are the most common times to make reservations for a Valentine's Day meal: one of five, or 20%, opt to reserve in late January; 15% at the beginning of February; and 11% the week before Valentine's Day. A small percentage of consumers (4%) will make a reservation only a day or two before Valentine's Day.

Slightly more than one-third of all consumers (35%) do not plan to make a reservation at all for a Valentine's Day meal. Within this 35% of consumers, the lower the annual household income bracket, the less likely it is that reservations will be made in advance. In short, it appears that those consumers with higher income levels feel more secure about committing to a definite Valentine's Day reservation than do those who earn less. In the absence of data from years past, it is difficult to discern whether this is typical behavior or whether it reflects a cautious, last-minute attitude due to the current economic climate.

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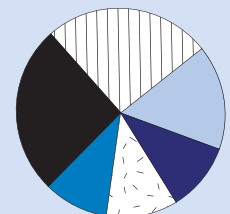
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NEW YEAR'S EVE TREND BAROMETER NEW!

Nearly three-fourths of consumers celebrated New Year's Eve in some way, and many New Year's Eve celebrations involved eating: a quarter of consumers (26%) "prepared a special meal at my home" and another 10% "went to a restaurant for a meal."

Combined, about a quarter of consumers (27%) attended a New Year's Eve party or an event at someone's home, where dinner or at least hors d'oeuvres were likely served. The same amount of consumers (26%) report that they "didn't celebrate New Year's Eve" this year at all, while 11% had "other" plans.

How New Year's Eve 2008 was Celebrated

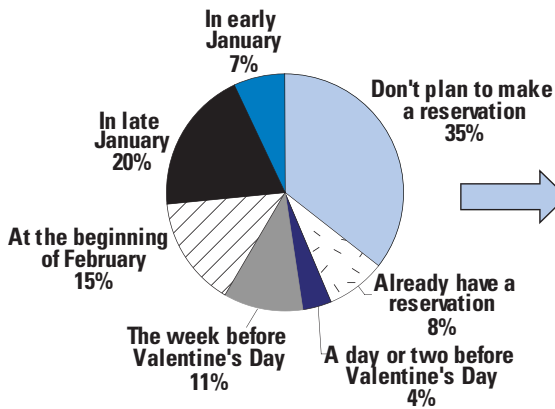


- Prepared a special meal at my home 26%
- ▨ I didn't celebrate this year 26%
- Attended an event at someone's home 16%
- Went to a party at an establishment 11%
- ▨ Other 11%
- Went to a restaurant for a meal 10%

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>

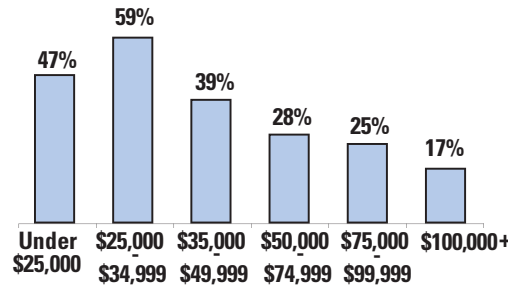
SUPER BOWL TREND BAROMETER NEW!

When Restaurant Reservations will be Made (or not)



Percentage of Consumers Who Do Not Plan to Make Reservations in Advance

By annual household income



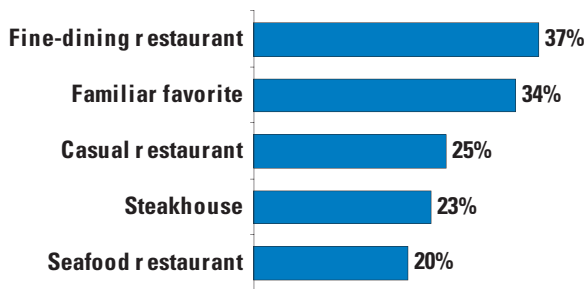
The majority of consumers surveyed (70%) report that they plan to watch the Super Bowl this year and in most people's minds, the Super Bowl and eating go hand in hand. Of those who plan to watch the game, the majority (53%) intend to do it from the comfort of their own home (39% will prepare food at home, 6% will pick up prepared food from a retail store, 5% will order in from a fast-food restaurant, and 3% will order in food from a sit-down restaurant).

Away from home, one of eight consumers (12%) plans to watch the Super Bowl at a friend or family member's house, and 4% will be at a bar or restaurant for the big game. Still, a large contingent of consumers (30%) does not expect to watch the Super Bowl at all.

FINE-DINING IS TOP RESTAURANT CHOICE FOR VALENTINE'S DAY

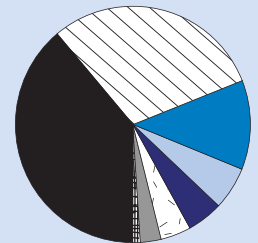
Selecting the perfect restaurant for a Valentine's Day meal can be a daunting task, but consumers indicate that their top choice is a fine-dining establishment (37%), followed closely by a restaurant that is a familiar favorite (34%). The data suggests that even though Valentine's Day is a special occasion, many customers will not follow the fine-dining route this year; familiar favorites are clearly high on consumers' lists as well. Casual restaurants (25%), steakhouses (23%) and seafood restaurants (20%) are also popular for Valentine's Day. It is worth noting that these restaurant types are not mutually exclusive and often times may overlap, e.g. a fine-dining seafood restaurant.

Top Types of Restaurants Consumers Prefer for Valentine's Day



Which of the following do you plan to do for this year's Super Bowl?

Watch the game...



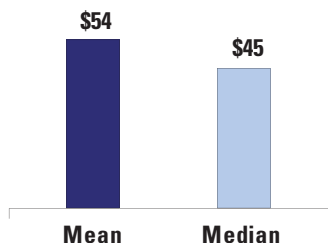
- At home and prepare food at home 39%
- ▨ Do not plan to watch the game 30%
- At a friend or family member's house 12%
- At home and pick up prepared, ready-to-eat food from a retail store 6%
- At home and order in food from a fast-food restaurant 5%
- At a bar or restaurant 4%
- At home and order in food from a sit-down restaurant 3%
- ▨ Other 1%

MOST CONSUMERS NOT PLANNING TO SPEND LESS THIS YEAR

For Valentine's Day 2008, those consumers who intend to dine out indicate that they will spend, on average, \$54 per person on that meal, including alcoholic beverages. The median value reported for such a meal is \$45.

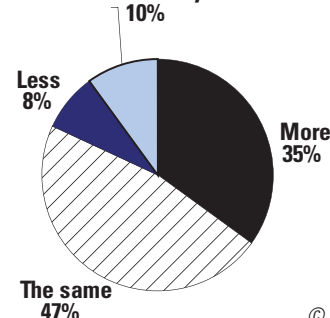
Compared to last year, most consumers indicate that they will spend either the same (47%) or more (35%) on their Valentine's Day meal out. Only 8% plan to spend less than they did for a meal on Valentine's Day 2007, and one of ten (10%) has no basis for comparison, having not dined out on the previous Valentine's Day.

What consumers plan to spend this year, per person, on a Valentine's Day meal out
Including alcoholic beverages



How this year's expenditures will compare to last year's

Did not dine out last year for Valentine's Day



Bottom Line: Although Valentine's Day will always be a big night for dining out, the general state of the economy suggests that this year's holiday will be less busy for restaurants than in years past, or, at the very least, a bit more contingent on last-minute plans.

BUSINESS-BUILDING IMPLICATIONS:

- This year more than ever, it is important that your restaurant's special offers for Valentine's Day be made highly visible, especially to customers who may not come into your restaurant between now and February 14th. Be sure to utilize email lists and other ways of reaching out to patrons, and be sure to offer something unique that can't be found at another restaurant. Ideas include a complimentary champagne toast, a dessert to share, etc.
- Diners who cannot afford an expensive meal out should not be precluded from celebrating Valentine's Day in a restaurant. White Castle's "Valentine's Day at the Love Castle" promotion, which advertises "hostess seating, candlelit dining and your own server (reservations required)" or else the "Cupid Crave Kit, so you can treat your honey to a romantic White Castle dinner in your home (with eight cheeseburgers, one sack of fries, two sodas, and a keepsake item)" is a great example of how dining on Valentine's Day can be made affordable for all.
- To draw in diners on Valentine's Day this year, think about following the example of The Melting Pot fondue chain, which is offering the same prix fixe menu all day but at different price points, depending upon the hour at which it is ordered. In this way, those who have less to spend can feel as if they still got a complete meal and a chance to celebrate their love, without breaking the bank.

Restaurant Gift Cards: What Happened This Holiday Season

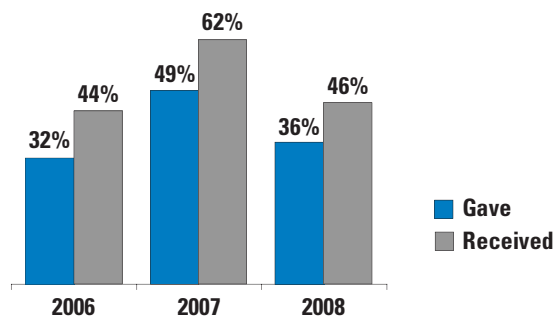
With a slow winter season looming ahead of them, many restaurants pushed gift cards harder this holiday season than in years past. Incentives and bonuses for buyers were not uncommon, and quite a few chains sold their cards at several locations and through several different channels. Despite such efforts, the National Restaurant Association expected that sales of restaurant gift cards in 2008 would fall 1.2% from last year. Recent survey data supports this accurate forecast.

FEWER CARDS GIVEN & RECEIVED

During the 2008 holiday season, significantly fewer consumers gave restaurant gift cards than the year prior (36% vs. 49%). Similarly, fewer consumers indicated they received restaurant gift cards in the 2008 holiday season compared to the year prior (46% vs. 62%). The 2008 findings more closely mirror the findings from 2006.

On the flip side, fewer than half of consumers (46%) indicate that they received restaurant gift cards in the 2008 holiday season, while more than three of five consumers (62%) noted they did so last year. In holiday season 2006, nearly the same amount of consumers (44%) reported that they received gift cards as in 2008.

% of Consumers who Gave or Received Restaurant Gift Cards:
By holiday season

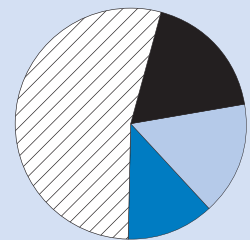


OFFICE HOLIDAY PARTY TREND BAROMETER NEW!

Although more than half of consumers (54%) whose offices typically host holiday parties attended functions that were "similar in expense to previous years' parties," for many, 2008 turned out to be a bit different than years past. Not all of that was bad, of course: 16% of consumers went to a party that was "more expensive than in years past."

More common, though, was that an office-sponsored holiday party was "not as expensive as previous years' parties" (18%) or was simply "cancelled" (12%).

How office Holiday Parties Stacked Up in 2008

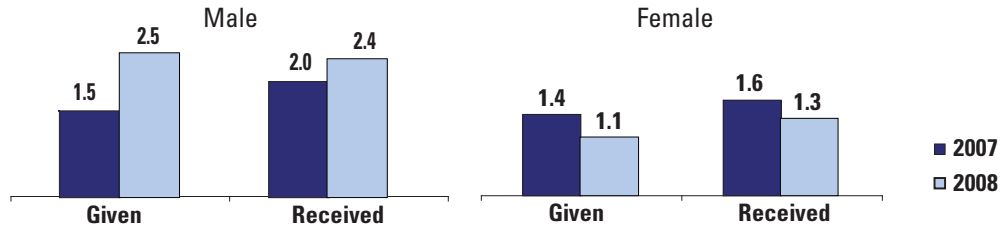


- ▨ Similar in expense to previous years' parties 54%
- Not as expensive as previous years' parties 18%
- More expensive than previous years' parties 16%
- Party was cancelled this year 12%

GENDER AND INCOME AS FACTORS

Examining restaurant gift card transactions by gender reveals an interesting story. For men, the average number of gift cards reportedly given in 2008 (2.5) increased markedly from 2007 (1.5), as did the number received (up to 2.4 from 2.0). Meanwhile women indicate that on average, they gave 1.4 restaurant gift cards in 2007 but only 1.1 in 2008, and they received 1.6 gift cards in 2007 vs. only 1.3 in 2008. Not only did women report receiving fewer restaurant gift cards than men in both holiday 2007 and 2008, but overall numbers decreased between the two years as well.

Average Number of Gift Cards Given and Received
By gender

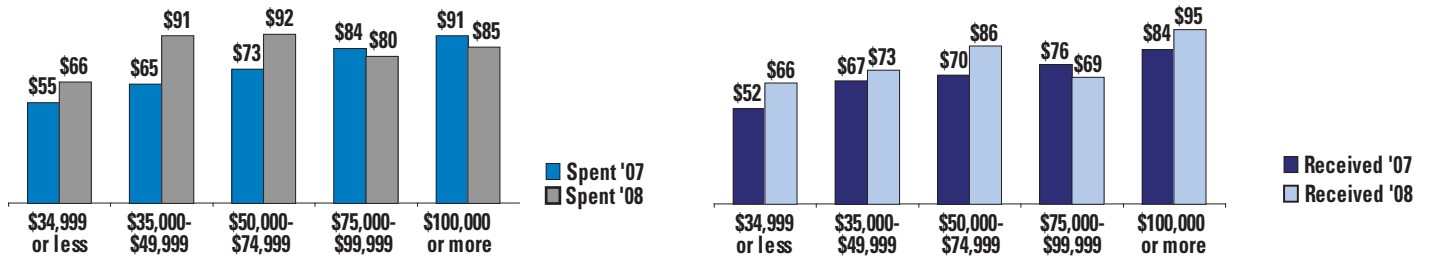


Last year, consumers in each subsequently higher annual household income bracket reported spending more on, and receiving a higher value of, restaurant gift cards. Not so this year. Whereas those households in the three lowest income brackets report spending more on gift cards this year than last, consumers in the two highest income brackets indicate that they spent less on restaurant gift cards in 2008 than in 2007.

Likewise, while those in the three lowest income brackets report receiving a higher dollar amount of restaurant gift cards this year, those in the \$75,000 - \$99,999 income range received a lower dollar amount of them compared to 2007. Consumers in the highest income bracket, \$100,000 or more, indicate that they received a higher dollar amount of restaurant gift cards this past year, despite having spent less on them.

Comparing the difference between values for 2007 and 2008 within each income bracket, and then looking at differences between amounts reportedly spent and received, suggests that many consumers purchase restaurant gift cards to give to others who are in a different income bracket.

Average Spent and Received on Gift Cards, by Annual HH Income



WHY (AND WHY NOT) RESTAURANT GIFT CARDS?

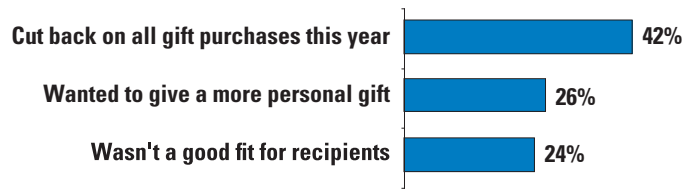
In the most recent holiday season, more than half of consumers (53%) report that they bought restaurant gift cards for the holidays because they knew the restaurant was a "favorite of the gift recipient." Approximately one-third of consumers (32%) indicate that they purchased such cards because they were "a gift I would want," and one-quarter of consumers (25%) did so because the cards were a "last-minute gift." As always, ease of purchase plays a prominent role in sales: almost one of five consumers (19%) reports buying restaurant gift cards because he or she "was at the restaurant, so it was easy."

Top reasons why consumers bought restaurant gift cards over other gift card options



Perhaps more notable this year are the top reasons why consumers did *not* give any restaurant gift cards. As the chart on the next page shows, given the gloomy fiscal outlook, more than two of five consumers (42%) indicate that they "cut back on all gift purchases this year," including gift cards. A quarter of consumers (26%) claim that they "wanted to give a more personal gift" and slightly fewer (24%) report that a restaurant gift card "wasn't a good fit for recipients."

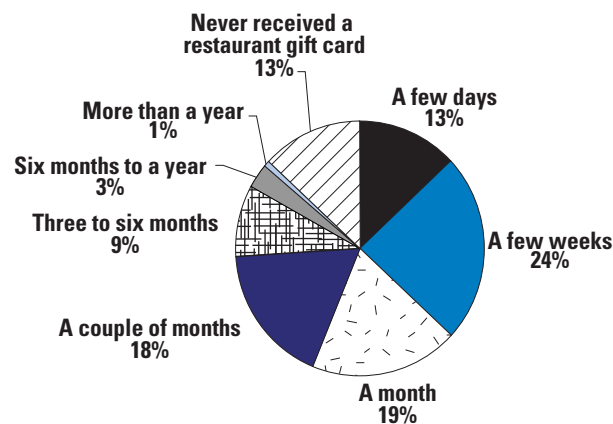
Top reasons why consumers did not give any restaurant gift cards this year



MAJORITY OF CONSUMERS REDEEM GIFT CARDS QUICKLY

Taken together, more than half of consumers who receive restaurant gift cards typically redeem them within the span of a month: 13% redeem them within a few days, 24% within a few weeks, and 19% within one month's time. A combined 30% of consumers indicate that they typically redeem restaurant gift cards somewhere between a couple of months and a year (a couple of months after receiving them [18%]; three to six months after receiving them [9%], and before a year's time is up [3%]). Almost no consumers (1%) typically wait more than a year to redeem their restaurant gift cards. Bear in mind that there is a sizable group of consumers (13%) who have never received a restaurant gift card.

Typical amount of time consumers take to redeem restaurant gift cards



Bottom Line: Given the facts presented above, one can surmise that the weakened performance of restaurant gift cards in holiday season 2008 is primarily due to the economy, and not to consumers' sudden dislike of or dissatisfaction with the product. It is expected that with the return of a healthy economy, sales of restaurant gift cards will eventually trend up again.

BUSINESS BUILDING IMPLICATIONS:

- Although restaurant gift cards tend to be promoted heavily around the winter holidays, be sure to promote your establishment's cards throughout the year. Remind your customers that gift cards make a great present for Mother's Day, Father's Day, birthdays, anniversaries and the like.
- Do you offer an incentive to customers who purchase gift cards? Such a program can be a big lure to potential purchasers. Denny's offers a \$5 gift card to patrons who purchase \$25 cards, and IHOP has a similar deal. For more expensive restaurants, higher denominations of gift card purchases should correlate to higher gift certificates or points for the buyer.
- Are you familiar with recent changes in tax laws that pertain to the recording of revenue associated with gift cards? Depending upon how far out from its time of purchase a gift card is redeemed, operators may be able to defer taxes on unredeemed gift card revenue. Be sure to speak with your accountant about this if you're not already in the know.

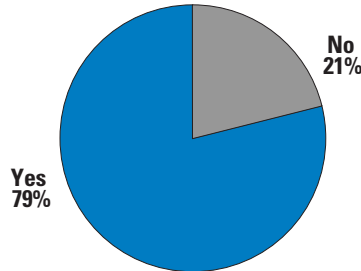
Spotlight on Sandwiches

Though the popularity of sandwiches extends globally, sandwiches are quintessential American fare. While a sandwich is easy enough to prepare at home, its simple components, portability and affordability make it a must-have for consumers who dine out regularly. With so much emphasis being placed today on freshness, quality of ingredients, artisan breads and ethnic flavor profiles, it's no wonder that operators—both established and emerging—are reinventing sandwiches to meet the demands of diners.

SANDWICHES ARE SOUGHT BY MANY

In a recent Technomic survey of 1,500 consumers conducted for the *Sandwich Consumer Trend Report*, nearly eight of 10 consumers (79%) indicate that they purchase sandwiches away from home at least occasionally. Only 21% of consumers report that in the past two months they had not purchased any of the types of sandwiches about which they were asked. These sandwich types include: burgers, deli sandwiches (including turkey, ham, roast beef, pastrami or corned beef), hot dogs, tacos, burritos, paninis, wraps and breakfast sandwiches.

Have you purchased any type of sandwich away from home in the past 60 days?

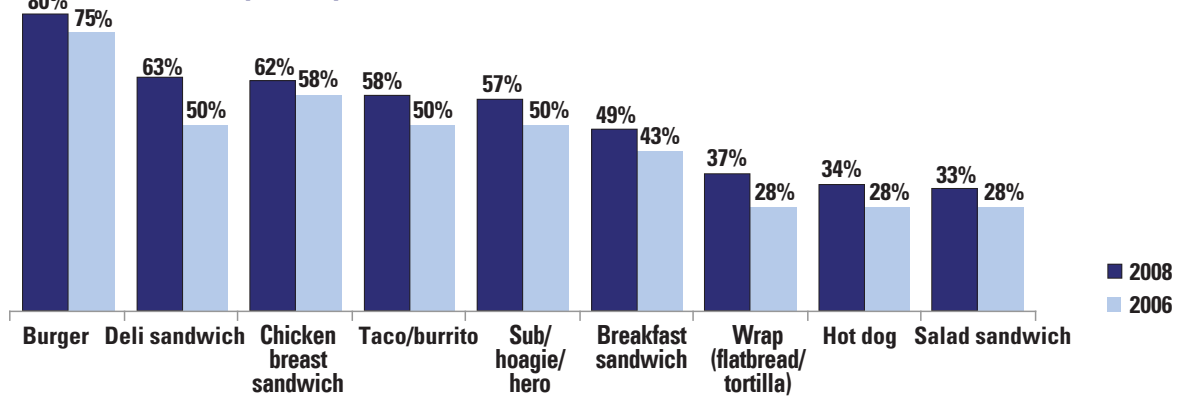


BURGERS ARE STILL #1

When those consumers who had purchased a sandwich in the past 60 days were asked about the types of sandwiches purchased, burgers topped the list, and not for the first time: eighty percent of consumers surveyed in 2008 and three-fourths of consumers (75%) surveyed for Technomic's *Evolving Sandwich Category Report* in 2006 indicate that they purchase a burger from a restaurant or other foodservice establishment at least once per month.

Almost two-thirds of consumers (63%) report that they purchase deli sandwiches away from home at least once per month, a percentage that is significantly higher than the 50% of consumers who said they did so in 2006. Additionally, about three of five consumers said they purchase chicken breast sandwiches (62%), tacos or burritos (58%) and sub, hoagie or hero sandwiches (57%) from a foodservice operation at least once each month. Breakfast sandwiches are purchased by half of consumers (49%) in that same span of time. Roughly a third of consumers also purchase wraps (37%), hot dogs (34%) and salad sandwiches (33%) on at least one away-from-home occasion each month. Wraps saw the greatest increase over the past two years—only 28% of consumers purchased wraps at least once a month in 2006—indicative of the current trend toward these sandwiches.

I typically purchase a _____ away from home at least once a month.

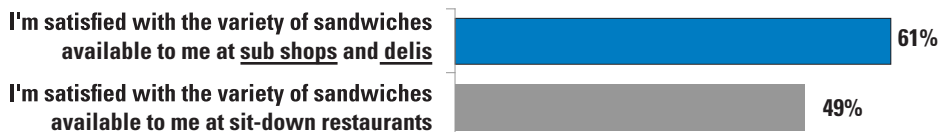


CONSUMERS CRAVE MORE VARIETY

Though the majority of consumers (61%) are satisfied with the variety of sandwiches offered at limited-service sub shops and delis, that leaves 39% of consumers who do not completely agree that they are satisfied with the variety of offerings at these locations. There is even more room for growth in the variety of sandwiches served in full-service restaurants. Slightly fewer than half of consumers (49%) strongly agree that they are satisfied with the sandwich offerings at these venues. The other half or so of consumers (51%) want more sandwich variety from full-service restaurants.

Thinking only about sandwiches purchased away from home, please indicate how much you agree or disagree with each of the following statements.

Top two box = 5 & 6



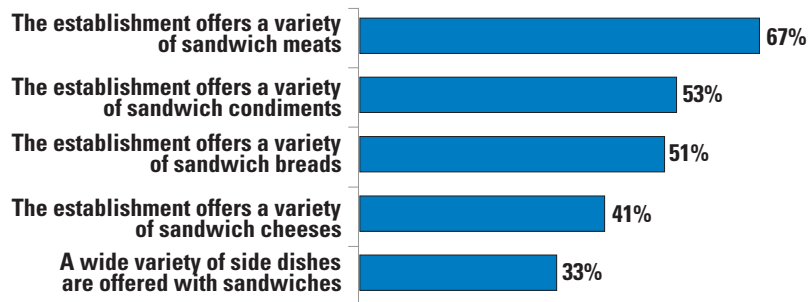
VARIETY DEFINED

More than two-thirds of consumers (67%) report that it is extremely important to them that sandwich shops offer a wide variety of sandwich meats. Because the type of meat on a sandwich is a defining characteristic, it is not surprising that a variety of meats would be ranked so highly. A majority of consumers also find a variety of condiments (53%) to be very important.

For its part, bread variety is very important to more than half of consumers (51%), and significant percentages of consumers also think that a variety of cheeses (41%) and side dishes (33%) are extremely important. Clearly, variation of sandwich ingredients in general is essential to consumers, and they likely expect sandwich shops to provide a wide assortment of each sandwich component.

Thinking only about sandwiches purchased away from home please indicate how much you agree or disagree with each of the following statements. It is extremely important that...

Top two box = 5 & 6



**Respondents indicated their opinion on a scale of 1–6 where 6 = agree completely and 1 = disagree completely.*

Bottom Line: Due to the high versatility and saturation of the sandwich market, it is important for operators and manufacturers to stay abreast of current trends and evolving consumer needs. Sandwiches can be adapted to meet almost any emerging trend, whether it is an increased interest in local ingredients or a need for healthy alternatives, but the leaders are those operators who make the move first.

BUSINESS BUILDING IMPLICATIONS:

- To offer consumers more variety, you can build on current trends toward global influences, bold flavor profiles and premium ingredients, or consider adding sandwiches using less common proteins such as crab, shrimp and salmon. Adding spicier flavors and ingredients may also help entice more Hispanic and Asian consumers—who indicated they would like more variety in sub shops and delis—since these consumer groups often find such bold flavors appealing.
- Be aware that consumers who purchase wraps and paninis may be looking to this type of sandwich as a more upscale alternative to submarine and deli sandwiches. Offering paninis and wraps with brand name meats and cheeses and adding premium vegetable ingredients may increase sales among higher-income consumers and make these sandwiches more appropriate for the dinner daypart.
- One way to expand your selection of sandwich ingredients is to use all of your available resources. For instance, utilize everything from pizza sauces to salad dressings as sandwich condiments or offer grilled and sautéed vegetable toppings as a way to put a new spin on sandwiches. Full-service and varied menu operators in particular can use ingredients from other entrées to create unique sandwiches.

Editor's note: Except where otherwise noted, source of data is a periodic overnight survey of 500 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in January 2009. Margin of error $\pm 4.5\%$.

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