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Providing periodic insights to the food industry

The Technomic Viewpoint



Bob Goldin is executive vice president of Technomic, Inc. and has more than 30 years of industry experience. He is the founder of the firm's iLAB, Distributor Intelligence Service, Foodservice Benchmarking Center, Nutritrack and Long-Term Forecasting programs. He is also spearheading several programs related to social responsibility and health and nutrition.

The Long Road Back

By Bob Goldin

As we are all painfully aware, against the backdrop of a brutal, lingering recession, the foodservice industry is in a slump that is unprecedented in its length and severity. If the industry declines at our forecasted 3 percent rate in 2010, by the end of the year it will be 12 percent smaller than it was in 2007 (in constant dollars). At manufacturer shipment value, that is a contraction of \$20 billion; in retail sales, it is \$65 billion. That is a lot of ground to make up.

Despite some improvements in the overall economy, the foodservice industry has not (yet) turned the corner. It is still plagued by declines in both traffic and check averages and net unit closures. Foodservice has traditionally been a lead indicator, but it now appears to be a lag one. No surprise, given the impact the bleak employment situation and housing market are having on consumers' willingness to spend.

Technomic recently completed comprehensive five-year, segment-by-segment projections. We also conducted a major consumer attitude study. Along with macro-economic perspectives provided to us by our Consulting Economist, Dr. Arjun Chakravarti, the qualitative and statistical consumer data provide important input into our long-term forecast.

Our research shows that consumers still very much enjoy the foodservice experience, somewhat regret having had to cut back, and want to resume spending on "small indulgences" like foodservice. However, they are much less well-off than they were a few years ago, are concerned about job security, stagnant wages, benefit cuts and tax increases, and fear that inflation will ramp up. As a consequence, consumer spending on foodservice and other similar discretionary items will be constrained for the foreseeable future.

Over the next five years, we anticipate the industry will face major macro-economic headwinds including a high level of un- and under-employment, a sharp increase in lower-income households, weakness in the housing market, increased borrowing costs, and flat wages. From a demographic perspective, the rapidly aging population cannot be considered anything but a negative for the industry since older consumers use foodservice less often than younger groups. Further, the boost the industry received in the 1980s and 90s from the large increase in working women will not repeat.

Structurally, unit expansion will no longer be a growth catalyst. We are likely to see a net reduction in the number of restaurant units over the next five years, a definite paradigm shift. Government policy and commodity input costs will almost certainly have a far greater impact than ever before.

We are confident that the industry will return to growth but probably not until 2012. Thereafter there will be very modest growth. By the end of 2015, the industry will be larger than it is today, but only marginally so.

It will be a slow recovery. All industry participants have to reset expectations, focus on operating cost reduction, sharpen focus on strategic brands, categories and customers, look for new sources of growth, enhance efficiencies, improve execution, and heighten their differentiation.

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