

from the desk of Sam Smith, Editor-In-Chief

**First, some recent data from the National Restaurant Association:**

Due in part to Easter falling in April rather than March this year, restaurant operators reported negative same-store sales for the tenth consecutive month in March.

Restaurant operators also reported negative customer traffic levels for the 19th consecutive month in March.

Capital spending activity in the restaurant industry held relatively steady in recent months. Thirty-five percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, roughly on par with the levels reported by operators in the previous three months.

For the first time in 18 months, a higher proportion of restaurant operators said they expect the economy to improve in six months, as compared to the percent who expect economic conditions to worsen. Thirty percent of restaurant operators said they expect economic conditions to improve in six months, up from 22 percent who reported similarly last month and the highest level in 21 months. In comparison, only 21 percent of operators expect economic conditions to worsen in six months, down sharply from 36 percent last month.

As the outlook for the economy improved, so too did operators' plans for capital expenditure activity in the months ahead. Forty-four percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, the highest level since July 2008.

**And now more general industry trends:**

- Small is big, from portion sizes, to prices, to physical formats designed to save on real estate and design costs. Small plates continue to surge. The economy, all-day and late-night dining and trendy ethnic street food all impact this trend.
- Trading Down: This is the buzz word of 2009....customers are trading down from full-service restaurants to fast-casual and QSRs when they dine out. If they go to fine-dining restaurants, they're trading down from filet mignon to chicken; from a great California Cabernet to house red. Or they are forgoing entrees all together and having a glass of wine or cocktail and an appetizer. However, they are ordering fewer drinks and choosing less expensive brands. Fine dining has taken a

big hit and many upper-end concepts are retooling to be more casual, accessible and affordable. Top chefs are opening burger joints – real food for real people on real budgets.

- Takeout continues to grow in the casual dining sector and leaders are changing their operational structures to accommodate it. Common now are special parking areas, dedicated takeout staff, POS systems that handle online order taking, and curbside delivery service facilitated by remote cameras that alert staff when takeout customers have pulled up.
- Value pricing continues to be hot. \$5 appears to be the magic number, with chains from Subway, Little Caesars, McDonald's, Quizno's TGI Friday's, Applebee's and others touting \$5 menu specials. Beyond QSR and casual, fixed price menus step in to provide value-priced options. Some operators have created buzz and big traffic gains by promoting special freebies.
- Technomic and other research organizations predict that while there are some recent bright spots, chains and independents alike will continue to file for bankruptcy protection throughout this year and into next. Many are over-extended and under-capitalized and, with access to credit evaporating, face closures.
- Dining room dynamics are changing thanks to technology. Some segments feature computer terminals at the tables, where guest can access games, music, menus and place their own orders. In QSR, kiosks that let customers enter and verify their own orders are speeding service and increasing accuracy. Pay-at-the-table technology is catching on as a way to speed service and increase security. Offering free wi-fi has become a prerequisite in some segments, and that's likely to grow as consumer expectations for it increase.
- Coffee wars are raging. Starbuck's, McDonald's, Dunkin' Donuts and a bevy of independent up and comers duke it out for market share under a new economic reality that prohibits many patrons from continuing to support their daily \$4 latte habit.
- Menu R&D is focused on blending creativity and frugality. Less protein and alternative, lower cost cuts of protein are all the rage as operators seek to better control food costs and still offer exciting new menu options. Hangar steak, flatiron steak, tri tip, etc., in the beef category, in particular, are growing.
- Customer service has never been more critical as a strategy to keep guests coming back. Smart chains/operators get it and are increasing their focus on training in this area.
- Good-for-you (or better-for-you) fast food is hot. New chains touting organic, sustainable, healthful products are popping up nationwide – Organic to Go, UFood Grill, Pizza Fusion and Elevation Burger are examples. Some consumers

are also looking for foods that add something to the diet. In addition to antioxidants and Omega 3 fatty acids, “niche” nutrients like lycopene, lysine and folate are getting attention. Organic foods are suffering in light of their higher prices; they only grew by 1 percent last year compared to 25 percent the year before.

- Rules of the game in advertising and marketing are changing. Everyone’s trying to figure out how to make social media work for them. It’s not just about having a good Web site anymore – it’s about Twitter, YouTube, MySpace, Facebook, LinkedIn, etc.
- Food safety scares are keeping everyone on edge. Operators are intensifying pressure on suppliers/distributors to ensure safety back up the supply chain and to train their own personnel on proper food safety practices. As a whole, the industry is looking to Washington for significant reform in this area.

•According to Nielsen, food inflation and gas prices are going down and the dollar is getting stronger, so there’s some growth in optimism. But discretionary spending is still declining.

•Restaurants are doing more local sourcing and looking for value....not necessarily cheaper products, but those that deliver quality and high perceived value. Premium products can sell if value is tops.

•Consumers are purchasing 6 percent of their roughly 62 billion foodservice meals at retail stores—food, drug, discount, department and price clubs. Convenience stores add another 7 percent to the total, according to NPD/Crest.

•The culinary excitement is happening at the bar, as more mixologists borrow ingredients from the kitchen to craft distinctive cocktails.

•Sodium is the next trans fat. Restaurants and manufacturers are scrambling to reduce the sodium in menu items and food products.

•Breakfast is the fastest growing daypart. NPD says it has grown an average of 3 percent each year over the last three years. At Limited Service restaurants, sales rose by 47 percent in the last five years, according to the Packaged Facts report on Breakfast in the Foodservice Market. Takeout breakfasts outnumber sit-down meals by 2:1, says NPD.

•Competitive QSRs are upgrading ingredients and beverages to attract more breakfast business. Breakfast all day is likely to expand.