

INDUSTRY UPDATE

Trends to Watch in 2010

"Cautious optimism" may be the key message in the National Restaurant Association's 2010 Restaurant Industry Forecast. The report (based on the latest economic data, as well as extensive operator and consumer surveys) predicts a gradual economic recovery – slow and perhaps a bit unsteady – in which **restaurants will likely see an improving operating environment, particularly in the second half of the year when the economy is expected to add jobs.** Although when adjusted for inflation, sales gains will likely be modest (quick-service at + .04%) or slightly down (full-service at -1.5%), "Industry trends are definitely headed in the right direction, especially considering where they were in 2008 and 2009," says Hudson Riehle, senior vp, research and knowledge group, NRA. "And, it's important to remember that even in the most severe economic downturn since the Great Depression, the restaurant industry has continued to garner almost half of the American food dollar."

Ultimately, it's consumer optimism that will determine the speed and degree of the industry's upturn. While an NRA consumer survey late last year found that nearly three-quarters (71%) of adults are more concerned about the state of the economy than they were the year before, on the whole they, too, are cautiously optimistic. Only 16% think their household financial situations will be worse than in 2009. Nearly half of all adults (44%) say that restaurants are essential parts of their lifestyle, and more than a third (35%) say they don't eat on-premises at restaurants as often as they would like on a weekly basis. **What will draw consumers in? First, value.** Over three-quarters (79%) of quick-service operators expect guests to be more value conscious in 2010 than in 2009, along with 40% of casual-, 36% of family-, and 34% of fine-dining operators. While consumers remain price-conscious, price/value is a complex calculation that can take many forms. **Growth opportunities are present for operators in every segment** when they deliver value based on consumers' needs, interests, and priorities. And many strategies help control costs in addition to attracting customers. Some examples:

Convenience: NRA research shows that operators can boost sales by offering delivery options – 54% of consumers indicated a desire for home or office delivery from full-service and quick-service restaurants. (Note: For quick-service, that figure rises to 72% for adults aged 18-34 and to 64% for households with children.) The desire for convenience extends to ordering. Almost half (47%) of adults say they would like the option to order through self-serve terminals at quick-service restaurants (which just 26% offer), and 36% say they would order online (an option that has not yet taken hold in the full-service segment). **Connections:** About a quarter (24%) of consumers surveyed say they would likely sign up for notification of daily specials via email and 17% by text message; 41% say they choose new restaurants because of email promotions. Wireless Internet access at quick-service restaurants is something that 35% would use – jumping to 55% of 18- to 34-year-olds. **Experiences and entertainment:** Full-service restaurants are in a position to tap into consumer interest in cooking and chefs – 64% say they would patronize chef's table dinners and private tastings; 57% say they would participate in interactive cooking demonstrations; and 54% would attend cooking classes. **Nutrition:** Roughly three-quarters (73%) of adults say they try to eat healthier at restaurants than they did two years ago and 31% have gone online to get nutrition information about restaurant foods. It's no surprise that the hottest 2010 quick-service food trend predicted is healthful children's meals, cited by nearly three in four quick-service operators surveyed. **Conservation and sustainability:** It pays to be green. About four in 10 consumers say they're likely to choose a restaurant because of its conservation practices. Over half (56%) are more likely to visit restaurants that offer food grown in an organic or environmentally friendly way, and 70% are more likely to visit restaurants that offer locally produced food.

For expanded coverage of the National Restaurant Association's 2010 Restaurant Industry Forecast, visit restaurantbriefing.com; and for more information about the Forecast, visit restaurant.org/research/forecast.



Thank You for Sharing

Whether it's to taste more or spend less, customers sometimes like to share dishes. While some restaurants still charge to split orders, others do not, using it as an opportunity to provide distinctive service.

"I believe the best service is preemptive and **when it comes to sharing dishes I like to assess the situation** – do guests appear to be friends or family, are they dining for business? If I surmise that guests don't know one another well, we'll create two half portions in the kitchen to remove any possible uneasiness about sharing from the dining equation."

Pavle Milic, co-owner, FnB, Scottsdale, AZ

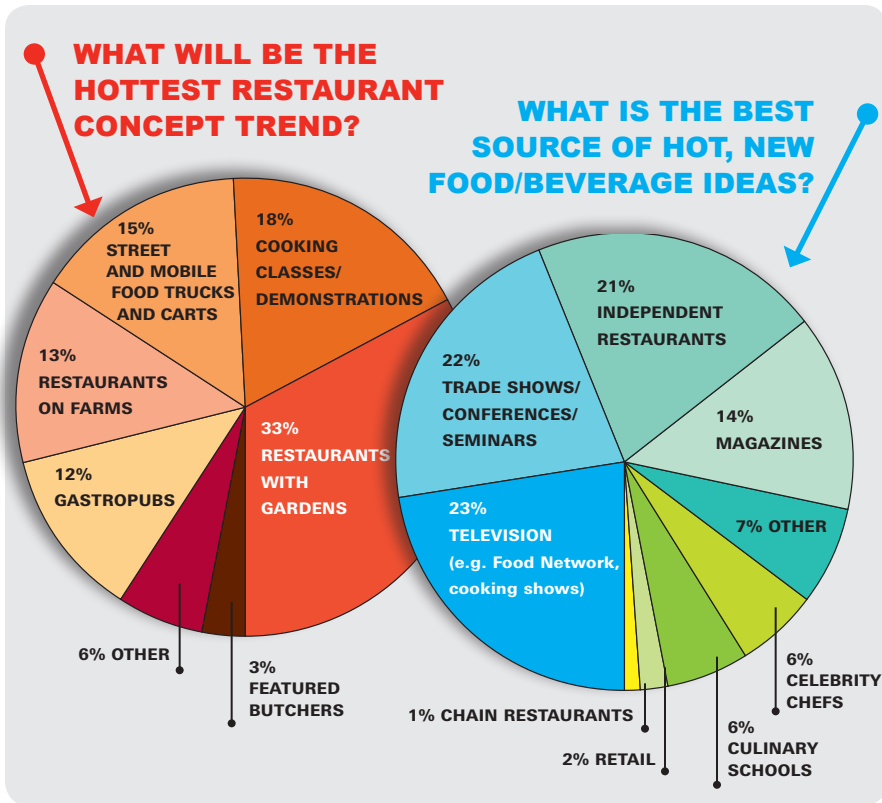
"Our portions are generous, and most of our dishes can be split upon request. Presentation is key, and **we want to send a dish out as beautifully in half portion as it is whole**, so we divide dishes unless the presentation is compromised."

Elana Cohn, manager, West Town Tavern, Chicago, IL

"**We do everything we can to make our guests' dining experience easy and pleasurable.** If they want to share something that is easily divisible at the table, such as fried calamari, we send out one plate. However, when servers notice that the two people sharing calamari are not sitting next to one another, they send out two plates. And, if a dish is cumbersome to share (like our tuna burger), we serve two minis with their own condiments. It's a relatively simple thing to do to make our guests happy."

Christopher Russell, gm, Union Square Cafe, New York, NY

Chefs' Trends in 2010



Source: 2009 National Restaurant Association's "What's Hot in 2010" online survey of 1,850 American Culinary Federation members.

Competing for limited food dollars means responding to consumers' interests and needs – something top of mind for chefs, who know that to stand out in an increasingly competitive marketplace, they must creatively incorporate trends with what appeals to consumers on the menu. In a recent survey by the National Restaurant Association, professional chefs reveal that they turn to TV, trade shows, and independent restaurants for inspiration.

Of the 20 leading trends cited by the chefs, nine of them – including the top three (locally grown produce; locally sourced meats and seafood; and sustainability) – are in the category of local/sustainable/fresh/organic, including both food and beverages. Five of the top 20 are in the area of health and nutrition, including nutritionally balanced children's dishes (#6). Two – bite-sized/mini desserts (#4) and half portions/smaller portions for a smaller price (#7) – also underscore consumers' desire for choice.

The forward-thinking chefs look beyond the menu to concepts they expect to take hold this year, two of which reflect the power of locally grown ingredients: restaurants with gardens and restaurants on farms. Given that in other NRA research, 70% of adults say they are more likely to visit restaurants that offer locally produced food, bringing restaurants to the farm in addition to bringing the farm to restaurants may not be too far afield. For more survey results and to watch the "Chef Survey: What's Hot in 2010" video, visit restaurant.org/foodtrends.

AROUND THE USA

Doing Good in Difficult Times

While some find they have to say "no" to donation requests more often in the current economy, restaurants around the USA continue to support charitable causes, especially in their own communities. What some are doing:

Peter Keller, owner, Rod's Steak and Seafood Grille, **Madison, NJ**, says, like many restaurants, the economy has affected his business. "For now, we're focusing on supporting the charities we've worked with for many years – a local soup kitchen, where we supply soup once a week, and a homeless mission – rather than establishing relationships with new charities" . . . "The economic conditions probably inspire me to do more good for others, even though it doesn't remove concern about my own business," says Scott Wise, owner, Scotty's Brewhouses, located in **Indiana**. "We have hundreds of people walking through our doors and have a great opportunity to promote charitable giving." Last year, Scotty's raised money for the Susan G. Komen Foundation with pink drinks, created a menu item (Red Wagon Hot Chocolate) of which \$1 went to Riley's Children's

"2009 was our busiest year, I think in part because the neighbors and folks whose charities we support tend to be loyal – many guests tell me they come in because we support their charities."

Jim Solomon, chef/owner, The Fireplace, Brookline, MA

Hospital (amounting to \$12,000), and continued "Community Give-Back Tuesdays" when 10% of sales goes to a charity. . . . Michael Franks, owner, Chez Melange, **Redondo Beach, CA**, says, "We're looking for ways to raise money for worthy causes – some that we choose and some that our good customers' support – where the cost to us is really our time and some hard costs." He says they've been able to raise big money auctioning dinners for 10 in private homes. To make the dinners as unique as possible, Michael invites two winemakers to provide wine and act as sommeliers. . . . Jim Solomon, chef/owner, The Fireplace, **Brookline, MA**, donates to over 350 charities a year and says 2009 was no different. He gives two certificates valued at \$30 each to "Saturday Fireside Chats," events that have a speaker, wine, beer, and food tasting. "This

allows me to give to multiple charities what I do best, show off my restaurant, and get people to taste my food." Jim has also had great success raising large sums by auctioning off private dinners for 10. . . . Over a six-week period in 2009, the 19 Sullivan's Steakhouses – owned and operated by Del Frisco's Restaurant Group, headquartered in **Southlake, TX** – raised \$170,000 for the Susan G. Komen Foundation with a "Keep Your Palate in the Pink" menu. Chris Rockwood, regional manager, says \$5 of each three-course, \$39.95 steak dinner sold went to the cause. "We wanted to give value to the guest, as well as contribute to the foundation." Servers were told about menu, but their participation was voluntary. "They became passionate about it, and took it and ran with it," Chris says.

Will Trade Food for Services

Barter is big business – the 500+ barter exchanges in the U.S. accounted for over \$14 billion in transactions in 2008. Rob Miller, president of the Arizona Trade Exchange, which has 600+ members, says 2009 transactions were up 22% from 2008, many of them taking place at restaurants. **“In tough times, restaurants often have excess capacity and less cash, and that’s where barter can be enormously valuable,”** explains Rob, adding he now has over 30 restaurant members. “Restaurants are ideal for barter as most of their expenses are not variable, with the exception of food costs – meaning that trade dollars only cost restaurants 30-40 cents on the dollar.” Don Mardak, president/ceo, International Monetary Systems (IMS), a publicly traded barter company with 14 offices in North America and 17,000 members, adds, “Restaurants are an important part of any barter system because they are very popular with other members.”

BENEFITS OF BARTER. Restaurateurs say that, while buying goods and services with trade dollars is useful, far and away the biggest benefit to barter is filling seats. By joining a barter/trade exchange, restaurants have access to a large pool of businesses from which to attract new diners and to spend barter dollars. “Our restaurant members tell us that barter attracts business they would not have gotten otherwise,” says Don. Restaurants using barter report that these customers usually tip well, which keeps the staff happy (barter cannot be used for taxes and tips). According to Rob, his members are dining out more in this economy, many with their families. Obed De La Cruz, owner, El Zocalo Mexican Grille, Chandler, AZ, has been doing barter since last fall and says, “At first, I was very skeptical. But right away, I began to see new people coming, plus they bring in friends.” Obed says barter also gives him an opportunity to build a rapport with people in other businesses. Dave Davenport, owner, Mint Julep Bistro, Palatine, IL, concurs. He has been using barter since he opened in December 2008 and says it helps him get new business without having to discount, which is a positive because he feels discounts rarely result in repeat customers. **“Repeat business is terrific with barter people. If they like you, they’ll come back with more barter bucks and their friends. Plus, barter extends my market area by five-to-ten miles,”** says Dave.

“Restaurants are using barter to offset real cash expenses these days – one of our members said that he might not have made it through the summer without it.”

Rob Miller, president, Arizona Trade Exchange

HOW MOST BARTER/TRADE EXCHANGES WORK. They charge a one-time membership fee, a monthly fee, and a commission on each barter transaction. Members buy restaurant trade dollars (scrip usually in \$5, \$10, and \$20 increments, each trade dollar is equal to one U.S. dollar). Restaurants send the trade dollars they take in to the exchange, which credits their accounts, enabling them to purchase goods and services from other members. Exchanges provide monthly and year-end statements (all transactions are reported to the IRS) and typically an account rep to review accounts frequently and offer advice on how best to use barter dollars. Restaurants can often set black out times (Mother’s Day, New Year’s Eve), and it is understood that barter dollars are not to be used for parties of more than six or eight, unless arrangements are made in advance. “The goal is not for barter business to displace regular business,” explains Ron Whitney, executive director of the International Reciprocal Trade Association (a non-profit organization that promotes just and equitable standards of barter practice).

THINGS TO CONSIDER. Make sure the exchange has members who have services/products you need. Rob advises asking for a list of members — not just categories of members but actual names of members and locations – so you know that a sufficient number of members are in the proximity of your restaurant. Don agrees and adds that **it’s important to get into a system that is large enough to service your needs and to realize that barter takes a little time, especially when deciding how to spend trade dollars.** “You don’t want to be doing frivolous things with barter dollars,” he says. “You want to find ways to use trade dollars for business-related expenses like cleaning, signage, equipment repair, advertising, etc., rather than luxury goods.” He says six California wineries have recently become members, which means IMS members in states that allow wine to be shipped can use trade dollars for wine. To find out about exchanges in your area, visit irta.com and natebarter.com.

Mobile Marketing

The most recent CITA (an international association for the wireless industry) data indicates that 89% of the total U.S. population are cell phone users. “Right now there are close to 300 million mobile phones in use in this country,” states Ola Ayeni, president/ceo, Mobile Dialog, a mobile marketing firm. And of those, he says 99% are text-enabled and close to 90 million are smart phones (Blackberry, iPhone, Android, etc.) with advanced capabilities such as email, texting, camera, and Internet. **As a result, consumers are using mobile phones like miniature computers.** In fact, according to a ComScore Mobilens study last fall, those using mobile media (use their phone’s browser, applications, download content, etc.) measure 34% – about the same percentage as those who use SMS text messaging or just voice capabilities.

Marketers understand the momentum – and the potential of connecting and interacting with consumers almost immediately, wherever they are. The Mobile Marketing Association predicts that mobile marketing will be one of the fastest growing marketing strategies, along with social media. And increasing numbers of those marketers are restaurant marketers – testing the waters with text message and mobile email campaigns, mobile-friendly Web sites and applications, social networking on mobile devices, and mobile advertising.

A frontier with a great potential for restaurants is local search – people are increasingly using their cell phones to find information about what’s around them when they’re away from a computer, using phones with GPS capabilities (which experts say will become commonplace). For example, on an iPhone or Android phone, Google offers the option to click “near me now” to bring up search results close to the user’s immediate location. “Location-based capabilities will be huge,” says Kim Dushinski, founder, Mobile Marketing Profits, a consulting firm. And while she acknowledges that strategies involved are advanced for those beginning in mobile marketing, she advises, **“Restaurants must have a local business listing on Google** and they must participate as actively as possible on Yelp, OpenTable, etc. – sites that offer mobile experiences.” Ola agrees, “Yelp and Urbanspoon have incredible mobile apps, and you can’t afford not to be part of Google.” (Visit Google.com/LocalBusinessCenter for a free business listing and other services including offering mobile coupons.) **Next edition:** an update on text messaging campaigns.

The \$5 Sweet Spot

Five dollars was the key price point in 2009 spurred by Subway's \$5 footlong sandwich, reports Maria Caranfa, foodservice analyst, Mintel Menu Insights. "\$5 screams value," says Maria, adding that in 2009, Mintel recorded 300 new menu items – excluding side dishes – priced at \$4.99 and \$5 across all segments. Restaurateurs say that \$5 items on their menus are bringing in new and repeat customers and it is important that the items offered reflect the rest of the menu. How some casual and fine dining restaurants are using the \$5 price point to their advantage:

\$5 BAR FOOD: "Our Prime Time \$5 Menu has helped broaden our customer demographic and change the perception that we are very expensive," says David Sadeghi, coo, Big Steaks Management (operator of nine Ruth's Chris Steak Houses in NJ, MD, and NC). "We saw what was happening to the economy in 2007 and began offering a number of more affordable small plate and entree options to guests. In 2009, we launched the Prime Time \$5 Menu (Kobe sliders, crab cakes, stuffed mushrooms, etc.), which we serve in the lounge and patio areas during normal dinner hours." David says the goal is to make people feel comfortable, and get on their radar screen when they're thinking about where to go for dinner. The same is true for Stonehill Tavern, Dana Point, CA, part of the Mina Group. The \$5 lobster, tuna, and pork belly sliders at the bar are not revenue generators, says Patric Yumul, vp, operations. "They're 'buzz' generators, giving people a chance to discover that we're not a 'fancy-schmancy' place and that we serve good, familiar food that is affordable." He says customers are ordering several items and spending money on a second glass of wine. Bar business is up 20%, and many newcomers return for dinner.

\$5 FOR DINNER AND LUNCH: Every Monday night at Cortland's Garage, Chicago, IL, is '5 Build Your Own Burger' night. Kate Thompson, marketing director, says, "Customers are getting the exact same burger that is \$9 to \$12 at other times, and average checks are about the same because customers order more." Joe Mastrangelo, owner, Douglas Street Sports Bar and Grill, Elgin, IL, agrees. His menu has had a \$5 lunch since he opened last year. "We're in a business area and saw there was a market for a quick, cheap lunch, so we feature 10 lunch items for \$5, including sandwiches, wraps, and a pasta." Joe adds that many come back for dinner. Samurai Sam's, headquartered in Scottsdale, AZ, is offering "5 Healthy Entrees for Under \$5." Maggie Fearnow, marketing director, says, "We chose five of our most popular dishes and are using this promotion not only to give extra value to customers but to announce our partnership with healthydiningfinder.com."

TODAY'S CONSUMER

Not Business as Usual

TREND: With limited budgets and a shaky economy, Today's Consumers traded down (79% say they settled for less than exactly what they wanted in order to save money) and traded in (more than half, 58%, clipped/downloaded restaurant coupons). Of those who eat out once a week or more, a quarter (24%) used restaurant coupons "a lot." In the process, consumers learned they can live without much of what they once had and did – an experience that they reported was better, even much better, than expected.

OPPORTUNITY: Having rethought price, consumers are now rethinking value. And they do so with an open-mindedness and objectivity – actively searching for what is worth the money, across all price points. To differentiate themselves in a highly competitive marketplace and build their businesses, it's important for restaurateurs to make their own objective assessments. Identify aspects of what you offer that may no longer resonate with your customers and target customers – where is

your business the most vulnerable? For example, if you've been competing primarily on price, when customers loosen their wallets a little, will yours still be their restaurant of choice? Profile shifts in customers' priorities – what things are more important because of the recession? Have fewer distractions meant more time with family, which they don't want to lose? Are locally sourced, fresh foods now more important than price? Are special occasions more special and to be celebrated by dining out, and are you prepared for expectations? Identify and deliver on new definitions of value such as these, and understand what your customers are willing to pay for.

CAUTION: While consumers will remain interested in high value, don't assume that when they are in a position to spend that their thinking will remain strictly price-driven – or that they have accepted living with less across the board. They will simply reassess what they are willing to pay for.

Trend Source: Yankelovich MONITOR® 2009

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