

INDUSTRY UPDATE

Competition from Aisle 7

According to the Food Marketing Institute (FMI), an association serving food retailers and wholesalers, the economic arena in which their members compete with restaurateurs for food sales is valued at about \$1 trillion. A recent FMI report concludes, "Many food retailers today, especially those with an eye on the future, are entering the foodservice business. They are expanding and upgrading their frozen meal selections. Their bakeries are selling breakfasts. Their delis are selling lunches and side dishes for dinner; salad, pizza, and coffee bars are spreading." And, it is noted that many of these supermarkets/groceries/gourmet delis, etc. are flourishing in this market known as "meal solutions."

This competitive focus and its impact on restaurants isn't a surprise to some restaurant industry experts who have been following the threat – and their message to restaurant operators is loud and clear. "It's time to take notice," warns Bonnie Riggs, The NPD Group's restaurant industry analyst. "We're going to have to address this as an industry. Consumer visits to restaurants have been steadily declining – particularly at supper and especially over the last few years." Due, in part, to the fact that cost-conscious consumers in the recession have turned more frequently to supermarkets for both ingredients and meals to eat at home. "After all these years of supermarkets saying that they were going to come after this market, they finally did; they have really seized the opportunity. It may be one of the lasting outcomes of this recession," says Peter Romeo, industry commentator and former executive editor of Nation's Restaurant News Online. And seize it they have. "Even small grocery chains have brought chefs on board, and a greater number of supermarket chefs have restaurant chain experience – expertise in volume production, handling and heating, packaging, and carryout. It's a whole new kind of culinary intelligence," observes Nancy Kruse, president, The Kruse Company. As a result, Peter notes, "In supermarkets now you get such high quality that there is no longer a stigma about buying ready-to-eat foods there."

"Supermarkets have stepped up their efforts, providing convenient meal solutions that were not available in the past."

– Bonnie Riggs, restaurant industry analyst, The NPD Group

How can restaurants respond? "There are areas in which restaurants compete from a position of strength," says Nancy, who echoes Bonnie and Peter in advising restaurants to play to those strengths – execute them well and, as Nancy says, be "shameless" about making guests aware of what they offer that supermarkets can't. "Supermarkets are still in the old mindset of food as fuel, but restaurants offer a larger experience – social, experiential, service oriented. This is our trump card. Restaurants don't do a good enough job of getting this across to the customer." Peter adds, "Responding to this challenge will accentuate the positives of the restaurant experience. Smart operators will see the opportunities and figure out how to execute." Some ideas:

SIGNAL FRESHNESS AND HEALTH

"Beyond the financial considerations when consumers choose to eat at home, our research indicates that they think homemade tastes better and is better for them. Restaurants need to do more in the area of healthier, lighter menu items – and when they do offer up lower calorie or other nutritional options, they must really tout the taste. Make food taste good with less nutritional downside," advises Bonnie. "Quality and freshness should be restaurants' #1 story," says Nancy. "There are hot buttons, tip-offs, and signals – a sizzle, an aroma – to communicate high quality and freshness to customers; underscore techniques such as 'freshly grilled,' 'seared,' 'braised,' etc. on the menu. Restaurants still have the advantage of true foodservice kitchens – the equipment, set up of the line, division of labor. Very few supermarkets have this kind of capability – use it to your advantage."

[continued on the next page](#)



Partnering with Vendors

"We do so much business with our tomato, cheese, and wine suppliers that they invite members of our management team to visit their production facilities. It's great for us and for them – our people return filled with enthusiasm and an added sense of confidence about the quality of the products that they share with staff. These suppliers participate in pizza-making classes and bring in products to sample, which keeps it interesting for customers and employees." – Sam Facchini, co-founder, Metro Pizza, Las Vegas, NV

"We whittled down our purveyor list to those who not only give us great quality, but those we like and with whom we enjoy working. Our relationship is mutually beneficial – we get to know them personally, they dine with us; when they donate products to a charity event we give them tickets. In turn, they're willing to sit down and make changes to pricing, have an open mind about new things I want to try, and generally make our life much easier. We're all in this together and want to prosper." – Brad Farmerie, chef/owner, Public and Double Crown, New York, NY

"Our prime vendor – U.S. Foodservice – does a bunch of things for us. They send us quarterly rebate checks that we use for advertising. Their in-house experts train our servers on product knowledge, how to approach a table, and how to sell. They also print special order forms that have suggestive selling ideas on the top. Servers check them off for each order, and the manager reviews them with servers at the end of each shift." – Joe Vicari, owner, Andiamo restaurants, Detroit, MI

Competition From Aisle 7 (cont'd)

STRESS SERVICE AND THE EXPERIENCE

"From the experience point of view, restaurants absolutely have the upper hand. In supermarkets, patrons don't feel as welcomed, cared for, or made to feel comfortable. Restaurants have done a brilliant job of raising the level of output from the back of the house, but, all too often, the kitchen's best efforts can still be subverted by the front of the house. There's a gap, a chasm, between the quality of food and front-of-the-house execution that restaurants need to address," says Nancy. "Step up service by offering more tableside touches – I'm seeing more guacamole and Caesar salads made tableside; more family-style platters being plated for guests. Be responsive to customers; make them feel pampered. They can't get this in supermarkets. Also, don't isolate chefs in the kitchen. Many times at supermarket prepared food areas, there's an interaction that takes place – you can ask a cook at the counter, 'What do you have today? Tell me about the salt content, fat content.' Let your chefs make a personal connection, and underscore that 'I made this for you,'" suggests Peter.

KEEP AN EYE ON PRICING

"The days of charging premiums for certain aspects of the dining experience are over. Cost is a major, major element when it comes to dining decisions. Consumers are willing to factor some intangibles into the value equation, but they are still deeply cost conscious. Re-think pricing – for example, with supermarket takeout consumers don't have to pop for a beverage, so perhaps revisit your margins there," Peter suggests. "Consumers have spoken loud and clear about value, and they say that it's often just too expensive to dine out," says Bonnie. "We know that wherever there is the least upward momentum in pricing is where they will shift their dollars. When you offer something healthier, for example, don't position it as a premium with higher costs associated with it. Expectations will be great; consumers will be watching what they spend."

INNOVATE

"Innovation gives customers more reasons to visit. In our research something that came up is consumers' desire for variety – new, innovative, creative offerings – including more choices, such as smaller portions, which they are looking for in addition to reasonable and affordable prices," explains Bonnie. "Supermarket chefs know that restaurants do their test marketing. When something gets to be a sizeable phenomenon, say chicken wings, they jump on it. Stay one step ahead," advises Nancy. "In supermarkets, we've become conditioned to look for samples. So why not create more opportunities for guests to experiment – while waiting for a table, for example, let them sample new menu items? Supermarkets do a grand business on picnic meals – infiltrate that world as well. And maybe it's time to experiment again with the idea of restaurants having gourmet food markets," adds Peter.

COMPETE ON CONVENIENCE

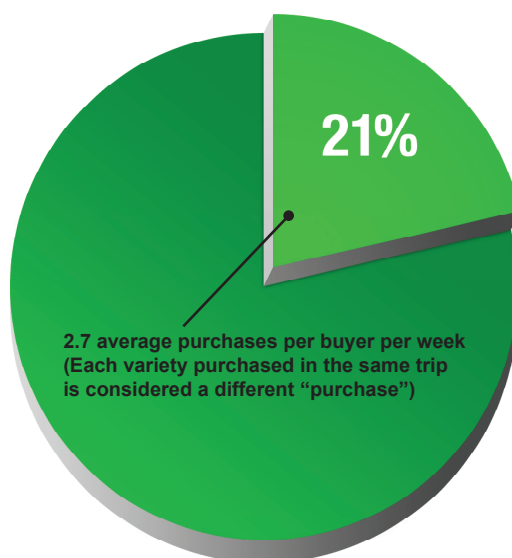
"Supermarkets like to tout convenience. But on the other hand, supermarket people will tell you that they think restaurants with strong takeout business do the packaging piece better; that restaurants get food out the door and into the cars better. They concede that restaurants are superior at all the logistical stuff. Make sure that's the case," says Nancy. "The need for convenient meals is being increasingly satisfied on the retail side. But even with takeout, you are still going to clean up after the meal has been put on the table. Dining out, you don't have to shop, cook, or clean up – just spend time with friends and family. Restaurants haven't done a good job of getting this message across. This is one of many areas in which the industry hasn't touted its benefits – particularly at the dinner meal," adds Bonnie.



Popularity of Retail Prepared Foods

Based on Purchases

Weekly Prepared Foods Purchases in Supermarkets
% of Adults Who Purchased in Past Week



Source: The NPD Group/Deli Track™/Apr-Dec '09

- 1 Chicken or Turkey
- 2 Sandwich / Wrap / Panini
- 3 "Deli" Salads (potato, pasta, etc.)
- 4 Leaf Salads
- 5 Dips or Spreads
- 6 Pizza
- 7 Meat - Beef / Pork / Lamb
- 8 Potatoes / Rice / Stuffing
- 9 Asian Dish
- 10 Desserts (not bakery items)
- 11 Soup / Chili
- 12 Vegetables
- 13 Pasta or Italian Dish
- 14 Olives or Pickles (not jarred)
- 15 Fish / Seafood
- 16 Complete Meal
- 17 Mexican Dish
- 18 Party / Deli Tray
- 19 Quiche or Pot Pie

Source: The NPD Group/Deli Track™/Apr-Dec '09

DIY Sodas/Seltzers

Many restaurants around the USA are finding that taking the extra step to make their own sodas is paying off and giving those who choose not to drink alcohol interesting options.

"We've been making sodas using organic Italian syrups and a soda gun for years," says Orla Murphy-LaScola, co-owner, American Seasons, **Nantucket, MA**. "Now we're making sodas that are completely different from anything on the market near us with syrups made from herbs from our own garden and simple fruits. The most popular are lavender and sweet tea grapefruit." The sodas are not as sweet as soft drinks, and Orla explains the flavors are chosen to complement their food. The syrups are mixed with two-thirds soda water from a soda gun and one-third water, so the drinks are not too fizzy. Orla says they sell well (at \$3.50 for 16 oz.) and are also good bases for alcoholic drinks. . . . The sauciers at Sino Restaurant & Lounge, **San Jose, CA**, are in charge of making the flavored syrups with ingredients they frequently use in the kitchen – ginger, kumquat, basil, lemongrass, and mint. "Our specialty sodas are very refreshing

and a good match with our cuisine," says Heather Connery, corporate marketing director, Straits Management. A 16 oz. soda costs \$3.50-\$4 and Heather notes that sales are very strong at lunch and dinner – almost twice that of beer. "These sodas are a great option for those who don't want to drink alcohol, but want to join in by drinking something delicious and festive, and for kids". . . .In order to make its own flavored seltzers, Northern Spy Food Company, **New York, NY**, rented a new version of an old-fashioned seltzer tap that co-owner Chris Ronis found online. Four or five flavors are available at one time – always lemon/lime and others made from seasonal fruits and vegetables – strawberry rhubarb, cucumber mint, quince, Concord grape, figi apple, and a coffee seltzer (made from thick, cold-brewed chicory coffee) is very popular at brunch." Prices for 16 oz. are \$4 for fruit seltzers, \$2 lemon/

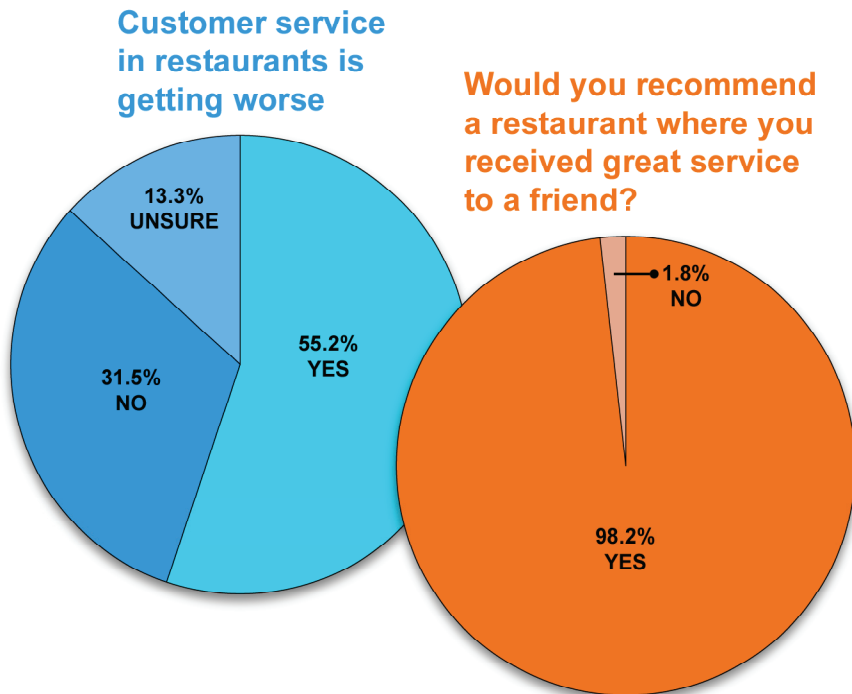
lime, and \$1 plain seltzer and are determined by the cost of ingredients and labor involved. Chris says equipment rental and CO2 tanks cost about \$100 a month, which is easily recouped in a day or two. He advises renting rather than buying equipment and to make use of seasonal fruits and vegetables that are already being used in the kitchen. . . .David Yudkin, owner, Hot Lips Pizza, **Portland, OR**, says, "It took us a while to get the formula right for our house-made draft sodas. We wanted to make them with cane sugar, not high fructose corn syrup, and real fruit, buying only from local farmers." We filter out the seeds but not the pulp, resulting in high percentages of real fruit. Boysenberry, black raspberry, raspberry, blueberry, blackberry, strawberry, apple, and pear draft sodas sell for \$2.50 a pint, and David says they account for 60% of beverage sales.

"Don't worry about competing on price with regular sodas. You're using more expensive ingredients, so be sure to charge enough to make a profit."

– David Yudkin, owner, Hot Lips Pizza, Portland, OR

INDUSTRY UPDATE

The Customer Service Imperative



According to a recent survey by Empathica, Inc., a global provider of customer experience management solutions, the majority (55.2%) of American consumers think customer service in restaurants is getting worse. Gary Edwards, exec. vp, client services, attributes the discontent to a lower tolerance for disappointing experiences. "With less discretionary spending, people aren't going out as frequently, and when they do, they have heightened expectations. Even if service levels aren't truly declining, restaurants may be evaluated more harshly. There is simply more of a negative sentiment among consumers."

"Higher expectations are a huge challenge for restaurants, who are already struggling with less traffic," Gary adds. But it's imperative for restaurants to focus on service, given the degree of importance U.S. consumers place on it (one in five respondents said they value good customer service over good food). When respondents receive poor service at a restaurant they have frequented several times before, one in four stated they would never go there again and would also tell others not to. When they have a good service experience, the vast majority of respondents said they would be sure to go back again (69.4%) – some "more than ever before" (22.8%).

"When our restaurant clients think of focusing on service, they often think of increased labor costs – but it's not necessarily a question of throwing more labor dollars at a problem," says Gary. "We tell them to hire and train well, then measure and reinforce the right service behaviors. We work with them to determine critical moments that differentiate the experience they offer guests and then train for those moments. Everything should drive a great experience."

Source: Empathica, Inc. Consumer Insights survey, Q1 2010, Issue 2
 Note: The survey includes responses from more than 13,000 consumers, of which about 6,800 were American. Only data from American consumers is represented above.

To Raise the Bar on Service, Listen Up

There's an ongoing discussion about the quality of service in restaurants lagging behind the quality of the food. For years Zagat Survey service rankings have consistently fallen two full points behind food. And, in a recent survey of 300 general managers of upscale steakhouses by the Federation of Dining Room Professionals, 89% said their clientele has become increasingly demanding when it comes to service. Some believe that building strong relationships and listening are essential to providing excellent service.

["I think the key to providing great service is forming relationships with the people you work with and the people who come in your door and pay the bills,"](#) says George Green, vp, Bread & Company, Nashville, TN. "When you're focused on creating relationships, you tend to treat people better than if you think of them only as a transaction." Alex Brennan-Martin, owner, Brennan's of Houston, Houston, TX, agrees. "Being customer focused actually means focusing on all the people who contribute to the customer experience. I believe that most restaurants are not treating their employees like they would like to be treated." Alex says they have always gone out of their way to have a great workplace, not only providing health benefits and paid vacation to servers, but treating employees with the same Southern hospitality they are asked to give guests. "This means being polite to employees, smiling, calling people by name, joining them at family meal, and once in a while working a shift as a ware washer, so that they understand the importance that I place on that job," he explains. "I tell my managers their most important job is to help servers understand why what they do is so important, that it matters, and is appreciated." George says he wishes it was more complicated or intricate, but it's simply about being nice to others, listening, and getting to know the people who work for you.

Ed Berkle, director venue operations, House of Blues, Las Vegas, NV, encourages his managers to listen to what employees are saying in the break room, in the kitchen, etc. ["I don't think managers take enough advantage of passive listening,"](#) says Ed. "A manager might hear that someone is having childcare issues and, as a result, be able to offer a change of schedule. After all, the restaurant is just one facet of our employees' lives and whatever we can do to make their lives easier is not only appreciated, but lets them know that we're here for them." Alex says he is a believer in management by wandering around, observing and asking questions. As a result, he says, the most valuable customer insights have come from these conversations with front line employees.

"The experience of your team is as important as the experience of your guests."

– Thomas Keller, chef, Thomas Keller Restaurant Group

Tracy Wilson, gm, Cafe 2 and Terrace 5 at MoMA, New York, NY, says, "One way we accomplish our goal of constantly exceeding the expectations of our guests is by having an ongoing dialogue with our team. [I want to know what guests are saying and what questions they have – that way I can create tools for the team to use to provide an experience that is more than guests expect.](#)" Tracy says that some things guests ask about may seem mundane or ordinary, however their questions help her create special service touches – e.g., if guests are asking where the nearest subway is, she'll have maps available for servers to give out; if guests mention they like the gelato, she'll print up some cards the servers can give to guests with the gelato company's info. Ed uses a more formalized way of creating a dialogue between managers and servers. Instead of mystery shoppers, his managers use a standardized server audit, following a specific server for a shift and giving feedback at the end of that shift. "If the server has forgotten to bring the pepper grinder with salad, the manager explains why it is important while it is still fresh in the server's mind. Plus, servers are held accountable because it is manager-observed behavior," explains Ed. "The audit ensures that managers are counseling and coaching employees regularly and, as a result, we've been able to head off or fix service issues quickly." He says both employees and managers find the audits helpful.

George coaches the counter staff – most of whom are young and use technology to communicate – to look up from their computer screens, make eye contact first, and say, "hi" before taking the order. And, once the order has been repeated, to look customers in the eye again and thank them for coming in. "It makes a huge impression on our customers," he says. He also teaches staff to pay attention to what's going on around them – to look at the tables they're passing, the expressions of diners, if there is food left on their plates. "I have employees stand with me and talk about what they're seeing table by table, where people are in their meals, to get them in the habit of interacting with customers and building relationships."

To App or not to App

According to Noah Glass, chief executive officer, GoMobo.com, a remote ordering and interactive marketing firm for restaurants, ["2010 could be the magic year for restaurant mobile apps."](#) He cites a critical mass: 255 million walking around with mobile phones, powerful networks, and devices with rich features – like GPS, which can pinpoint a customer's location and provide valuable location-based content. ["Location awareness has been a game changer – a tool to find your restaurant, or your nearest location, should be the core feature of any mobile app."](#)

But are mobile apps for every restaurant? "Mobile apps probably provide the most benefit for multiunit companies," says Noah. "And anyone who does TV or newspaper advertising, etc., is probably overspending to reach their target audience and is big enough to have their own custom app." Any company, including independents, that wants to promote takeout business is also a candidate. GoMobo's custom apps (about \$5,000 to develop) and services allow customers to order and pay ahead from their mobile phone. ["We see mobile ordering as the final stage in the evolution of self-service ordering,](#) which started with kiosks and then moved online," explains Noah. "Now the device already in consumers' pockets has become the point of sale – and when they arrive at the restaurant, the food is ready."

There are developers specializing in mobile apps for smaller companies, such as RedPixel.com, who create iPhone apps branded with a restaurant's name/logo and offering menu, location, and contact information. ["We look at a mobile app as a marketing and relationship tool.](#) Having your own iPhone app gives a restaurant the potential for its icon to be on customers' home screens and among the favorites they see first," says Rob Howard, communications strategist. It also has a tangible benefit. "Links to your restaurant from the App Store increase your Google Page Rank, giving more prominence in a Google search." Their "infoApp" solution (at an introductory price of \$1,200 for the first year and \$600 annually thereafter) also integrates with Facebook and Twitter to deliver status updates/tweets to mobile phones as text messages with alerts.

In terms of platforms, Noah says that the power of the iPhone and App Store (at least 225,000 applications with over five billion total downloads to date), coupled with the success of restaurants, such as Pizza Hut, Chipotle, and Dunkin' Donuts, often leads restaurateurs to want to launch an iPhone app. But, he cautions, Apple isn't the only game in town. "Google Android has really come on strong. [I'd think about Android as well as iPhone – they are where you see the largest consumer appetite for apps."](#)

Wake up and Smell the Coffee

Recent consumer surveys by The NPD Group, Mintel Foodservice, Restaurants & Institutions, and Technomic uncover opportunities for the breakfast market across all segments. According to The NPD Group's The Future of Foodservice report, morning meal visits have increased and, in fact, have accounted for nearly 60% of the growth in the restaurant industry during the past five years. Even so, the report says that only 10% of breakfasts are eaten in restaurants (approximately 80% in quickservice) and there are more breakfasts skipped than served in restaurants – all of which, NPD concludes, means that breakfast is a significant growth opportunity for the foodservice industry.

More restaurants are entering the breakfast market, especially in the fast casual segment, including Subway, Jack-in-the-Box, Dunkin' Donuts, Taco Bell, and Burger King. Mintel's breakfast survey reports that restaurants (predominantly chains) vying for the breakfast business expanded their offerings in 2009, adding 460 new breakfast items (a larger increase than in 2008 or 2007). Just the same, about a third (30.3%) of consumers surveyed in Restaurants & Institutions' 2010 New American Diner Study said they're more likely to dine out for breakfast at an independent restaurant. That may be especially true on weekends – according to Technomic's Breakfast Consumer Trend Report data, 25% of consumers surveyed often treat themselves to a large traditional breakfast on the weekend. More than four out of 10 (43%) said they visit their preferred restaurant for weekend breakfasts because the food tastes really good and, nearly half (46%) said they would like to see fullservice restaurants offer breakfast throughout the day.

Convenience of location is an important factor: 38% of those surveyed by Technomic said that this drives their breakfast decisions. Even more important for weekday breakfast visits is price – 45% of those surveyed cited inexpensive offerings. According to NPD, lower price points make it easier for consumers to use restaurants for morning meals, compared to other meals. Mintel reports that 32% desire more value meals at breakfast. In terms of popular breakfast foods, Technomic data reveals that more than three-quarters (77%) purchase breakfast sandwiches sometimes or often during weekdays, up from 73% in 2007. Breakfast sandwiches fared even better on weekends, with 70% of those surveyed purchasing them compared to 61% two years ago. NPD's survey also reports that breakfast sandwiches are one of the best-performing menu options and are projected to enjoy relatively strong demand growth in the years ahead. Consumption of specialty coffees has also increased, contributing 30% to morning meal growth over the last five years.

TODAY'S CONSUMER

Healthy Business

TREND: Today's Consumers are increasingly concerned about health and nutrition, including what they eat in restaurants – 80% agreed that all restaurants should be required to provide detailed nutritional information if requested by the customer; about half (48%) said they usually eat foods that are good for them even if they have to sacrifice a little taste.

OPPORTUNITY: Even those restaurants exempt from new federal nutritional labeling requirements have an opportunity to stand out by responding to the needs and concerns of their customers. And most restaurants that voluntarily comply will be shielded from other state or local requirements not identical to the federal legislation. (See restaurant.org/pdfs/advocacy/menulabeling_faq.pdf) At a minimum, coach servers to describe basic ingredients and nutritional information about a dish, just as they would the size of a burger or the price of

a daily special; if your customers seem to want more detailed information, post it on your Web site. Make it easy for customers to manage their caloric/nutritional intake. For example, offer more than one portion size – half (52%) said that restaurant portions are too large and cause them to eat more than they normally would. Respond seamlessly to requests, such as dressing on the side or an alternative preparation. Give customers a reason to frequent your restaurant by creating innovative, interesting options that offer high taste, and low nutritional damage.

CAUTION: Being upfront with customers about the caloric and nutritional content of menu items creates credibility and is consistent with their overall desire for transparency and accountability. But if you make nutritional claims of any kind, be sure they are accurate and can be substantiated or your efforts will backfire.

Data Source: Yankelovich/The Futures Company

MAKE PARTNERSHIP REWARDINGSM with American Express

American Express is proud to be the founding sponsor of an innovative nutrition resource for restaurants on the HealthyDiningFinder.com Web site. "Nutrition News & Insights... Everything you need to know about nutrition for the restaurant industry" is located in the "Restaurant Operators" section. This complimentary resource – available to all restaurants – features the latest nutrition-related news affecting the industry, trends, updates on legislation, best practices, recommended products and services, and interviews with restaurant company CEOs, marketing experts, and chefs. "Never before has nutrition been at the forefront of the restaurant industry like it is now," says Anita Jones-Mueller, founder, "And we believe this addition to our site – along with our new Sodium Savvy initiative – will help restaurateurs grow and prosper in this nutrition-focused era."

Over 60,000 restaurants in the U.S. are members of HealthyDiningFinder.com, using the site to attract an average of 75,000 nutritionally conscious diners daily. Anita reports that dining visitors tend to be very loyal to the site and to restaurant members. Membership includes a consultation with a dietitian to identify the best menu items to feature on the HealthyDiningFinder.com site and a nutrition analysis (calories, fat, sodium, etc.) of those items. A customized Web page with information about each restaurant and links to its Web site is also created.

American Express merchants receive 20% off the annual membership fee (starting at \$595 for an independent restaurant). For an extra fee (up to \$150/menu item – the 20% savings also applies), additional menu items can be analyzed. For more info and to join, visit HealthyDiningFinder.com, or call 800-953-DINE (3463).

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