May 2009

MarketBrief

Tracking and interpreting restaurant trends

INSIDE MARKETBRIEF

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What Today's Consumers Seek in Restaurants

Consumers are influenced by many factors in deciding where to eat out or order takeout, the latest MarketBrief consumer study finds. The complexity of consumers' decisions and the wide variety of factors they consider can make it extremely difficult for restaurants to understand how to please their customers or win new ones.

As one might expect, value and cost weigh larger in consumers' minds when they are thinking of fast food. When they're choosing a fast-casual venue, food freshness comes first, but cost comes second. Yet neither of these considerations is #1 when consumers are choosing a full-service restaurant for a dining occasion. Diners reported weighing more factors than they do when selecting an LSR (either fast-food or fast-casual), but cleanliness comes first.

Top Attributes Consumers Consider When Deciding Where to Dine

% Who Consider, By Restaurant Format

	Full-Service	%	Fast-Casual	%	Fast-Food	%
1.	Cleanliness of establishment	64	Freshness of food	57	Overall value for money	61
2.	Cost of food	62	Cost of food	55	Cost of food	61
3.	Freshness of food	58	Cleanliness of establishment	54	Speed of service	60
4.	Overall value for money	55	Overall value for money	49	Location of establishment	48
5.	Variety of menu items	52	Variety of menu items	37	Cleanliness of establishment	46

Source: Technomic, American Express Consumer Overnight Study

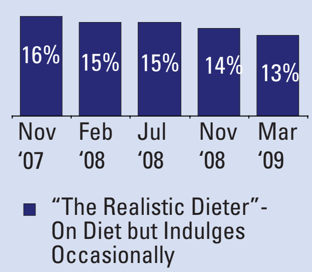
The picture becomes even murkier when consumers are asked to name only the top reason for a restaurant choice (shown graphically on the following page). While consumers' most cited reason for choosing a restaurant was being "in the mood" for the food at that venue, only about one in five consumers named it as the primary factor, with another 13% saying they wanted a specific menu item.

Some considerations were more important for dine-in occasions, and others more important for takeout. One of these was food quality—top-of-mind for 11% of dine-in customers but only 6% of takeout customers. Conversely, a familiar menu was the #1 consideration for 8% of those selecting a takeout venue, but it was the top consideration for only 4% of dine-in customers.

DIET TREND BAROMETER

The proportion of consumers who consider themselves to be "on a diet" may be on a very slow decline. While those who see themselves as "disciplined dieters" remain a small but constant portion of the population—3%—there has been a slight drop in the group who say they are "realistic dieters" willing to make an occasional exception. In addition, some consumers may be less willing or able to spend money on fresh fruits and vegetables, lean meats and fish, whole grains or special diet foods. Or consumers may just be more realistic about their actual eating habits.

% of Consumers on a Diet



Source: Technomic, American Express Consumer Overnight Study

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

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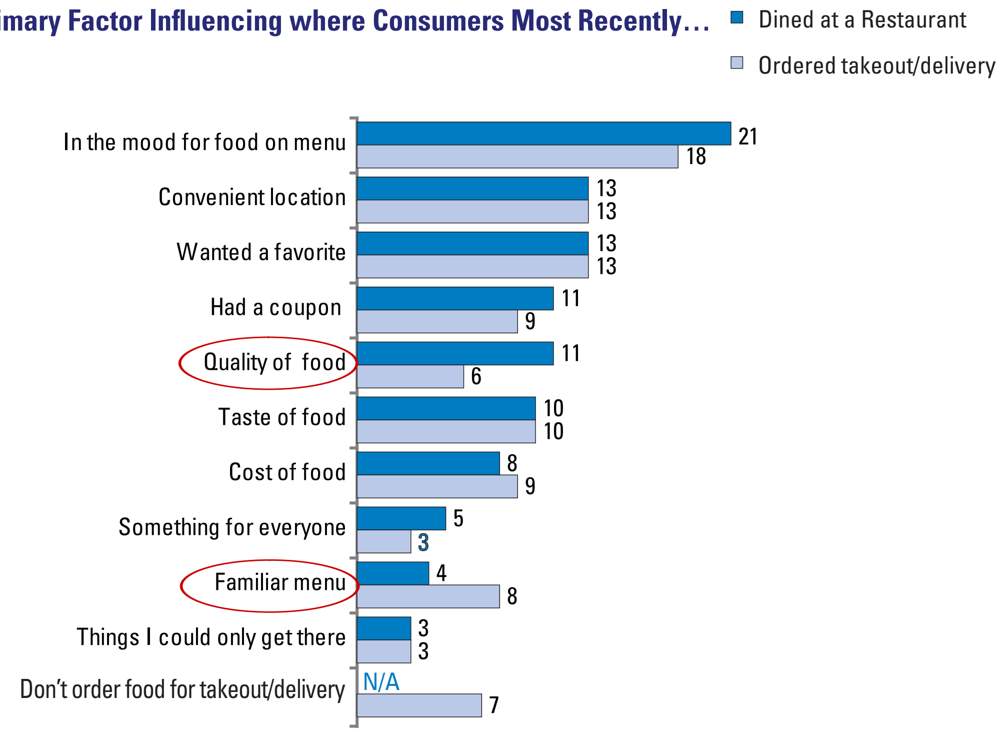
TECHNOMIC

Primary Factor Influencing where Consumers Most Recently…

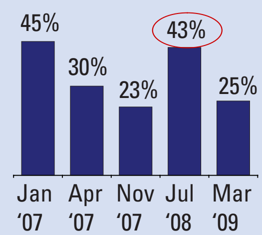


Source: Technomic, American Express Consumer Overnight Study

FOOD SAFETY TREND BAROMETER

Neither the recent peanut butter-related food contamination scare, nor discussion about the new administration and the changing role of the FDA and Food Safety and Inspection Service, seem to have driven consumer concern about food safety to the peak it reached during last summer's salmonella outbreak (linked first to tomatoes and then to jalapeños) or the earlier spinach scare. Historically, consumers have become alarmed in the wake of major food safety incidents, but their concern soon wanes. The proportion of consumers who were "extremely concerned" peaked at 43% in July, but is now down to a "background level" of about 25%.

% of Consumers "Extremely Concerned" About Food Safety



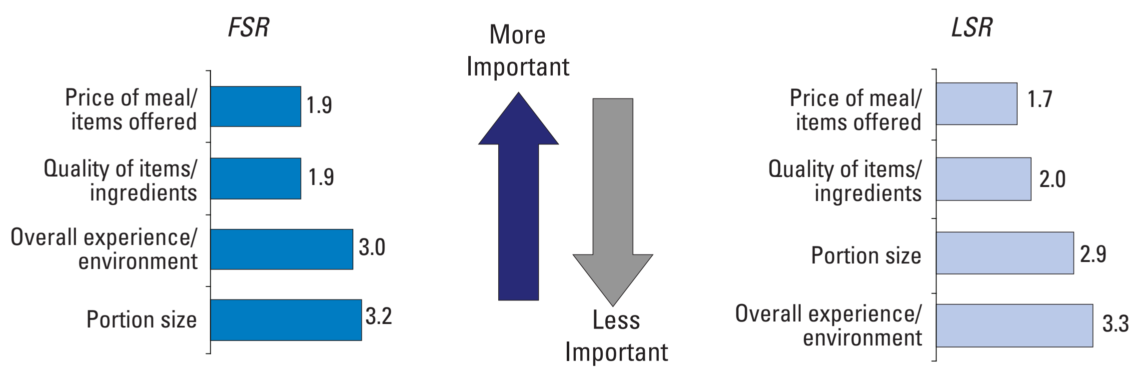
Source: Technomic, American Express Consumer Overnight Study

WHAT DOES 'VALUE' REALLY MEAN?

Technomic research confirms that consumers are weighing the restaurant value equation more carefully than ever before, but "value" has many meanings. So we asked consumers to rank the factors that signaled "value" to them. With the lowest mean number signaling the most important factor, our results show that price equals value in dining at both FSRs and LSRs (fast casual and fast food). Food quality is a very close second. When consumers are considering an FSR meal, the overall experience and environment rank third, and portion size is fourth. For LSR meals, it's the reverse—portion size is more importance than ambiance.

Consumers' Concept of Value at Restaurants

Ranking Based on Mean Value in Scale of 1-4; 1 = most important, 4 = least important

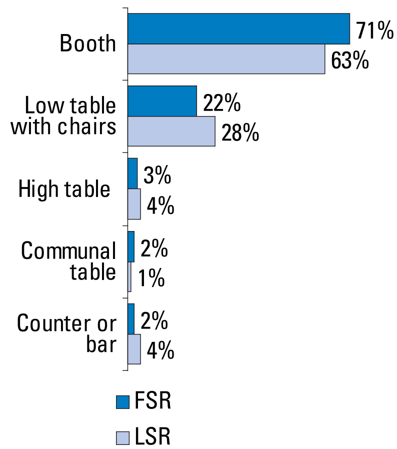


Source: Technomic, American Express Consumer Overnight Study

SOME SPECIFICS OF SERVICE VALUE

We also asked survey respondents about what meant value to them for a few specific points of their restaurant experience. The first of these was seating. When diners walk into a restaurant, the vast majority want to see cozy booths available for their party. Table seating is far less popular. Only a few really enjoy sitting at the bar or counter, on a stool at a high table, or at a communal table.

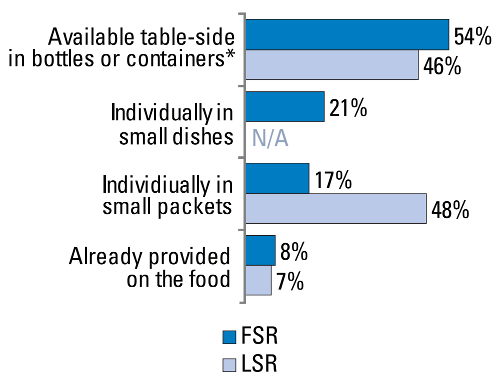
How Consumers Prefer to be Seated at FSRs and LSRs



Source: Technomic, American Express Consumer Overnight Study

And when they sit down, many diners find value in having condiments already on the table waiting for them. About one in five LSR patrons prefers to pick up condiments at a central condiment station. Small packets of condiments are well accepted in LSR settings, less so in FSRs.

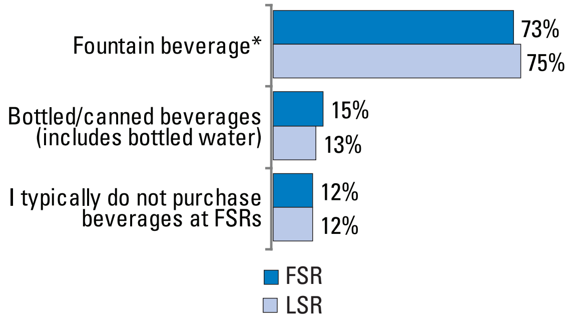
How Consumers Prefer that Condiments be Served at FSRs and LSRs



**26% of LSR patrons prefer table-side bottles or containers;*
20% prefer self-service at a central counter
Source: Technomic, American Express Consumer Overnight Study

Choosing a beverage may be the first decision consumers make during the dining occasion. Whether they're telling their order to waitstaff at an FSR or ordering at the counter in an LSR, three-quarters prefer fountain beverages. The other quarter are about equally divided between those who like bottled or canned beverages (such as bottled water), and those who don't order beverages at all.

How Consumers Prefer that Beverages Be Served at FSRs and LSRs



**43% of LSR patrons prefer to get fountain beverage themselves; 32% prefer to have restaurant employee get it for them*
Source: Technomic, American Express Consumer Overnight Study

***Bottom Line:* The consumer's restaurant value equation is more complex than ever before, but the basics remain. Price comes out on top—followed by food quality, freshness and craveability as well as convenience and cleanliness. It's unlikely that these demands will ever change, though their relative ranking may go up and down with the economy.**

BUSINESS-BUILDING IMPLICATIONS:

- Recognize that in the current economic environment, an attractive price is a necessary but not sufficient condition to drive traffic and sales. Price is not enough if food quality and freshness aren't competitive.
- Consumers evaluate fast-casual restaurants much the way they evaluate full-service restaurants, not traditional quick-service or fast-food eateries. Food freshness and quality, variety and cleanliness are key factors, just as in FSRs.
- Fast-food customers demand convenience—including speed of service and a convenient location. In the current economic climate, QSRs should concentrate on improving these basics. Achieving a "convenient location" (as well as speed of service) may mean re-evaluating traffic flow in and out of the parking lot and drive-thru.
- Generally, restaurant designers should maximize booth seating, including booths for parties of different sizes—two-seaters, four-seaters, six-seaters and corner booths for large parties—with the mix depending on the type of traffic. But there should also be some table seating for the minority of customers who prefer it or cannot easily access booths.
- Traditional fountain beverages remain popular with the vast majority of customers. While there's no need to fix what isn't broken, a small selection of bottled or canned beverages may bring incremental sales while imparting upscale cachet.
- Most consumers are satisfied with traditional methods of offering condiments. Since condiments on tables in their original bottles are most preferred, consider the possibility of condiments as a branding or co-branding opportunity.

The Future of Fried Foods

KFC's much-heralded launch of its grilled chicken platform this month, signaling its move from a "fried chicken" restaurant to positioning as a more general "chicken" specialist, puts the question in stark relief: What's the future of fried foods in American restaurants, given new dining trends and consumers' growing interest in healthier fare?

To answer this question, Technomic conducted an extensive study this spring on consumers' attitudes toward fried foods.

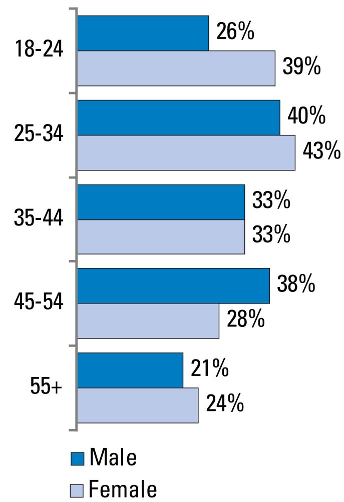
The 2009 Future of Fried Foods Consumer Trend Report shows that the future of fried foods looks promising. Technomic found that there has not been a significant migration away from fried foods. According to the Future of Fried Foods study, the billions of fried food servings ordered each year by Americans are driven by value, craveability and broad appeal. The consumer survey shows that the top consumer associations with fried foods include:

- 89% - "tasty"
- 86% - "satisfying"
- 83% - "filling"
- 80% - "something I crave"
- 77% - "comforting"
- 71% - "good value"

About one-third of respondents (32%) like to order fried foods at restaurants because they do not normally prepare them at home. Disproportionate numbers of 25- to 34-year-olds of both genders choose fried foods in restaurants because they don't make them at home.

How much do you agree or disagree with the following statements regarding fried foods? (Top 2 box rating)

""I like to order fried foods from a restaurant because I do not normally make them at home" (by age and gender)

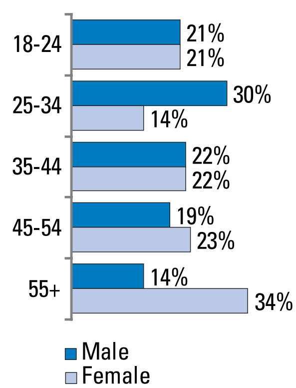


Respondents indicated their opinion on a scale from 1-6 where 6 = extremely important and 1 = extremely unimportant
Source: Technomic, Future of Fried Foods Consumer Trend Report

Impulse is one key driver of fried food sales. About one in five consumers (21%) say that their purchases of fried food at restaurants are usually made on impulse. Impulse purchases are particularly common among older women (who are more likely to be fried food avoiders in general) and men aged 25-34.

How much do you agree or disagree with the following statements regarding fried foods? (agree or agree completely responses, by age and gender)

"When I purchase fried foods from a restaurant it is usually on impulse"

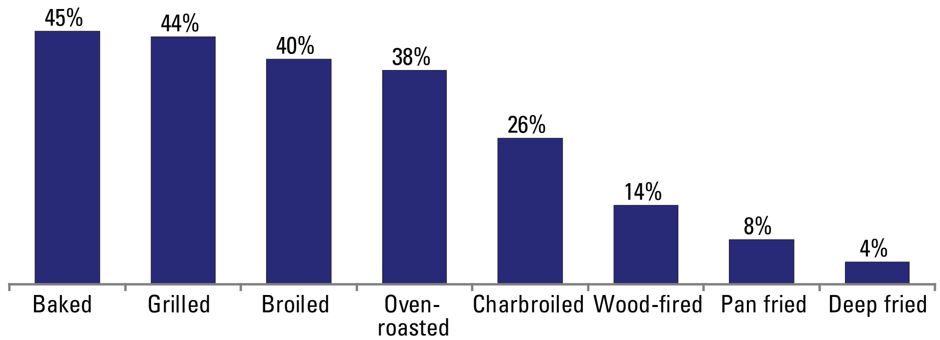


Respondents indicated their opinion on a scale from 1-6 where 6 = agree completely and 1 = disagree completely
Source: Technomic, Future of Fried Foods Consumer Trend Report

LOVING FRIED FOOD, BUT EATING LESS

Despite the near-universal taste appeal and craveability of fried foods, 54% of respondents in Technomic's study are currently eating less pan-fried food and 47% are eating less deep-fried food compared to a year ago. More than half of the consumers in the survey describe themselves as fried food curtailers or avoiders. Consumers are moving toward baked, grilled, broiled or oven-roasted foods and away from fried foods.

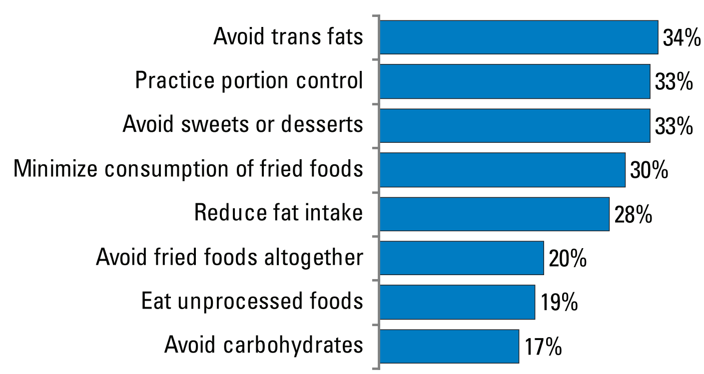
In the next year, I expect that I will be eating MORE _____ foods.



Source: Technomic, Future of Fried Foods Consumer Trend Report

As one might have predicted, nutrition concerns are central motivators in the move away from fried foods. Fat intake is a key nutritional concern for consumers, with awareness driven by the recent move to eliminate harmful trans fats in restaurant fare. Consumers also are conscious of their fat intake in general. Additionally, desires to avoid carbohydrates or processed foods may be curtailing consumption of common fried foods such as french fries.

Which of the following do you do on a regular basis when dining out at restaurants or ordering food for takeout or delivery from restaurants? (Always or Almost Always responses)

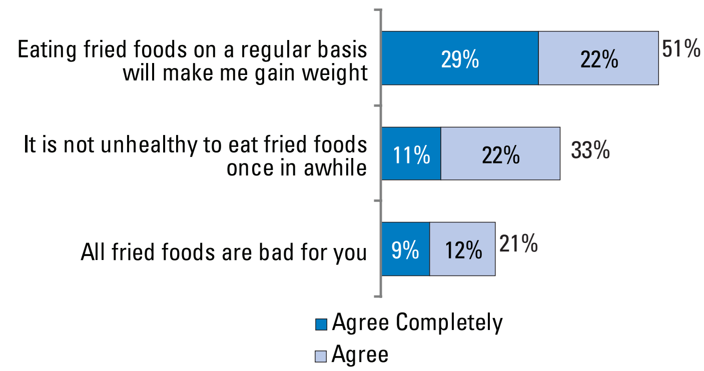


Source: Technomic, Future of Fried Foods Consumer Trend Report

BAD TO THE BONE?

Besides these specific concerns, there is also a generalized concept that fried foods are fattening or just "bad for you." Only a third of consumers agreed that occasional consumption of fried foods can be part of a healthy diet.

How much do you agree or disagree with the following statements regarding fried foods? (agree or completely agree responses, by all consumers)



Respondents indicated their opinion on a scale from 1-6 where 6 = agree completely and 1 = disagree completely
Source: Technomic, Future of Fried Foods Consumer Trend Report

These broadly felt negative attitudes contrast vividly with consumers' actual behaviors—that is to say, consumers still love fried foods, but they feel nagging guilt about eating them.

Bottom Line:* *Technomic's study indicates that over the next few years, the growth rate of fried foods will decline, but not more than the foodservice industry as a whole. The crispy texture and craveable flavor of fried foods cannot be easily duplicated in home kitchens. Affordability adds considerably to the wide appeal of fried foods. However, to meet emerging healthy eating trends, operators need to evaluate updates of their fried foods by exploring new preparation and presentation techniques that make them more universally appealing.

BUSINESS BUILDING IMPLICATIONS:

- Although traditional fried appetizers such as mozzarella sticks and potato skins remain popular items, restaurants are also introducing fried dishes that appear "healthier" to consumers because they feature vegetables. Among these breaded vegetable offerings are fried green beans, fried okra and fried zucchini.
- Operators are also changing consumers' opinions about fried foods by de-emphasizing their role in entrées. Entrée salads with fried toppings can be promoted as better-for-you menu options because the fried items are only ingredients, not the main dish. Both full-service and limited-service restaurants have rolled out entrée salads featuring fried chicken.
- Fried foods can get a positive spin by being re-branded as "crisp" or "crunchy." These terms have sensory appeal and imply a more upscale offering.
- Restaurants are increasingly offering items such as chicken or seafood entrées in both fried and grilled versions.
- To remove some of the onus from fried foods, operators are going trans fat-free and switching to healthier oils.

Editor's note: *Except where otherwise noted, source of data is a periodic overnight survey of 1,000 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in March 2009. Margin of error ± 3%. "The Future of Fried Foods" is based on an online survey of 1,500 U.S. consumers conducted in December 2008. Margin of error ± 2.5%.*

About MarketBrief *Through MarketBrief, American Express provides chain restaurants with research-based analysis of key industry developments. Data is collected and analyzed by Technomic, Inc. To subscribe or find past issues of MarketBrief go to: www.technomic.com/marketbrief If you have questions, comments or topic suggestions, please contact Rita Negrete at rnegrete@technomic.com or directly at (312) 506-3845.*