

CONSUMER CONFIDENTIAL

Cracking the customer code to unlock your sales potential

BY PAUL FRUMKIN

AT A RECENT ECONOMIC SUMMIT, BILLIONAIRE INVESTOR WARREN BUFFETT TOLD 2,000 BUSINESS leaders that the recession was over.

"I am a huge bull on this country," said Buffet, whose company, Berkshire Hathaway Inc., owns the Edina, Minn.-based quick-service chain International Dairy Queen. "We will not have a double-dip recession at all. I see our businesses coming back almost across the board."

But while the recession has indeed ended officially, as the "Oracle of Omaha" observed, many American consumers have yet to act on the news.

Although trend watchers find that Americans are slightly more upbeat than they had been in the depths of the downturn, they remain wary when it comes to dining out and are not expected to return to pre-recession-level spending anytime soon.

"Confidence has remained relatively unchanged for more than a year," said Lynn Franco, director of the consumer research center for The Conference Board, which compiles the closely watched monthly Consumer Confidence Index. "The consumer still feels like it's a recession.

"We're projecting that we won't see a big rise in consumer spending for the remainder of this year and probably into early next year," she said.

Restaurants, in fact, are among those businesses bearing the brunt of the protracted downturn. In a survey conducted in July, America's Research Group in Charleston, S.C., asked consumers to cite the areas they have reduced spending the most.

"Going out to eat was No. 1; going to movies was No. 2," said chairman Britt Beemer.

Survey respondents also said they are expecting this downturn to extend through the fall of 2011, he added.

Moods will swing

But though Americans continue to carefully weigh their spending habits in restaurants, most experts agree that the current mood will not last.

"When consumers do loosen the purse strings, dining out is an affordable form of discretionary spending," Franco said.

Meanwhile, restaurateurs are beginning to look for signs that will help them decipher what the mood of the new consumer will be when the economy finally begins to rebound in earnest.

They question whether the deep downturn will leave a

permanent imprint in the consumer's psyche and, if so, to what degree; whether restaurant patrons will allow themselves to be weaned off value menus and other widely popular forms of discounting; and whether nutrition concerns will alter the ordering habits of the collective American restaurant-goer.

At the same time, operators want to know what kinds of new experiences customers will demand when they do return to the restaurant table.

While the debate persists about how the post-recession consumer will behave once the downturn is history — the 18-month-long recession officially ended in June 2009 — experts agree that most of us have not experienced anything like this before.

"The current consumer mood has resulted in more restaurant closures than we've seen in our lifetime," said Gary Stibel, chief executive of the New England Consulting Group in Westport, Conn. "It's been a brutal 18 months. But while it will continue to be tough — the economy is not getting better — I do think the worst is behind us."

The overwhelming concern, though, is whether the consumer will return in the same robust numbers and with the same openhanded spending attitude the

CONTINUED ON PAGE 28



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Decoding the data

CONTINUED FROM PAGE 28

While there are few metrics to bear that out yet, Stanford Graduate School of Business conducted a study earlier this year showing that Starbucks' customers purchased 6 percent fewer calories per visit at units that posted calorie counts on menu boards.

At the National Council of Chain Restaurants' annual CEO Policy Summit in Washington, D.C., Susan T. Borra, managing director of nutrition, food and wellness at Edelman, a global public-relations firm, presented a new study exploring the consumer's mind-set concerning health and nutrition.

Borra, a registered dietitian, advised foodservice executives that while Americans might not be acting decisively on health concerns at the moment, they are more aware of the issue than they have ever been before.

"Two-thirds of consumers are saying that they are making changes to their diet," Borra told Nation's Restaurant News. "Could I find evidence to back that up? Maybe not. But they say it's important aspirationally, and once people find a value, they also find solutions to meet those value needs."

The Edelman study, which queried 5,000 Americans, found that 59 percent of respondents believed that "business should be as engaged in maintaining and improving personal and public health as it is in maintaining and improving the environment."

The study says 51 percent of those polled blamed food for the rise in obesity rates, while 42 percent said a lack of physical activity was the cause.

The study also found that 51 percent of participants believed that the food and beverage industry should help address the obesity problem. At the same time, 50 percent of respondents said operators should educate the public on health topics related to their products or services.

In answer to the question,

"How is a 'health-focused' food or restaurant company defined," two-thirds of respondents said 67 percent of a company or brand's products should be considered "better-for-you" in order for the company to have a significant focus on health and wellness.

Borra, however, cautioned restaurateurs about reacting too quickly to perceived public opinions about health. "Most restaurant companies know their customers' wants and needs very

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well, and for [a brand that] has not been known as a nutrition-oriented place, suddenly changing the entire menu will not work," she said. "You have to move more gradually. [Your customers are] not going to stop eating those types of food they like. But they are looking for alternatives and solutions."

Others are less convinced that large-scale change is imminent. Mintel's Giandelone agrees that menu labeling will "be a big one" for the restaurant industry.

"We anticipate that initially people will be surprised when they see calories on menus — they obviously don't realize how high [in calories] some items are," he said. "And it may change behavior in the short term."

"But in the long term," he continued, "it will be just one more thing on the menu, and most people probably will return to their old ordering habits. People will make decisions based on taste, and then maybe on health consequences. I mean, how else do you explain 10 million [KFC] Double Downs sold so far?"

Kelly advises operators not to take a "one-size-fits-all" approach to nutrition concerns.

"The general population is

more aware than ever before about health — they're emotionally aware of calories," Kelly said. "But that is not homogenous across society."

Restaurateurs need to make granular decisions about health-related menu adjustments, he said.

"You find certain demographics for markets like Los Angeles or New York or Marin County where health concerns are more top of mind, and then there are other areas where they're not."

"And you have to think differently about dayparts and weekparts, too."

Stibel also is doubtful that we will see a paradigm shift in ordering behavior any time soon.

"I think a lot of people are making more out of it than is really there," he said. "I don't think the consumer is going there. Consumers still want to have a good time and indulge when they go out. The average consumer is not going to be swayed much."

Taste rules

What all observers agree on is that consumers always will opt for menu items that taste good.

"We've had a couple of millennia of development that cause us to like salt, fat, sugar and, for



Eric Giandelone, Mintel international director of foodservice research, notes an increase in customer savings practices.



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—Susan Borra
Managing Director, Nutrition,
Food and Wellness,
Edelman

some, alcohol," Kelly said. "That will not go away. We're still going to like a cheeseburger and a cold Coke or Pepsi."

Meanwhile, experts say smart restaurateurs will continue to give consumers what they want. And chiefly, the American consumer craves new iterations on items they already enjoy — like sandwiches, burgers, pizzas and coffee, many say.

"People are always interested in new tastes — like ethnic and international dishes," Stibel said. "If a product performs, people will try it."

And all experts agree that taste is the key decider. According to the Edelman study, 86 percent of those polled said taste either had some impact or a great impact on the purchasing decision. By contrast, 73 percent cited price as the key deciding factor.

Meanwhile, the American diner continues to grow more sophisticated. "We're seeing an ongoing process of interest in food," Kelly said. "Now you have multiple food channels — a plethora of celebrities. As a result, Americans are interested in trying more interesting stuff. They don't want the same chicken wings they tried 20 years ago."

The consumer's growing comfort with technology also is expected to have an impact on the dining-out experience. Quick-service operators, in particular, have begun experimenting with self-service technology, but even that has begun to reach into other segments of the industry.

California Pizza Kitchen recently said it was testing a tabletop touch-screen device that allows guests to pay their bill, merchandises food and beverages, conducts surveys, and recruits loyalty program members.

"People are just getting more comfortable with technology," Giandelone said, "and it can be used to help drive check averages in restaurants."

"However, by using it," he continued, "there also is a risk that the dining occasion becomes just a big transaction versus [the guest] having personal interaction [with a server]. We have to see if one experience takes away from another."

But while some key questions remain to be answered, observers tend to retain their general sense of optimism about the consumer and the restaurant industry in the long term.

"North America may be a 'Johnny-come-lately' to the dining scene," Kelly said, "but I don't think we're going to see that go away. Even fine dining will come back once employment comes back. Dining is a social enterprise, and people will eventually revert to a quality-of-life behavior."

Giandelone also says he is optimistic about the restaurant industry's future. "There are already some signs of life," he said. "People are hoping the economy makes more strides. We'll continue to see the industry go forward with slow, steady growth." ■

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