



June 29, 2011 07:00 AM Eastern Daylight Time

Restaurant Industry Rebound Gaining Momentum

Industry still faces commodity-price inflation, weakened consumers

NEW YORK--([BUSINESS WIRE](#))--Americans are eating at restaurants with greater frequency and the industry is on the mend. Even so, restaurants face the dual headwinds of commodity-price inflation and a still-cautious, value-driven consumer. All of this is according to a new survey by AlixPartners LLP, the global business-advisory firm.

In some good news for the restaurant industry, according to the survey, 70% of Americans dined out at least once per week over the last year, compared to 49% in a similar survey from the first quarter of 2010. Dining trends improved across all segments, with the best growth on the high and low ends, with convenience stores and fine dining outpacing other segments.

"Our consumer survey showed that customers are dining out more, and we're seeing that reflected in the industry financials," said Adam Werner, managing director at AlixPartners and head of the firm's Restaurant & Foodservice Practice in North America. "We're seeing a lot of improvement in the restaurant industry and the overall outlook is positive."

"Discounting is absolutely here to stay. Customers continue to look for a deal, and continue to expect to find coupons, even at fine-dining establishments"

Despite the overall positive outlook, restaurants can expect to face ongoing challenges. Diners remain budget-conscious and many are maintaining the conservative spending habits brought on by the recent recession. AlixPartners' survey found that per-meal spending continues to trend downward, with consumers saying they expect to spend 5% less per meal at restaurants in the next 12 months – an average of \$13.40 per meal vs. \$14.10 per meal over the previous 12 months.

In an ongoing challenge, many restaurants are also still learning to manage within the "new normal" of higher food prices. With the price for a basket of food staples now flirting with record highs, restaurant CEOs should be paying attention to their respective supply chains like never before, according to AlixPartners. From June 2009 to May 2011, the price of a basket of daily restaurant staples (including wheat, corn, beef, cheese and rice) increased 42 percent, according to the firm's analysis.

"There is a definite lag effect for commodity price inflation," said Eric Dzwonczyk, director in the Restaurant & Foodservice Practice at AlixPartners. "The end of the first quarter marks the beginning of commodity-price resets for many restaurants. Even as they've increased top-line growth, the bill for commodity inflation has come due and many restaurants may be unprepared should inflationary headwinds remain strong."

The restaurant industry rebound is being led mostly by robust growth in the casual and convenience-store

categories. Convenience-store dining frequencies grew 63% in the fourth quarter of 2010, while fast casual grew 25% in the same period.

Even with spending on the rise, diners are likely to remain cautious. A separate AlixPartners survey released in April found that 75% of Americans feel the same or worse about their personal economic situation as they did a year earlier. In this survey, when asked about their single-biggest concern regarding their economic situation over the next 12 months, 28% of consumers cited fuel costs, while 13% noted personal debt. When asked if gasoline prices continue to rise, 38% said they would cut back on the number of meals they eat outside the home.

Reflecting consumers' recent frugality, when asked about online discount-aggregation services which provide things like "daily deals," there was a 13% jump in this survey vs. the one in the fourth quarter of 2010 of those saying these inducements could influence their dining-out decisions.

"Discounting is absolutely here to stay. Customers continue to look for a deal, and continue to expect to find coupons, even at fine-dining establishments," said Werner.

The survey also found that healthy-menu options remain important, with nearly 49% rating healthy menu options as "extremely" or "somewhat important" to their dining choices. However, when nutritional information was printed directly on the menu, only 40% of those surveyed said they ordered healthier options more frequently than they may have in the past.

Attempts to improve restaurants' balance sheets and refinance debt have been mostly successful, according to the study. However, high levels of debt-to-equity remain, with debt ratios having doubled over the past five years.

Meanwhile, it says that merger and acquisition activity in the industry is likely to keep pace with 2010 in terms of the total number of deals, though the relative size of these deals is expected to decrease.

"M&A activity should be robust again this year," said Kurt Schnaubelt, director in the Restaurant & Foodservice Practice at AlixPartners. "In the current environment of cheap capital, deal activity is expected to pick up as many companies quietly look to put themselves for sale."

About the Study

The *AlixPartners Restaurant & Foodservice Industry Review* included an online poll with 1,000 U.S. consumers conducted May 31 and June 1, 2011. The questions focused on a number of areas, including planned frequency of dining occasions, expected spending on meals outside the home, preferred restaurant types, digital media and key criteria for restaurant selection. The data are weighted to reflect the demographic composition of the adult population.

About AlixPartners

AlixPartners LLP is a global business-advisory firm offering comprehensive services in four major areas: enterprise improvement, turnaround and restructuring, financial-advisory services and information-management services. The firm has more than 900 professionals and 15 offices around the world, and can be found on the Web at www.alixpartners.com.

