The New Value Equation

What Today’s Consumers Seek in Restaurants—
And How To Make Sure They Find It

Val-ue

1. a fair return or equivalent in goods, services or money for something exchanged
2. the monetary worth of something
3. relative worth, utility or importance

—Merriam-Webster Dictionary

Price is what you pay; value is what you get.

— Warren Buffett, investor

Value seems to be a simple enough concept in general, and certainly in relation to restaurant meals. The consumer’s ideal of value used to be mostly about getting more food or better food at a lower price. Conversely, smaller portions or indifferent quality combined with higher price indicated a poor value.

It’s not so simple anymore. There’s no doubt that consumers are weighing the price/value equation more carefully than ever before, but the complexity of their decisions and the wide variety of factors they consider can make it extremely difficult for operators to understand what they’re seeking so that they can delight their customers and win new ones.
Foodservice Needs and Demands are Shifting

Today, the overall perceived value of a foodservice meal is often based on more than just food. Consumers may seek other experiences that compliment the actual dining occasion. For instance, on occasion the opportunity to take a deep breath, get away from a busy lifestyle and socialize with friends and family may be the most important element of a restaurant meal. The value equation is complex and can vary based on age, income, ethnicity, the dining occasion and many other factors.

To help operators understand and respond to the new value equation, Technomic conducted a number of consumer surveys over the past several months. Findings confirmed that consumers place high value on many restaurant occasions, seeing them as central to their quality of life. But today’s difficult economy is having a major effect on their daily routines and foodservice spending decisions.

Restaurants are Feeling the Effects of Consumers’ Financial Struggles

The evidence that consumers are reducing their restaurant spending is crystal-clear, with the majority of companies reporting declines in sales and traffic. June’s moving average for sales of foodservice establishments (including restaurants, bars and taverns, and onsite foodservice) was 2.3% below year-before figures in real dollars.

How Consumers Plan to Alter Restaurant Habits

<table>
<thead>
<tr>
<th>% Indicating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Occasions</td>
</tr>
<tr>
<td>Only, 19%</td>
</tr>
<tr>
<td>Stop going to all restaurants, 4%</td>
</tr>
<tr>
<td>Same frequency, less expensive, 8%</td>
</tr>
<tr>
<td>Same restaurants, spend less, 10%</td>
</tr>
<tr>
<td>Nothing will change, 24%</td>
</tr>
<tr>
<td>Source: Technomic consumer survey, May 2009</td>
</tr>
</tbody>
</table>

Further Cutbacks Planned

Whether they’re actually hurting financially or just jittery about the economy, consumers are saving more and spending less. About three-quarters of those surveyed by Technomic this spring said they expected to cut back on—or even eliminate—expenditures like beauty salon and spa visits, foreign vacations, home services, and discretionary retail purchases such as jewelry or perfume.

In terms of food and foodservice spending, more than seven out of 10 consumers reported that they were cutting back on coffee shops, bars, and upscale restaurants, while more than six out of 10 said they were planning to prepare more meals at home. About three-quarters of those surveyed were planning to alter their restaurant habits in some way to save money.

A New Self-Image: Penny-Pincher

Along with changing their spending habits, Americans are changing their very image of who they are. Ninety percent of those surveyed by Technomic this spring said they would characterize themselves as “bargain hunters.” Consumer behaviors and intentions reflect this new urge to economize. Even affluent consumers are overextended and have learned to be frugal—avoiding impulse purchases, focusing on practicality and necessity, looking for private labels, and avoiding adventure and experimentation. They’ve hunted for deals, traded down, traded out, even passed up the supermarket deli for the frozen-foods section.
The recession and consumers’ adaptations to it will cast a long shadow. Frugality is a new paradigm, not a short-term adaptation to a short-term problem. It will have ramifications for all industries—including foodservice—for years to come.

But the new mindset leaves room for restaurants. One trend, for instance, is selective indulgence—“saving” for small rewards. Another is treasure hunting—the thrill of seeking out new venues for good deals.

It should also be noted that the important consumer trend toward “cocooning” and eating at home has to do with more than just economizing. For one thing, the advent of big-screen televisions and other forms of electronic entertainment means that home has become a more interesting place than it once was. A new Technomic study of off-premise occasions shows that over a third of consumers are entertaining at home more often than a year ago, and 40% expect do so more often over the next year. Consumers enjoy reconnecting with friends in their homes while socializing in a very casual atmosphere.

### Consumer Intentions Reflect Desire to Economize

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use coupons</td>
<td>64%</td>
</tr>
<tr>
<td>Make meals at home</td>
<td>63%</td>
</tr>
<tr>
<td>Seek out deals</td>
<td>61%</td>
</tr>
<tr>
<td>Buy store brand groceries</td>
<td>46%</td>
</tr>
<tr>
<td>Shop at dollar stores</td>
<td>41%</td>
</tr>
<tr>
<td>Save for retirement</td>
<td>40%</td>
</tr>
</tbody>
</table>

*Source: Technomic Consumer Survey, May 2009*

The Pocketbook Vote on Value

Even in these tough times, though, there are operators who are driving traffic through their doors, and their best practices are worth examining. Consumers’ reports of their attitudes and intentions can take us only so far in understanding the new value equation. More clues can be found in an analysis of consumers’ spending patterns—for as it’s been often said, people vote with their pocketbooks.

Who in the restaurant industry is providing consumers the best perceived value? That is to say, who is garnering a greater share of consumer spending?

### 2008 Top-Performing Chains, Ranked by % Sales Change

#### Limited-Service Chains >$200 Million

1. Five Guys Burgers & Fries
2. Jimmy John's Gourmet Sandwich Shop
3. Potbelly Sandwich Works
4. Noodles & Company
5. Wingstop

#### Full-Service Chains >$200 Million

1. Buffalo Wild Wings Grill & Bar
2. BJ's Restaurant & Brewery
3. The Melting Pot
4. Texas Roadhouse
5. Dave & Buster's

The list of 2008’s fastest-growing chains shows great variety, but also certain common themes. All the top-performing limited-service chains tend toward the more upscale or fast-casual end of the price spectrum. The full-service entrants are primarily moderately priced, family-friendly bar-and-grill concepts.

Let’s take a closer look at some of these:

- **Five Guys Famous Burgers and Fries** offers a no-frills menu of fresh, made-to-order hamburgers and fries. The chain prides itself on freshness, boasting that its kitchens are free of freezers and microwaves. The simple burger-and-fries joint harks back to an earlier day, with red-and-white-checked signage and a clean, friendly environment. A chalkboard announces the origin of the potatoes used for the day’s fresh-cut fries.

- **Jimmy John’s Gourmet Sandwich Shop** specializes in high-quality submarine sandwiches served “freaky fast.” The chain...
is positioned around premium ingredients, fresh-baked bread and ultra-fast service. Interiors boast Americana-style artwork. Jimmy John’s delivers orders from 11 a.m. until as late as 3 a.m.

- Buffalo Wild Wings offers flavor, craveability and a variety of portion sizes for different customers and occasions. It also offers diversity beyond wings: appetizers, burgers, sandwiches, wraps, flatbread pizzas, ribs, salads and desserts. The concept excels by offering “something more” in inclusivity, approachability, energy and socialization. Restaurants are divided into two areas: a bar in the back with sports playing on big-screen TVs, and a high-energy, family-friendly dining room up front.

- Texas Roadhouse, a casual steakhouse, begins customers’ dining occasion with an enthusiastic greeting from the host or hostess. The restaurant works very hard to make sure that managers get to all tables. The concept offers an inviting, family-friendly Texas-themed atmosphere and jukeboxes that continuously play upbeat country hits.

The one characteristic that links these chains is their “best in class” status. All of these concepts offer absolutely top menu quality, value, service, cleanliness, convenience, ambiance and differentiation within their competitive set.

Analyzing the Winning Formulas

Technomic research shows that consumers seek value from a total restaurant experience, not just a meal. Whenever a customer chooses a food-away-from-home occasion, there are a large number of “touchpoints” in the restaurant where the consumer and concept interact. Consumers seek and find good value experience equations at all types of restaurants, from fast food to fine dining.

The customer’s experience has many touchpoints. Service, for instance, begins when customers pull into the parking lot and ends when they walk out with their bagged leftovers. A winning value proposition is the sum of two parts: consistency on the basics, and what we call resonating points of differentiation.

The “basics” define whether a consumer will even consider a restaurant:

- Service fundamentals include a prompt and cheerful greeting, fast order fulfillment, appropriate timing and a sense that staff are knowledgeable and paying attention.
- Food fundamentals include expectations for flavor, taste, temperature and consistency—“no surprises.”
- Appearance fundamentals give customers clues on what to expect from a restaurant and what the restaurant expects from them, and hint that the restaurant puts the same care into its menu.

“Beyond the Basics” defines the key differentiators that keep a restaurant at the front of consumers’ minds, such as:

- Conveying a message of hospitality. Staff are happy to see customers and seem to understand each one’s mindset.
- Offering a menu that enhances the consumer’s life. It’s craveable, unique and authentic. There’s a range of items and prices. The portion sizes are just right, and the food has visual appeal.
- Creating the right energy level – the right décor, music, and customer interactions with the staff.
- Clearly conveying its essence. The restaurant addresses social issues and trends, is focused on the community, and offers an environment for guests to socialize and have many needs met.
- Having manager visibility.

Operators need to consider what their current and targeted customers wish to achieve through specific dining occasions, then work to guarantee that the concept’s touchpoints support these desires. Operators armed with a list of the customer experience touchpoints in their competitive arena can easily quantify these observations (assigning 1-10 points per touchpoint, for instance), weigh the experience value of their concept against competitors, and then make modifications accordingly.

64% of diners consider the cleanliness of an establishment when they select an FSR.
 Winning Strategies

- Recognize that in the current economic environment, an attractive price is a necessary but not sufficient condition to drive traffic and sales. Quality, quantity and price, as well as food freshness, variety and restaurant cleanliness, all factor into the value equation of the new foodservice consumer.

- Consider major adaptations to menu mix, restaurant atmosphere, service and kitchen systems, staff training and marketing emphasis. In the current economic climate, you may be limited to modifications that require no major capital investment, so think creatively.

- Although the new value proposition goes far beyond the menu, a number of specific menu strategies are an excellent fit with new consumer needs and desires. “Premium” strategies, for instance, include “better” burgers and “better” beverages (including fruit-based drinks with or without alcohol). “Portion” strategies include small plates, snacks, “mini” food formats such as mini-burgers and mini-dessert trios, and a variety of portion options for core menu items.

- In light of the trend toward dining and entertaining at home, operators should consider upgrading their offerings and systems for takeout, delivery and large-order catering.

- Also consider opportunities to boost takeout, delivery and catering to local businesses. One hot trend is the food truck. Kogi Korean BBQ-To-Go sells Korean-fusion tacos and burritos around Los Angeles from a pair of mobile trucks, and Pennsylvania-based Sheetz is expanding its fleet of mobile Sheetz Bros. Coffee trucks. Both alert fans of the trucks’ whereabouts via Twitter.

- A winning value proposition and resonating points of differentiation will do little good if you don’t let potential customers know what you can offer. In other words, there’s no success without marketing. Today’s hottest buzzword is social media—including corporate and viral websites, blogs, Facebook and MySpace pages, and Twitter. A well-thought-out social media presence provides a face and “personality” for a restaurant company, facilitates rapid response to customer inquiries and to quickly developing issues, and helps companies gain insight on their customers in a way never possible before. Interactive and viral marketing makes customers partners in the business. Best of all, social-media marketing can be done at a fraction of the cost of traditional advertising, so it’s a great tool for independent restaurants that want to align themselves with today’s consumer mindsets and lifestyles.

If the economy does not improve, 54% of consumers report they will most likely skip ordering alcoholic beverages when they dine out.

Sysco Can Help

Sysco and its network of experienced professional Marketing Associates can help operators understand the implications of the new consumer mindset on their business model, and then develop the changes needed to respond aggressively and appropriately. Marketing Associates can coordinate multidisciplinary Business Reviews in which Sysco experts examine every phase of a restaurant’s operations and recommend money-saving measures and quality-enhancing improvements aimed at helping restaurants stand apart from the crowd. Because Sysco Marketing Associates have a “30,000-foot view” of the entire restaurant industry both nationally and in their specific market, as well as a granular understanding of the local environment, they can benchmark a customer’s operation against those of competitors.

Sysco also boasts the industry’s largest and most capable staff of Quality Assurance professionals who make sure that Sysco Brand products are as safe and wholesome as possible.

Sysco iCare connects restaurateurs to business partners that help them compete, stay in the game and focus on what they do best. iCare offers a suite of value-added resources specifically designed to help the restaurant operator. Through Sysco iCare’s partnership with Google’s Local Business Center, independent restaurants can “get on the map” by creating an accurate, customized, online listing, for free. Operators gain insight into how their customers are finding them on Google, and customers can print coupons through the Google site! Other iCare partners and programs can help operators boost sales, hire and retain the industry’s best employees, streamline and protect business operations, and much more.