



Market Briefing

Tracking and interpreting restaurant trends



The Art of Menu Pricing

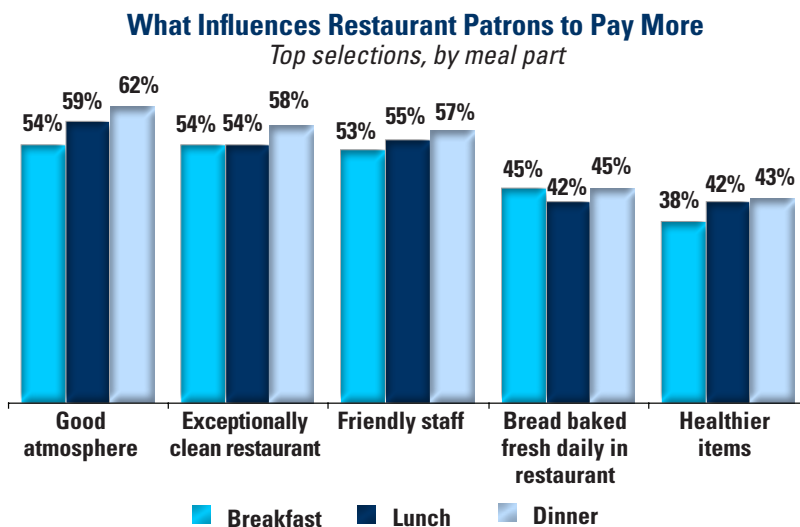
As the nation slowly recovers from the recession, most restaurant operators have been hesitant to drop the deals they've been running, let alone raise prices, for fear of scaring off customers. This, despite the fact that commodity costs are rising and will surely impact operators' bottom lines. But, in at least one segment—casual dining—price increases have been documented on entrées, appetizers, side dishes and kids' meals,¹ showing that increases can be successfully taken.

However, instituting price hikes in these times requires a particularly strategic and well-thought-out approach, predicated on both market research and empirical observations of a restaurant's core audience. Questions which every operator should consider, and which MarketBriefing explores below, include: What are some of the factors that would motivate diners to pay more? How might they react if prices were to rise?

SETTING, SERVICE TRUMP FOOD FACTORS

Based on a January 2011 online survey of 500 consumers, the top three items that would influence consumers to pay more at a restaurant during any daypart are non-food related. For breakfast, lunch and dinner, a good atmosphere either tied for #1 or was the primary factor that consumers indicated would motivate them to accept a higher bill. An exceptionally clean restaurant was next, followed by friendly staff.

Two food-related factors round out the list of the top five value indicators for which consumers report that they would be willing to pay more at restaurants: bread baked fresh daily onsite and healthier items. Worth noting is that these food-related factors won out over other food-related options such as the use of premium meats and proteins, all-natural or organic ingredients, premium cheeses and new or unique sauce and condiment options.



¹ "Menu Prices Rise at Casual-Dining Restaurants," Nation's Restaurant News, December 8, 2010

INSIDE MARKETBRIEFING

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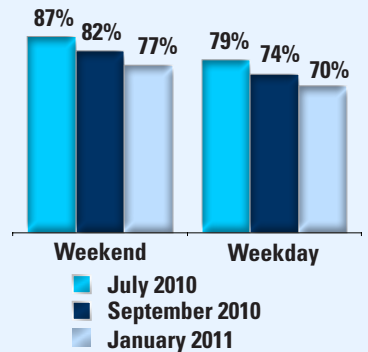
DINING DEAL TREND BAROMETER

Although the economy and the restaurant sector are reportedly on the upswing, consumers appear to be growing more, rather than less, conscientious about parting with their dining dollars. From July 2010 through January 2011, there has been a 10-percentage-point drop in the proportion of consumers who are very or somewhat likely to dine out for dinner on a weekend without using a deal. The drop has been nearly as steep among those who dine out during the work week.

The question here is whether consumers really won't dine out without a deal, or whether they know they can almost always find one, and so they choose not to.

Likelihood that Consumers Will Dine at a Restaurant for Dinner if No Deals are Offered

% of consumers responding "very" or "somewhat" likely



Editor's note: Look for up-to-date metrics that shed light on key industry trends in each month's MarketBriefing. For comparison, you can find past Trend Barometer metrics online at: www.technomic.com/MB.

SOME WOULD CURTAIL VISITS IN WAKE OF PRICE HIKES

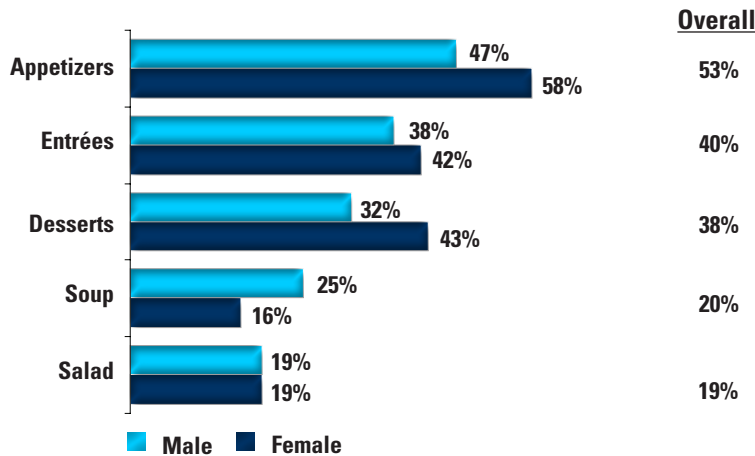
Although some consumers indicate that they would be willing to absorb price increases at restaurants based on factors outlined above, about one-third report that they would reduce visits to a restaurant if prices were to rise in the near future (30% at fast-food, 31% at fast-casual and 32% at full-service restaurants). Many consumers also report that in the face of price increases, they would visit other restaurants instead (18% of fast-food customers, 23% of fast-casual diners and 21% of full-service patrons) or order different, less expensive items at the same restaurant (19%, 16% and 17%, respectively).

How Consumers Would React if Prices were to Rise in the Near Future			
	Fast-Food Restaurant	Fast-Casual Restaurant	Full-Service Restaurant
Keep order the same	13%	12%	16%
Order fewer items	11	9	7
Order different/less expensive items	19	16	17
Visit other restaurants instead	18	23	21
Reduce all visits to this type of restaurant	30	31	32
Don't know	8	8	6

SOME FULL-SERVICE CUSTOMERS WOULD CUT BACK ORDERS

Among FSR customers, higher percentages of women than of men indicate that they would order different or less expensive items if prices were to increase. Women are more likely than men to cut back on appetizers (58% of women compared to 47% of men), entrées (48% vs. 32%) and desserts (43% vs. 32%). Men report that they would be more likely to cut back on soup (16% of women compared to 25% of men). More expensive salad would be passed up by equal percentages of men and women (19%).

Where Consumers Would Cut Back at FSRs
% of consumers selecting, by gender



Base: 120 consumers who indicated they would order different or less expensive items at FSRs if prices were to rise
Note: consumers selected up to three responses

PRICES MAY RISE BUT COMBOS STILL EQUATE TO VALUE

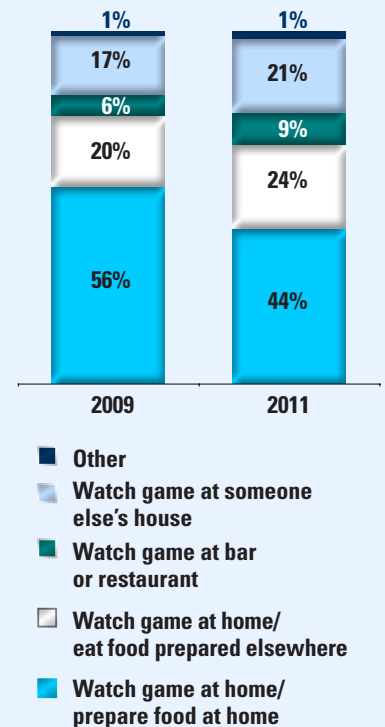
While consumers' potential reactions to potential changes in pricing are varied and difficult to gauge, understanding their concept of value can help operators as they consider price restructuring. It's clear that meal combos are closely aligned with the idea of value. For example, four-fifths of consumers (80%) agree somewhat or completely that sandwiches should come with fries or another side item included in the price. And two-thirds of those surveyed (67%) agree that entrées that come with a side dish are a better value than those that do not.

SUPER BOWL TREND BAROMETER

Compared to two years ago, more consumers plan to watch the Big Game at home but eat food sourced from a restaurant or retail prepared foods area. In addition, more consumers plan to watch from a restaurant or bar, and more plan to watch the game at someone else's house. Far fewer consumers plan to watch the game at home this year while dining on food they prepared at home.

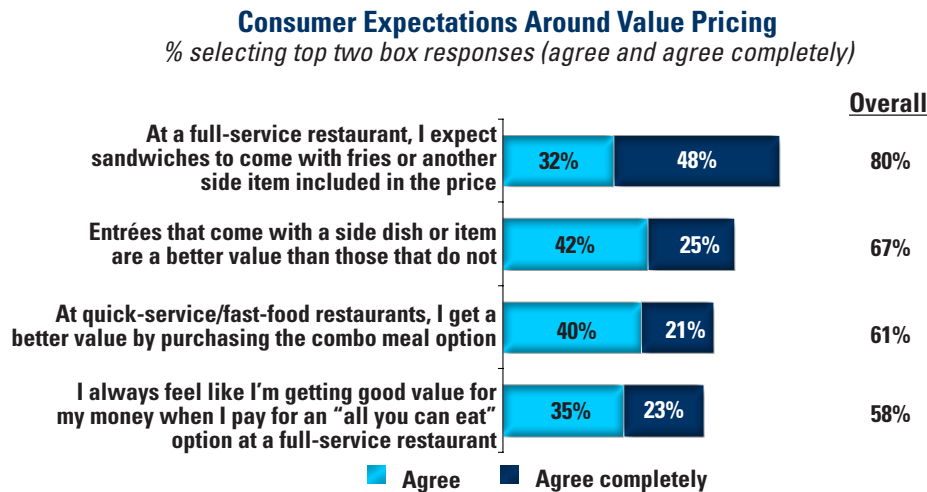
Overall, more consumers intend to watch the game this year than two years ago. In 2009, 70% of those polled planned to watch the Super Bowl; this year, 77% plan to do so.

Consumers' Plans for the Super Bowl



Base: 351 (2009) and 384 (2011) consumers who plan to watch the Super Bowl

At quick-service restaurants, three-fifths of consumers (61%) agree that they get a better value when they purchase a combo meal. Consumers also perceive value in “all you can eat” options at FSRs; nearly three out of five of those polled (58%) equate this format with good value for the money.



Respondents indicated their opinion on a scale of 1–5 where 1 = disagree completely and 5 = agree completely

Bottom Line: Most consumers would not exactly welcome an increase in menu prices. That being said, aligning menu price restructuring with consumers’ ideas of value—such as entrées with sides included, combo meals, etc.—and focusing on delivering value-added non-food elements for which they are willing to pay more—like good atmosphere, clean surroundings, and friendly service—may make it easier to raise prices.

BUSINESS-BUILDING IMPLICATIONS:

- Recent research shows that, “consumers place a perceived value on combo meals, even if it costs the same as choosing items a la carte.”² In most cases, your customers won’t add up the prices of each individual item. It pays for you to offer some sort of combo meal or prix-fixe deal to encourage larger orders, even if you can’t deliver a price break.
- Limited-time offers are an excellent way to build excitement and charge non-discounted prices. Many consumers are willing to pay full price for ingredients that are seasonal, local or unique. Burgerville, with units located in the Pacific Northwest, is an excellent example of a chain that regularly features seasonal specialties that are not subject to discounted pricing.
- If you’re considering raising prices, make sure your staff is extra courteous and industrious. When perceived experience value increases, your customers have less reason to be irked about menu price increases.

The Impact of Noise on the Dining Experience

Noise levels are an intrinsic part of the dining experience. If the background sound level is too low, diners feel self-conscious, as if their every word or whisper will be overheard. If it’s too loud, diners may get a headache just trying to converse within their companions, never mind trying to place an order. To achieve the perfect balance of music and ambient noise in a restaurant is a significant feat, especially given the bare, open, sound-reverberating design of many restaurants today. But, it’s achievable, and can be made easier by taking into consideration consumers’ thoughts on what levels of music and noise they will welcome or can tolerate when they dine out, as well as how they react when they are displeased by a restaurant’s sound level.

MELLOW MUSIC TOPS THE CHARTS

As the chart on the following page shows, for each of the four segments covered (fast food, fast casual, full-service dining and full-service bar area), consumers indicate that they prefer softer, quieter music to louder, upbeat music or to no music at all. Softer, quieter music gets a plurality of the votes among patrons of fast-food restaurants (42%) and FSR bar areas (49%). An outright majority of diners prefer soft music in fast-casual restaurants (70%) and FSR dining areas (74%).

As one might expect, the bar area of an FSR is the space where patrons are most likely to prefer louder music. Perhaps surprisingly, fast-food restaurants are where consumers are most likely to prefer no music at all, possibly because such restaurants are loud enough already.

²“Consumption Effects of Bundling: Consumer Perceptions, Firm Actions, and Public Policy Implications,” *Journal of Public Policy & Marketing*, Fall 2010

Restaurant Type	Type of Music Selection Preferred		
	Upbeat, slightly louder volume	Softer, quieter volume	No music at all
Fast food	21%	42%	37%
Fast casual	14	70	26
FSR: Main dining room	12	74	13
FSR: Bar area	40	49	11

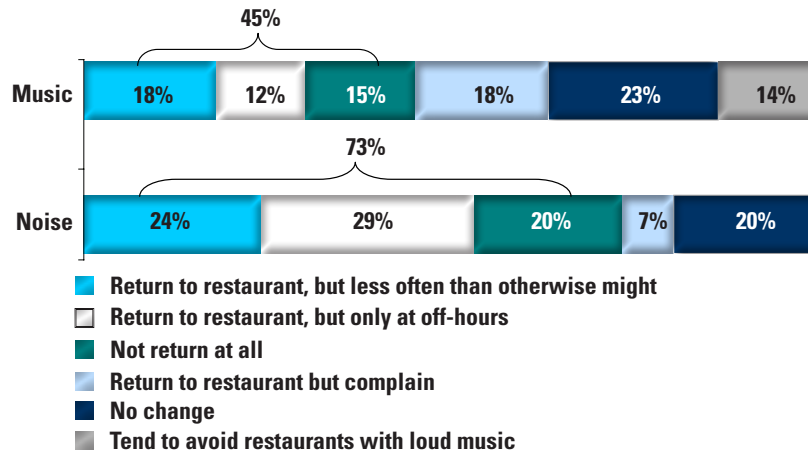
MANY AVOID NOISY RESTAURANT ENVIRONMENTS

A restaurant’s background music level and background noise level really are separate issues. Restaurant patrons react differently to high-volume music than to high volumes of noise.

If they were confronted with too-loud music, close to half of consumers surveyed (45%) indicate that they would alter their dining-out behavior by either visiting the restaurant less often (18%), visiting only at off-hours (12%) or not returning at all (15%). A further one-fifth of consumers (18%) would continue to patronize the restaurant but would complain to the staff about the loud music. While nearly a quarter of consumers (23%) would not react to too-loud music, quite a few (14%) simply avoid establishments with loud music.

In contrast, if confronted with high noise levels in a restaurant, nearly three-fourths of consumers (73%) report that they would visit the restaurant less often (24%), visit only at off-hours when it might be quieter (29%), or simply not return (20%). A further 7% of consumers would complain about the noise but return to the restaurant. A fifth of consumers (20%) would apparently would not be troubled by the noise level and would not make any changes.

How Consumers React to Loud Music and High Noise Levels
% of consumers selecting

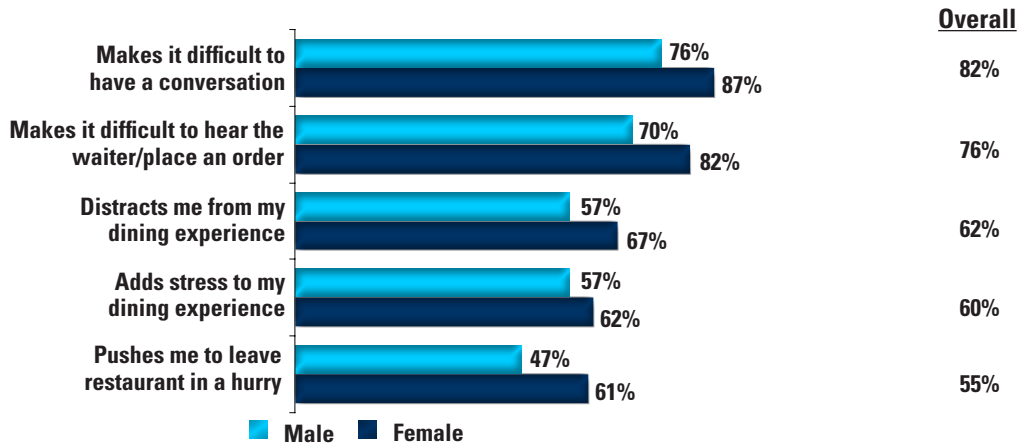


WHY CONSUMERS (AND ESPECIALLY WOMEN) DISLIKE NOISE

Excessive levels of restaurant noise can be a hindrance to many of the more pleasant aspects of dining out. Noise appears to bother women more than it does men. High percentages of both men (76%) and women (87%) indicate that too much noise makes it difficult to have a conversation. Hearing the waiter or placing an order is an issue for 70% men and 82% of women. Both men (57%) and women (67%) find that too much noise distracts from their overall dining experience. Fully 57% of men and 62% of women say that too-high noise levels add stress to their dining experience. And, 47% of men and 61% of women say a too-loud environment pushes them to leave the restaurant in a hurry.

Top Issues with Restaurant Noise

% of consumers selecting top two boxes (agree and agree completely), by gender

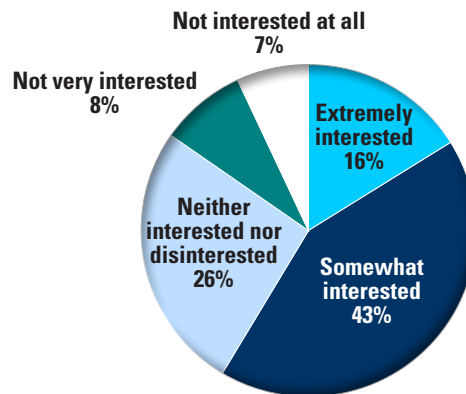


Note: Scale is five point, where 1 = disagree completely and 5 = agree completely

ADVANCE NOTICE OF NOISE LEVELS WOULD BE WELCOMED

Standardized noise-level readings, which can be taken fairly easily, are currently not included in most restaurant reviews. If such data were to be made available, nearly three-fifths of consumers (59%) report that they would be extremely or very interested in seeing them. Only 15% of consumers are truly not interested in receiving such information.

Consumers' Level of Interest in Having Noise-Level Readings Posted Publicly for Restaurants



Bottom Line: Loud noise in restaurants can definitely be a deterrent to business. Measures taken to turn down the volume of background music or minimize ambient noise through design modifications may result in more repeat—and satisfied—customers.

BUSINESS-BUILDING IMPLICATIONS:

- If your establishment does not play music but still carries quite a din, look into adding style elements that are sound-absorbing, such as tablecloths, carpeting or porous plaster or tiles on walls. By preventing sound waves from bouncing back and forth on bare walls, ceilings and floors, you can better contain noise levels.
- Are you afraid of alienating some of your core customers if you lower the volume on your music? Consider keeping the bar area lively and then making the dining area a more sedate environment as McCormick & Schmick's and Dave & Buster's do. Patrons who don't want to leave the louder bar area could be offered a full menu to allow them to dine as well as drink in the lively surroundings they prefer.
- When examined by age, data revealed that younger consumer are more tolerant of loud music and noise than are their elders. So, get to know your customers. If your operation draws a younger crowd, louder music might not be a turnoff. Restaurants with higher price points and a more mature clientele may need to calibrate the music and noise level a bit more carefully.

Consumers' Perspective on Casual-Dining Restaurants

Casual dining is defined as full-service restaurants offering a wide range of affordably priced items in a casual, relaxing atmosphere. Over the past few years, however, there has been considerable sector blurring as new concepts emerge to meet changing consumer demands. Much of this blurring was spurred by the recession, which pushed some consumers to trade down to lower-priced fast-casual restaurants. At the same time, higher-end casual-dining or "polished casual" concepts have been generating buzz.

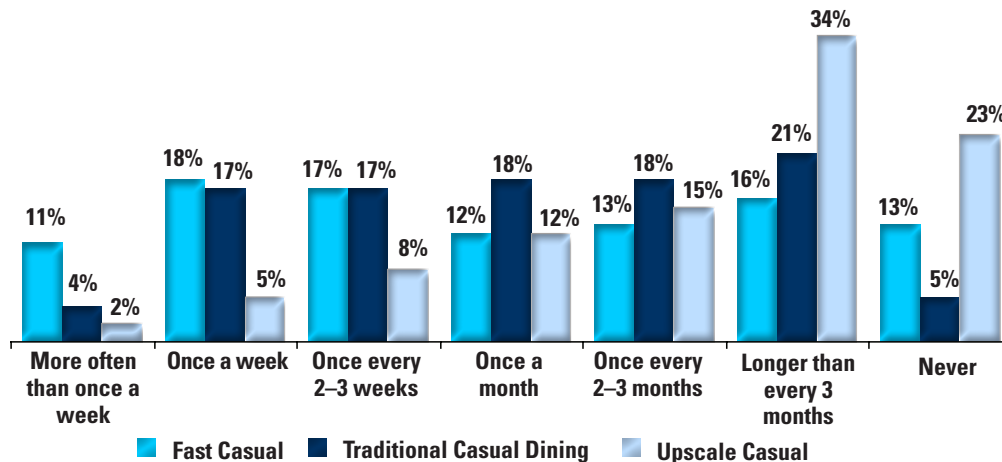
According to Technomic, fast-casual, traditional casual-dining and upscale-casual concepts garnered some \$134 billion in 2010 sales, accounting for more than a third (35%) of total restaurant industry sales. The wide appeal of the broadly defined casual-dining sector allows these restaurants to cater to a wide variety of consumer needstates, tastes and budgets, resulting in very high patronage. As part of Technomic's recent *Future of Casual Dining Consumer Trend Report*, an online survey of 1,500 U.S. consumers revealed details regarding consumer attitudes toward casual-dining restaurants.

CASUAL-DINING RESTAURANT PATRONAGE

Consumers visit fast-casual restaurants more frequently than they do traditional or upscale casual-dining concepts. More than a quarter of those polled (29%) indicate that they visit fast-casual eateries once a week or more often, compared to just 21% who report visiting traditional casual-dining restaurants weekly and only 7% who visit upscale casual-dining concepts on a weekly basis. Fast-casual chains have lower check averages than full-service casual-dining restaurants and are visited more often than other casual-dining chains at lunch, both of which likely contribute to this high visit frequency.

At the other end of the spectrum, 13% of consumers indicate that they never visit fast-casual restaurants, significantly more than the 5% of consumers who avoid traditional casual-dining restaurants, though far fewer than the 23% who take a pass on upscale casual-dining establishments. Convenience of location could be one reason for this disparity, as some consumers may live in areas that do not have many fast-casual or upscale-casual concepts. Higher price points at upscale fast-casual restaurants also likely play a role in their less-frequent patronage. And consumers are typically most familiar with traditional casual-dining chains, which have been on the scene for the longest amount of time.

How Often Consumers Visit or Consume Food/Beverages from Casual-Dining Restaurants



Base: 2,019 consumers aged 18+; base includes some respondents terminated from rest of survey

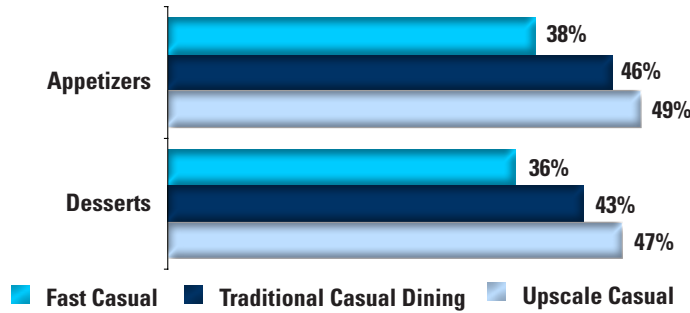
COMBINATION MEALS DRIVE PURCHASES

Combination meals appeal to consumers primarily because they are perceived as offering additional value for the money spent. Many consumers also like to purchase bundled meals because they simplify restaurant orders and add convenience to the occasion. Though combos are traditionally the domain of the fast-food segment, nearly two-fifths of fast-casual restaurant customers indicate that they would be more likely to purchase appetizers (38%) and desserts (36%) if such items were offered as part of a combination meal.

Consumers indicate that they also would be more likely to purchase appetizers and desserts at full-service casual-dining restaurants if they were included as part of bundled meals. More than two-fifths of consumers report that they would be more likely to order an appetizer (46%) or dessert (43%) as part of a bundled meal purchase at a traditional casual-dining restaurant. Nearly half of consumers who visit upscale casual-dining restaurants would order meals bundled with an appetizer (46%) or dessert (43%).

I Would Be More Likely to Purchase ___ at These Casual-Dining Restaurants if They Were Offered as Part of a Combination Meal

Top two box = agree and agree completely



*Base: 526 (fast-casual), 540 (traditional casual-dining) and 434 (upscale-casual) consumers aged 18+ who visit these types of restaurants
Consumers indicated their opinion on a scale of 1–6 where 1 = disagree completely and 6 = agree completely*

HEALTHFUL INGREDIENTS

At casual-dining restaurants, consumers consider the healthfulness of the menu to be of paramount importance. Expectations regarding better-for-you choices are highest at upscale concepts, where the majority of consumers who visit upscale casual-dining restaurants (56%) indicate that it is highly important that these locations offer healthy options. Just under half of consumers who visit fast-casual concepts (48%) and traditional casual-dining restaurants (47%) indicate the same.

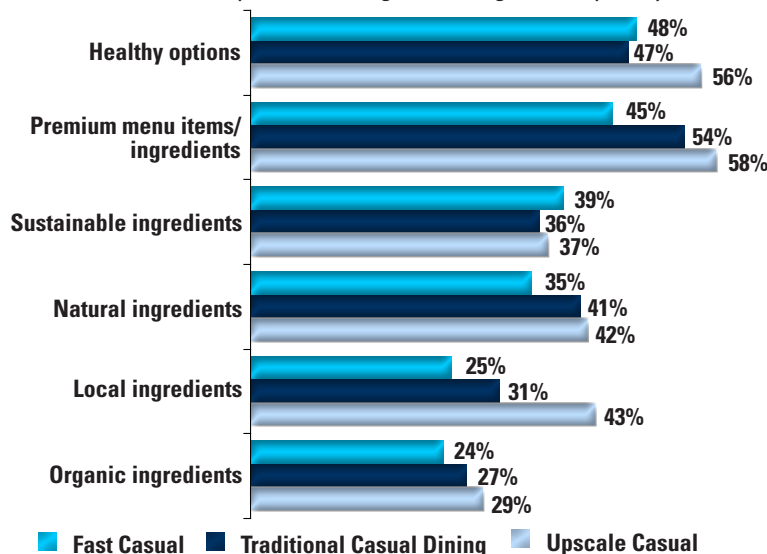
In general, consumers indicate that the use of premium, natural, local and organic ingredients on the menu is more important to them at full-service casual-dining restaurants and less of a pivotal issue at fast-casual concepts. For example, more than half of consumers who visit upscale (58%) and traditional (54%) casual-dining concepts say that it is important that these restaurants offer premium menu items or ingredients; just 45% of fast-casual restaurant patrons say the same.

The use of local ingredients seems to be especially relevant to consumers at upscale casual-dining restaurants. Two-fifths (43%) of consumers who patronize upscale casual-dining restaurants report that it is important that these locations integrate local sourcing into their menus. In comparison, just 31% of consumers who visit traditional casual-dining restaurants and 25% of those who visit fast-casual concepts care greatly about local sourcing.

The use of sustainable ingredients, however, seems to resonate slightly more with consumers at fast-casual concepts (39%) than with those at traditional (36%) and upscale (37%) casual-dining restaurants.

How important is it to you that ___ restaurants offer the following?

Top two box = agree and agree completely



*Base: Varies, as attributes were randomly rotated; >130 consumers aged 18+ who visit these types of restaurants
Consumers indicated their opinion on a scale of 1–6 where 1 = not important at all and 6 = extremely important*

Bottom Line: Casual dining encompasses a broad range of concepts, including both limited-service and full-service formats and myriad cuisine specializations. The segment as a whole is somewhat resistant to changes in consumer spending, though consumers can of course make different choices within each segment. Operators must stay on-trend and meet consumers' needs or else face falling behind their more up-to-date counterparts.

BUSINESS-BUILDING IMPLICATIONS:

- Because combination meals are a hallmark of fast-food chains, the format may not be appropriate to the higher-quality positioning of many fast-casual concepts. If your restaurant falls into the fast-casual segment, you can get around this dilemma by positioning combos as mix-and-match entrées or small plates instead. For example, Panera's You Pick Two menu allows customers to select two options from a preselected menu of soups, salads and half-sandwiches and pay a reduced price for the pair
- Although it's not shown in the charts, advanced analysis shows that consumers with children are most likely to purchase appetizers and desserts as part of combination meals at traditional casual-dining restaurants. Operators should meet parents' desire for value and ease of ordering by offering combination meals for kids as well as by developing family meal options, like the family-sized Square Bowls of pasta offered at Noodles & Company or the Family Meals To Go at Bob Evans.
- Local ingredients resonate most strongly with consumers in the upscale casual-dining scene. Operators of concepts where higher average checks can absorb some of the related costs may want to integrate locally sourced ingredients into their offerings to convey a message of health, quality and enhanced flavor. For example, upscale casual-dining chain Seasons 52 offers a seasonally rotating menu featuring fresh local ingredients.



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Editor's note: Except where otherwise noted, source of data is a periodic overnight survey of 500 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in January 2011. Margin of error $\pm 4.4\%$. The Future of Casual Dining Consumer Trend Report referenced in this issue is based on an online survey of 1,500 U.S. consumers conducted in October 2010. Margin of error $\pm 2.5\%$.

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