May 2008



# MarketBrief

Tracking and interpreting restaurant trends

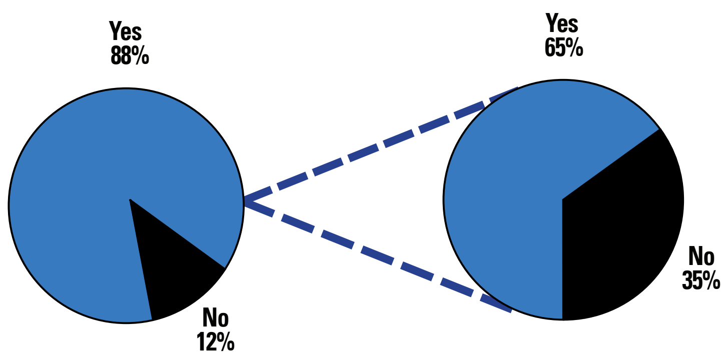
## ONWARDS AND UPWARDS WITH PRICES?

When economic conditions are good, ordering food from restaurants is a frequent occurrence for many people. But, when the economy falters, and factors such as housing prices and higher fuel prices take their toll on household budgets, consumers have relatively fewer dollars to spend. Suddenly that meal away from home can seem like less of a habit and more of a luxury.

Against this backdrop, operators are being hit with skyrocketing raw ingredient costs, on top of already elevated labor costs. At the very time when it would seem most prudent for them to raise menu prices, operators are facing a hesitant consumer base. As it so happens, however, a majority of consumers are aware that restaurant prices will soon go up, and many also feel that the increase will be justified. In fact, nearly nine of ten (88%) of consumers expect to pay more for food at restaurants in the near future, and of that 88%, more than three of five (65%) feel that higher prices would be justified.

**Do You Expect to Pay More for Food at Restaurants in the Near Future?**

**Do You Think This Increase is Justified?**




### STOMACHING THE NEWS

While it's good news that consumers would not be shocked to find higher prices at restaurants, how they would react to such price hikes is another story. One thing is for certain: there is essentially no difference between how consumers would respond to higher menu prices at limited-service restaurants versus full-service restaurants. In both cases, over three-fifths of consumers would go to restaurants less frequently if confronted with higher prices at an LSR (62%) or FSR (64%).

More than a third of consumers report they would opt to order different or less expensive items at an LSR (36%) or FSR (35%) if menu prices were to increase, and nearly the same amount of consumers might opt instead to visit other LSRs (33%) or FSRs (35%) where prices are better. Approximately one of four consumers would order fewer items at an LSR (27%) or FSR (24%) if faced with rising prices, and fewer than one of five would make no change at all (LSR 18%, FSR 15%).

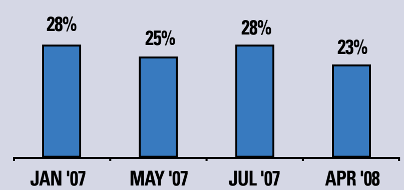
### INSIDE MARKETBRIEF



### INTERNET ORDERING TREND BAROMETER

Internet ordering from full-service restaurants dropped five percentage points to 23% of the general population. This is down from a high of 28% last summer. The decrease is likely a reflection of the current state of the economy, and consumers' desire to spend less money on restaurant food overall, rather than an indication of consumers' dissatisfaction with the service itself.

**% Who Have Placed an Internet Order From Full-Service Restaurants**




***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:* www.technomic.com/operator/amexmarketbriefs

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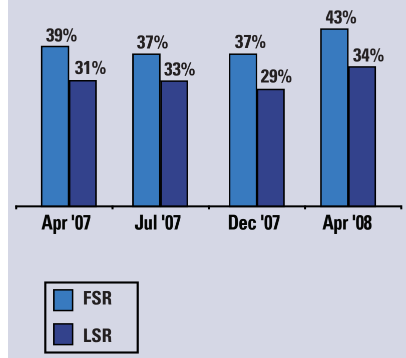
TECHNOMIC

## GAS PRICE TREND BAROMETER

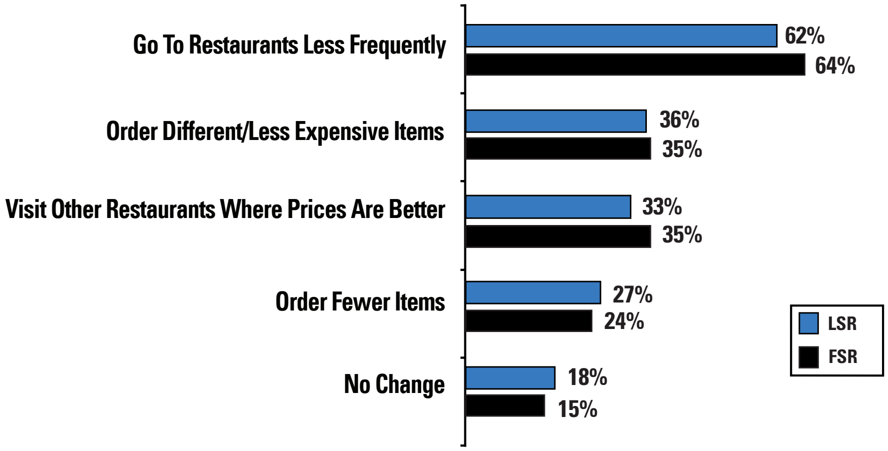
An increasingly higher percentage of consumers are cutting back spending on restaurant food due to new higher gas prices.

In the most recent quarter, the percentage of consumers cutting back at FSRs is up by six percentage points to 43% (vs. 37%) and the percentage of consumers cutting back at LSRs is up by five percentage points to 34% (vs. 29%).

### % of Consumers Cutting Back on Spending at FSRs and LSRs due to Higher Gas Prices



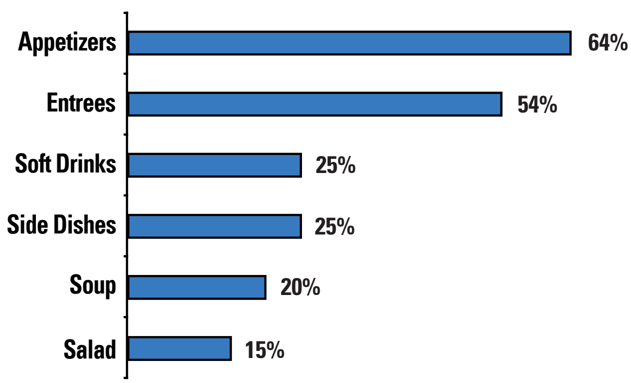

### How Consumers Would Respond to Higher Menu Prices




For those consumers who reported that they would order different/less expensive or fewer items at a restaurant if prices were to increase, a majority (64%) said they would cut back on appetizer orders. Apparently, many consumers feel that they can share appetizers or do without them.

Meanwhile, more than half of consumers (54%) report that their entrée orders would be affected if menu prices were to rise. This could suggest that consumers would elect to share an entrée rather than cut back on less expensive items such as soft drinks (25%), side dishes (25%), soup (20%) or salad (15%). It is also likely that some consumers might forego an entrée entirely and order side dishes, soup or salad and a non-alcoholic beverage instead.

### Where Consumers Would Cut Back if They Were to Order Fewer or Different Items at a Restaurant




## WHERE TO DRAW THE LINE

On the whole, consumers expect to pay less for a meal at an LSR than at an FSR. Consequently, most would be willing to endure higher absolute price increases for lunch or dinner at an FSR than they would at an LSR before changing their dining out frequency. For both LSRs and FSRs, though, it is tricky work indeed to locate the sweet spot where price increases will not dissuade a too significant portion of customers from visiting.

Where lunch is concerned, a per-person increase of two dollars at an LSR would lead 5% of consumers to no longer visit the restaurant at all, while nearly three out of five (58%) would visit less frequently, and more than a third (36%) report they would not change their behavior at all. At an FSR, however, an increase of two dollars per person at lunch would have a much less pronounced effect: only 2% of consumers would no longer visit the FSR, while approximately a third (35%) would make fewer visits and the bulk of consumers (62%) report they would make no change in their number of visits whatsoever.

| Impact of Price Increase: LSR for Lunch | | | |
|---|---|---|---|
| Price Increase | No Change in Visits | Fewer Visits | I Would No Longer Visit Restaurant at All |
| $1 | 72% | 26% | 2% |
| $2 | 36 | 58 | 5 |
| $3 | 12 | 56 | 32 |
| $4 | 6 | 36 | 58 |
| $5 | 6 | 24 | 70 |

| Impact of Price Increase: FSR for Lunch | | | |
|---|---|---|---|
| Price Increase | No Change in Visits | Fewer Visits | I Would No Longer Visit Restaurant at All |
| $1 | 81% | 17% | 2% |
| $2 | 62 | 35 | 2 |
| $3 | 31 | 56 | 13 |
| $4 | 12 | 59 | 28 |
| $5 | 7 | 41 | 51 |

With regard to dinner, LSR patrons would not be willing to accept much more of a price increase than they would endure at lunch time, whereas FSR patrons indicate that they would be a bit more tolerant of higher prices for the evening meal. For example, if per-meal prices were raised by three dollars at an FSR for dinner, nearly two of five (39%) consumers report they would not change their dining behavior at all; at lunch time, slightly fewer than one of three (31%) reports the same.

By the same token, at dinner time, slightly fewer than half (48%) of FSR patrons indicate they would make less frequent visits based upon a three-dollar increase, while at lunch, well more than half (56%) would take the same action. The percentage of FSR consumers who would no longer visit a restaurant at all if faced with a three-dollar-per-person increase does not change between lunch and dinner (13%).

| Impact of Price Increase: LSR for Dinner | | | |
|---|---|---|---|
| Price Increase | No Change in Visits | Fewer Visits | I Would No Longer Visit Restaurant at All |
| $1 | 74% | 25% | 1% |
| $2 | 44 | 51 | 6 |
| $3 | 14 | 52 | 34 |
| $4 | 7 | 32 | 61 |
| $5 | 6 | 20 | 74 |

| Impact of Price Increase: FSR for Dinner | | | |
|---|---|---|---|
| Price Increase | No Change in Visits | Fewer Visits | I Would No Longer Visit Restaurant at All |
| $1 | 82% | 17% | 1% |
| $2 | 68 | 29 | 3 |
| $3 | 39 | 48 | 13 |
| $4 | 17 | 56 | 27 |
| $5 | 9 | 43 | 47 |

***Bottom line:*** ***Consumers may not welcome a higher check along with their meal, but most are expecting to see one in the near future. Much thought, however, needs to go into deciding by how much to raise prices, because too big of a jump could impact your business negatively.***

## BUSINESS-BUILDING IMPLICATIONS

- More than anything else, most consumers these days want to feel they are getting a good value for their money when they dine out. As prices rise at varying rates on restaurant menus, it will become increasingly difficult for your customers to decide where – if at all – the value is to be found. Make the work easy for them by highlighting your value proposition front and center. Olive Garden does this by featuring a bottomless soup and salad bowl, along with breadsticks, for $5.99.

- Consider taking smaller price increases more frequently instead of making a substantial change in prices all at once. Incremental increases are much less jarring to consumers and may not even be noticed by some.

- A strong promotional lure can drive traffic to a restaurant even in tough times. CPK, for one, recently unveiled a nationwide Thank You Card program in which returning guests can earn prizes and cash up to $25,000. Set the right lure to bring customers back to your restaurant and the cost of the prizes you offer can be more than offset by the return business the promise of such prizes attracts.

# Consumers Crave Value and Good Service When Dining Out

As competition and prices heat up at restaurants nationwide, consumers will scrutinize service and quality components ever more closely before deciding where next to spend their dining dollars. At the same time, operators are pushing ahead with improvements that are intended to enhance diners' experiences in a multitude of ways. The crucial question is not so much whether operators' improvements are being noticed by diners, but rather, whether the improvements being made are those that matter most to diners. After all, making a restaurant more kid-friendly could be a great way to boost business, but not if the average age of patrons at that restaurant is 65.

## MORE VALUE FOR THE MONEY IS TOP ORDER AT LSRs AND FSRs

At limited-service restaurants, nearly three of five consumers (57%) report that they have noticed an improvement in menu variety in the past six months. Meanwhile, just over half (51%) noted more healthy items on LSR menus, and slightly fewer than two out of five consumers (39%) report that value for the money has improved. Improvements in the taste of food, freshness of food, and quality of food were detected by 29%, 24% and 23% of consumers, respectively.

When asked for which improvements at LSRs they would be willing to pay more, however, consumers gave the lowest billing to the two improvements they've noticed the most in the past six months. That is, while operators have made the greatest strides in increasing menu variety and adding more healthy items to their menus, fewer than two out of five consumers would actually pay more for these improvements (36% and 38%, respectively). On the flip side, getting more value for the money is something that more than half of all consumers (54%) report they'd be willing to spend more for, and exactly half of all consumers (50%) would pay more to see an improvement in the quality of the food at LSRs. An improvement in the taste of the food and the freshness of the food would encourage 46% and 40%, respectively, of consumers to open their wallets a bit wider at LSRs.

**Recent Improvements Noted in LSRs vs. Improvements for Which Consumers are Willing to Pay More**

| | Have noticed an improvement in past 6 months | Would be willing to spend more if improved |
|---|---|---|
| Quality of Food | 23% | 50% |
| Freshness of Food | 24 | 40 |
| Taste of Food | 29 | 46 |
| Value for the Money | 39 | 54 |
| More Healthy Items | 51 | 38 |
| Menu Variety | 57 | 36 |

Likewise, as noted on page 5, at FSRs, the areas where consumers have most noticed improvements in the past six months are not necessarily those that would motivate them to spend more money. In particular, while more than two of five FSR patrons report seeing more healthy items (45%) and greater menu variety (43%) recently, it's actually value for money that captivates more than half (51%) of these consumers' interest and could encourage them to pay more for a meal. Yet, fewer than one of three consumers (29%) has actually noticed an increase in value for money at FSRs in the past six months.

Almost a third of FSR consumers have noted improvements in two categories that pertain solely to FSRs—wait time to be seated (31%) and speed of table service (29%). Nearly the same percentage—32% and 34%, respectively—report they'd be willing to pay more for improvements in these areas.

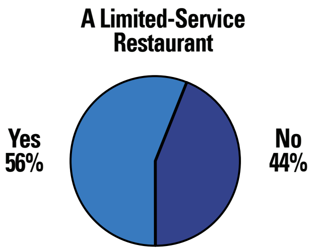
The fact that fewer consumers would be willing to spend money to improve various aspects of their dining experience at an FSR than at an LSR implies that consumers are more satisfied overall with FSRs than with LSRs. With the exception of value for money, only approximately one-third of consumers who visit FSRs report that they'd be willing to pay more for improvements in any of the other areas under consideration, including greater menu variety (34%), more healthy items (33%), improved taste of food (33%) and quality of food (35%).

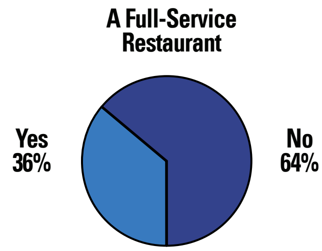
| Recent Improvements Noted in FSRs vs. Improvements for Which Consumers are Willing to Pay More | | |
|---|---|---|
| | Have noticed an improvement in past 6 months | Would be willing to spend more if improved |
| Quality of Food | 22% | 35% |
| Taste of Food | 25 | 33 |
| Speed of Table Service | 29 | 34 |
| Value for the Money | 29 | 51 |
| Wait Time to be seated | 31 | 32 |
| Menu Variety | 43 | 34 |
| More Healthy Items | 45 | 33 |

## SERVICE SETS THE TONE

Customer service is inextricably tied to a customer's dining experience. A great meal can be made all that much better by fantastic service, while even the most well-prepared food can leave a bad taste in people's mouths if service is not up to par. As many operators know, poor customer service can have ramifications that last well beyond one meal, as such experiences are not quickly forgotten. In fact, in the past six months, more than half of consumers (56%) who visit LSRs report that they have received poor service, while more than one-third (36%) who visit FSRs report the same.

### In the Past Six Months I Have Received Poor Service at:

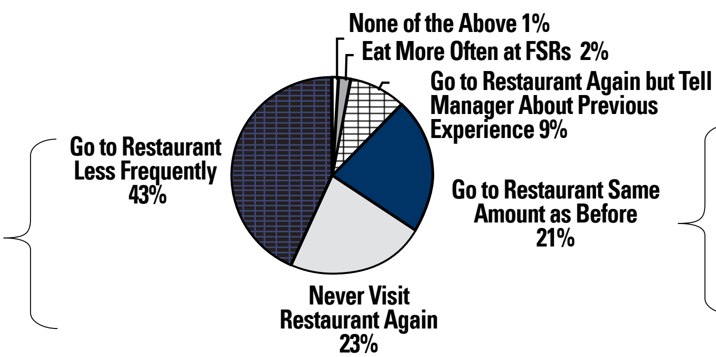


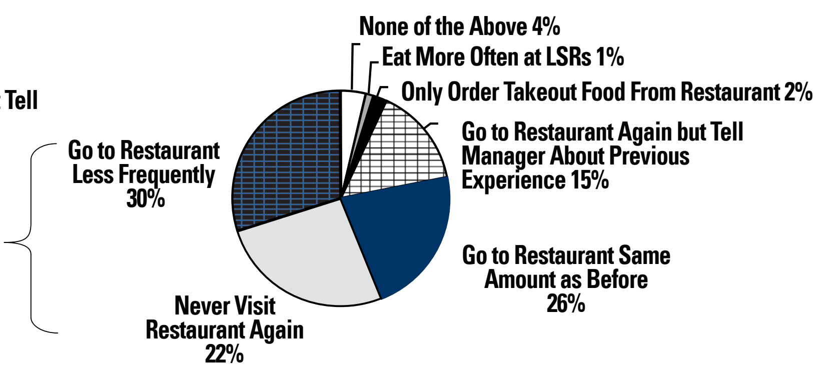

At an LSR, two-thirds of consumers (66%) who have had a negative service experience will either never visit the restaurant in question again or visit it less frequently. At an FSR, only a bit more than half of consumers (52%) report feeling the same. Furthermore, while one of five consumers (21%) will visit an LSR just as often as before after receiving poor service, more than one of four consumers (26%) indicates they would do the same at an FSR. This suggests that consumers who visit LSRs feel that in light of poor service, they have more options available to them and fewer reasons to remain loyal to any one chain.

Where FSRs are concerned, consumers are more hesitant to jump ship after poor service and more likely to want to give the restaurant in question another chance. Case in point: whereas 15% of consumers who visit FSRs will try a restaurant again but tell the manager about their poor customer service experience to ensure that it won't be repeated, only 9% of consumers who frequent LSRs report that they would do the same.

### Consumers' Reaction to A Negative Service Experience at an LSR




### Consumers' Reaction to A Negative Service Experience at an FSR



***Bottom line**: While getting good value for the money spent is top-of-mind for consumers nowadays, it's not something that happens in a vacuum. Knowing which aspects of the restaurant experience matter most to your customers, as well as how they define value, will help focus your attention on where to make changes. The money and effort saved by pursuing only those changes that your customers deem essential can then be applied to creating more value opportunities for them.*

## BUSINESS-BUILDING IMPLICATIONS

- Value menus and combo meals have been successful at bringing customers into fast-food and even some casual-dining restaurants. If your establishment does not have a value menu, why not try to create one? Similarly, if you don't offer combo options, why not add some? Even a very modest deal may be enough to draw value-conscious consumers in.

- What is your policy for dealing with complaints about poor service? On all such occasions, simply addressing the situation in a professional manner is of top priority. Managers who compensate patrons with free appetizers, drinks, or vouchers to be used on a return visit may be successful in their efforts as well.

- With value becoming such a key aspect of dining out, it's important to remember that good service is directly linked to consumers' concept of value. For most consumers, service is an integral part of the dining and value equation. Although service typically matters more at an FSR than at an LSR, it should be a key consideration in both realms.

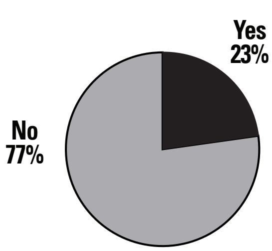
# Is Sodium the Next Trans Fat?

Times are tough for sodium. Physician and public advocacy groups are pressuring the U.S. Food and Drug Administration to change the regulatory status of salt, require limits on salt in processed foods, and require health messages related to salt and sodium. Restaurants, which often times rely on salt-laden, pre-packaged convenience products to save prep time, face an uphill battle in reducing the sodium content of their dishes. What's more, many consumers associate salt and sodium with taste, and the last thing the food industry wants to compromise is taste.[1]

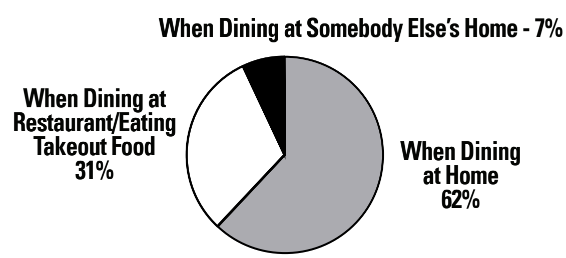
## WHEN CONSUMERS ARE CAREFUL ABOUT SALT

Of those consumers surveyed, only 23% have been advised by a medical doctor to watch their sodium intake. Although a majority of all consumers (62%) are most careful about monitoring their salt consumption when at home, nearly a third (31%) are most careful when dining at a restaurant or eating takeout food. Less than one in ten consumers (7%) is most concerned about salt when dining at somebody else's house.

**Have You Been Advised by a Medical Doctor to Watch Your Salt Intake?**




**When Are You Most Careful About the Amount of Salt in Your Food?**

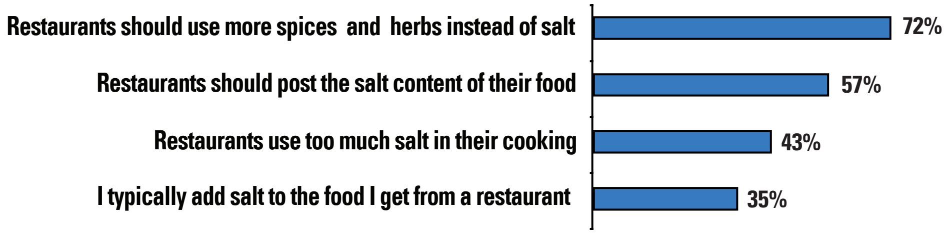



Despite the primary focus on monitoring salt intake at home, most consumers are still concerned with the sodium content of foods they get from restaurants. In fact, as noted in the chart on the following page, close to three-fourths of consumers (72%) feel that restaurants should use more spices and herbs instead of salt, and well more than half (57%) agree that restaurants should publicly post the salt content of their food. On the whole, more than two of five consumers (43%) feel that restaurants use too much salt in their cooking. Conversely, slightly more than one of three consumers (35%) adds salt to food obtained from a restaurant.

[1] "Targeting Sodium: Why salt is coming under fire," by Jamie Hartford, QSR Magazine, April, 2008.

### Consumers' Feelings About Salt & Restaurant Food

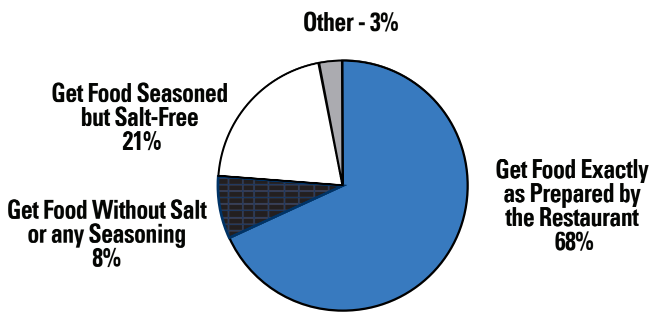
*Top 2-box response where*
*1 = agree completely, 5 = disagree completely*




## WHAT CONSUMERS PREFER

As it turns out, nearly seven of ten consumers (68%) like the food they get from restaurants and want to get it exactly as prepared by the operator—salt, spices and all. Slightly more than one of five consumers (21%) are in favor of food that is seasoned but free of salt, and fewer than one in ten consumers (8%) prefers restaurant food without any seasoning or salt whatsoever.

### Consumers' Preferences Concerning Salt in Restaurant Food




***Bottom line**: Most consumers know that they need to watch their sodium intake, but many feel that they need to be more vigilant when dining at home than when dining out. Operators that can successfully reduce the sodium content of their food without sacrificing its flavor will likely score a hit with consumers, but those operators who are unable to get the flavor profile right with lower-sodium dishes would do better to not pursue that route at all.*

## BUSINESS-BUILDING IMPLICATIONS

- If you have dishes that can easily be prepared salt-free, note this on your menu, and make your staff aware of these options. McDonald's, for example, will provide French fries without salt upon request. Do not, however, stop serving a salt-added dish altogether if you do decide to feature a salt-free version of it as well.
- As with the trans fats situation, making voluntary cutbacks in sodium may be a wise road to follow. Several food manufacturers such as the Campbell Soup Company and Terra Chips are making low-sodium soups and chips. Take advantage of these types of products to incorporate lower-sodium products into your establishment's recipes wherever possible.
- If your menu features simply-prepared meat and fish dishes, try offering several differently spiced versions, all of which are salt-free. Let your customers experience salt-free flavor profiles that rely upon herbs, spices, chutneys and other condiments. They might end up preferring these dishes to those that do contain salt.

***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 April 2008. Margin of error ± 4.5%.*

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