



The Technomic Viewpoint

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Providing periodic insights to food industry suppliers

“ To keep their operator customers from ‘shopping’ for lower-cost alternatives, suppliers should offer a range of value-added services to help cope with rising costs.”

Consumers Wary of Future Menu Price Inflation

By Tom Miner

Amid growing pressure on profits and with no signs of relief on the horizon, price increases are prevalent in all channels of foodservice. At the same time, operators are faced with intense competition for consumers’ dining dollars. Today, restaurants must not only compete with each other but, increasingly, against the high-quality and convenient offerings from supermarkets and other food retailers. In this intense climate, delivering “value” in its many different definitions is crucial. As a result, many operators have tried to absorb cost increases, but passing them down to the already-pinchd consumer has become unavoidable.

Consumer Reaction Reflects Price Sensitivity

Technomic recently surveyed consumers about pricing in full-service chains and the results underscore the challenges associated with consumer price sensitivity. A high number are already aware of price increases on menus and, alarmingly, they have exaggerated perceptions of these increases. Consider the following findings:

- More than half (54%) had noticed menu price increases in the last three to six months at the full-service chains they visit.
- Consumers believe they are paying more than they actually are. By brand, their perceptions of check average are 10%–15% higher than the actual check average by brand.
- Most anticipate additional increases. Nearly three-quarters (72%) expect menu prices will increase during the next 3–6 months at the full-service chains they visit.
- Most consumers (65%) believe the highest menu price increases will be in large, national chains and among concepts with high check averages.
- Over half of consumers (52%) expect their average check at full-service restaurants to increase by at least \$2.
- More than half (59%) expect to reduce their visit frequency as prices continue to rise at full-service restaurants.

While consumers often state one belief and then act in a reverse manner, we believe that well over half of full-service consumers are looking for ways to reduce restaurant spending and that many of them will succeed. Evidence of trading down has occurred, with many limited-service chains enjoying positive performance. However, price alone is not the deciding factor. Even in this era of consumers’ growing price sensitivity, the value of the total experience drives frequency.

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Supplier Support Critical to Navigating Cost/Pricing Equation

Operators in all segments are looking to their trading partners for solutions to cut costs and drive sales. To keep their operator customers from “shopping” for lower-cost alternatives, suppliers should offer a range of value-added services to help cope with rising costs. This can range from training and suggestions for reducing waste to merchandising strategies and culinary support. A few ideas:

- Do you have suggestions and strategies for utilizing lower-cost ingredient alternatives? New applications for high-cost ingredients in smaller amounts?
- Where are the opportunities to up-sell? Do menu descriptions highlight exceptional features? Is there a special accompaniment to help justify increases for staples like beef? A “wow-worthy” appetizer, dessert or beverage to capture that incremental purchase? The quick-casual segment has done a good job of utilizing premium ingredients to entice consumers to trade up, and polished-casual chains have also been able to generate higher check averages by appealing to consumers’ interest in high-quality, unique dining experiences.
- Are there untapped new-product opportunities in snacking? Do you have a strategy for leveraging consumers’ health and wellness concerns by menuing smaller portion sizes?
- Can you offer support in leveraging the takeout trend, which has also benefited from consumer trading-down?

Industry Growth Tactics May Bring Challenges

As the cost of goods rises, many operators and suppliers are facing menu price inflation. For 2007 and 2008, Technomic forecasts total foodservice industry inflation of 4.0%, calling for “real” industry growth of just 1.3% and 1.1%, respectively, for the two years. In the mid-term, this price-inflation reliance will sustain profits at many chains, but the long-term effects may be disastrous. The heartbeat of our industry is continuous growth in consumer visit frequency and expenditures. With same-store sales and visit frequency already dropping at many chains, increased prices may cause consumers to opt for any of the convenient retailer meal solutions or trade down to other less-expensive alternatives.

Differentiation through innovation and quality is crucial to spark foodservice demand from ever-more-sophisticated customers. Whether or not innovations are designed specifically to cut costs or to increase frequency in the face of rising menu prices, effective initiatives should focus on improving the quality and value of the complete experience—including food, and especially, hospitality. Without these continuous improvements, price increases will be difficult to justify and traffic will likely suffer.