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Market Briefing

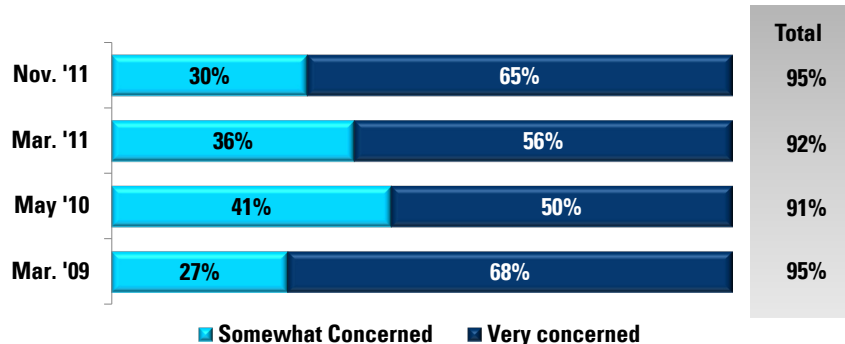
Tracking and interpreting restaurant trends

What Consumers Foresee in the New Year

Editor's Note: This year-end issue of MarketBriefing will first examine consumers' current attitudes about the economy going into 2012, and then consumer intentions regarding foodservice usage in the coming year. Look for the "Business-Building Implications" section on the final page of this issue after specifics of consumers' restaurant intentions have been analyzed.

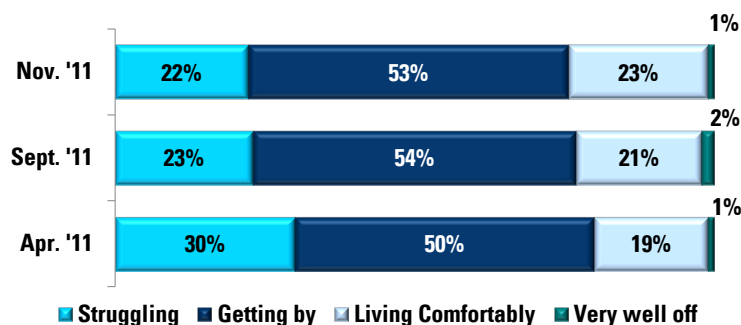
It's been four years since the economy fell into recession at the end of 2007, and two and a half years since the official end of the Great Recession in the summer of 2009. But with unemployment stubbornly hovering in the 9% range and most Americans' income growth stuck in neutral, consumers have long since resigned themselves to the idea that we're in a tough economic situation for the long haul. So how do they assess the nation's economic situation at this juncture—and their own? What are they worried about? How do they see the future? For most Americans, the state of the economy remains a huge concern. More than two-thirds say they are very concerned, and three out of 10 are somewhat concerned—for a total of 95% who report worry about the nation's financial situation. Levels of concern are essentially as high now as they were in the depths of the Great Recession in the spring of 2009.

In general, how concerned are you about the economy?



What about their own situation? Most consumers say things haven't been easy for some time, but there has been a slight easing of extreme financial distress. In April, 30% reported that they were struggling financially, versus 22% today. Conversely, the proportion of consumers who report being financially comfortable has risen—if only slightly.

How would you describe your current financial situation?



INSIDE MARKETBRIEFING

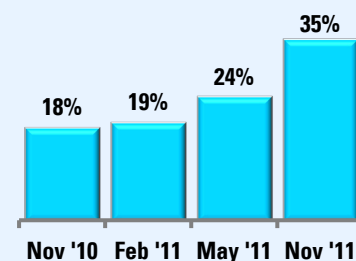
Food Safety Trend Barometer ... p. 2

Dining Dynamics:
How We'll Eat in 2012..... p. 3PREPARED FOODS
TREND BAROMETER

American consumers' usage of prepared foods from retailers has recently taken a sharp upward turn. More than a third of consumers (35%) now report purchasing prepared foods from a supermarket or other retail food store at least once a week. That's almost a 50% increase from May's usage level. And it's not a seasonal jump, either; weekly usage of meal solutions from supermarkets and food retailers is now almost twice as high as it was a year ago.

How often do you purchase
prepared foods from a
supermarket or other retail
food store?

% Once a week or more



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.

LIGHT AT THE END OF THE TUNNEL?

In past recessions, consumers could tell themselves that the nation always bounces back from its periodic financial downturns. But this time around, there's a sense that structural problems that led to the Great Recession won't be solved anytime soon.

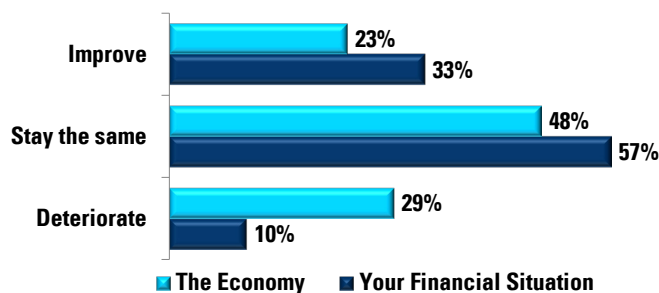
The light at the end of the tunnel actually seems to have receded into the distance. When consumers were asked when they think the nation's economy will recover, few foresaw a turnaround in less than two years. Only 18% placed a coming recovery within a two-year timeframe, versus 24% who did so when they were asked about the economic future last spring; 28% guessed two years, versus 18% who made that estimate in March; and 37% saw the turnaround as even farther away, versus 31% in March. However, just one-sixth of consumers said there's no going back—"things will never return to the way they were"—versus close to three out of 10 who made that gloomy assessment when asked to discern the future from the perspective of last March.

When do you think the economy will recover?



Just as consumers assess their own current financial situation somewhat more favorably than they do that of the nation as a whole, they're cheerier about their own prospects in 2012 than those of their country. A third expect their own financial situation to improve over the next six months, even though fewer than a quarter expect the nation's economy overall to improve. Three out of 10 think the U.S. economy will worsen, but only one out of 10 anticipates a worsening of his own financial condition. Half foresee a steady-state situation for their own finances, while six out of 10 say the economy as a whole will neither rise nor fall in the first months of 2012.

In the next six months, do you anticipate that ____ will ____?



"The economic situation" is a huge and complex issue, whether we're talking about a \$14 trillion economy or a single family. Whatever their diagnosis of the nation's problems—a question that presumably will be settled by the 2012 election—consumers know that, in their own lives, they are facing economic pressures on many sides. Nine out of 10 say they're concerned about gas prices, rising monthly fees such as utility bills, and health insurance and healthcare costs. Almost as many lie awake at night pondering their own income prospects, rising food costs and price inflation in general. Despite price shifts (such as a recent easing of gas prices), levels of concern expressed about each of these issues were almost exactly the same as they were in September, when consumers were last asked to tally their economic worries.

FOOD SAFETY TREND BAROMETER

Worries about supermarkets' prepared foods areas are slightly higher than those about restaurants. While 70% are concerned about food safety in restaurants, including 28% who say they are extremely concerned, 72% express concern about supermarket foodservice—with a higher level of "extreme" concern (30%). Although concern in both segments is high overall, the level of "extreme" concern about foodservice practices is low by historical standards. Forty-three percent expressed extreme concern in the summer of 2008, but that percentage fell to 31% in November 2010.

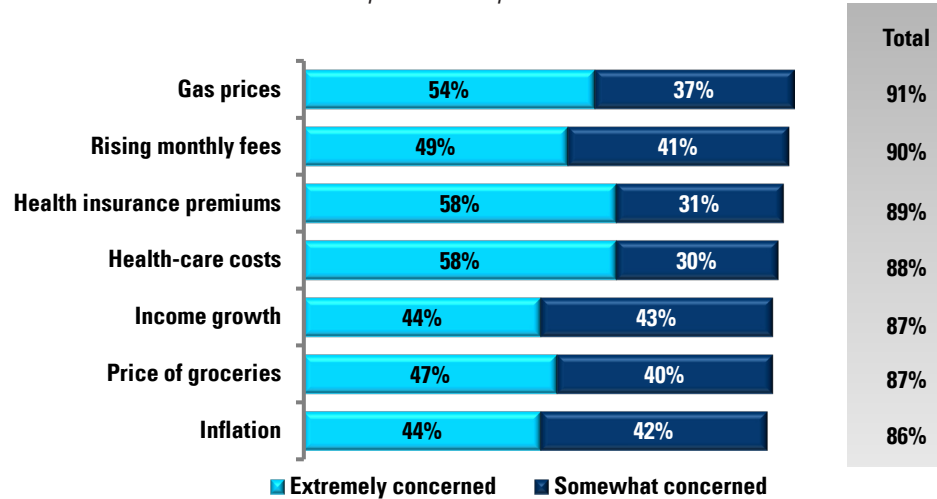
Consumers' Concern About Food Safety

% of Consumers Somewhat or Extremely Concerned



How concerned are you about the following?

Top two box responses*

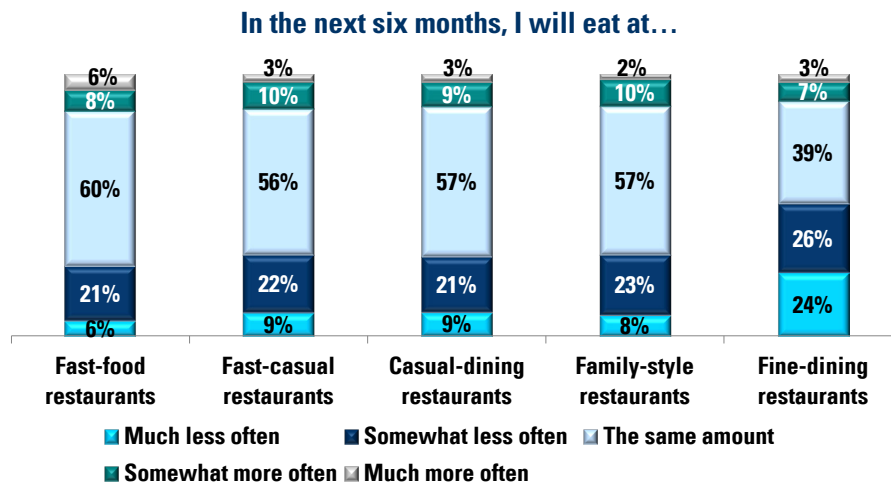


*Top two box responses on a scale of 1-4 where 4=extremely concerned and 1=not concerned at all

Bottom Line: In the first half of 2012, consumers will make day-to-day spending decisions based on the assumption that today's constrained economic conditions will continue, both for themselves and for the nation as a whole. They don't see a looming apocalypse—but they're not expecting to arrive on Easy Street, either. The only question is the extent to which consumers will continue the "temporary" cutbacks they imposed on themselves during the recession, versus the extent to which frugality fatigue will push them back toward pre-recession buying habits.

Dining Dynamics: How We'll Eat in 2012

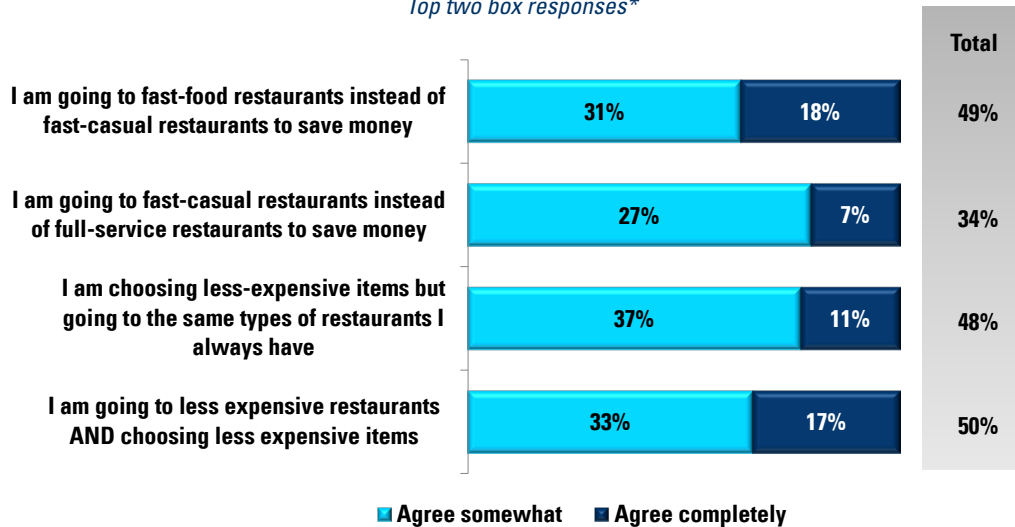
Consumers were also probed on their eating and dining-out intentions for the next six months. It's a good time to ask, since Americans moving into the winter holidays are beginning to think about their New Year's resolutions. And for many, one of these resolutions appears to be dining out less. While majorities said they would maintain current visitation patterns for all types of restaurants except fine dining, a greater number plan to dine out less often than more often.



In addition to resolving to go out to eat less often, half of consumers expect to trade down from full service to quick service, choose less expensive items at the restaurants they visit, or both.

How much do you agree with the following statements?

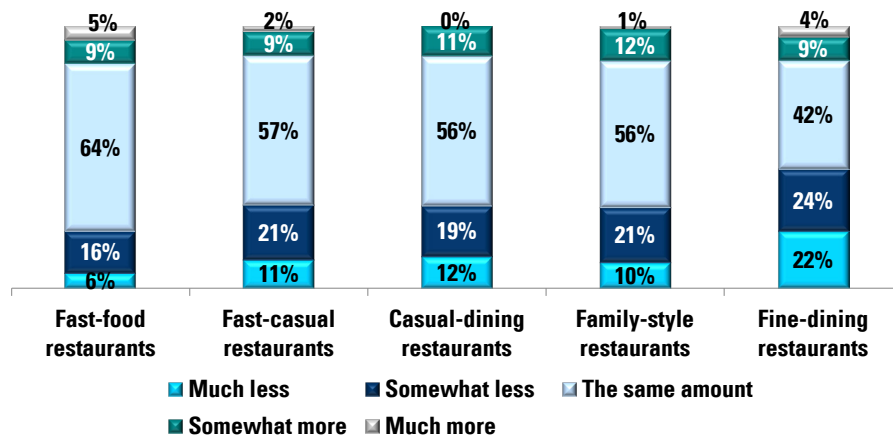
Top two box responses*



*Scale was 1-5 where 5=agree completely and 1=disagree completely

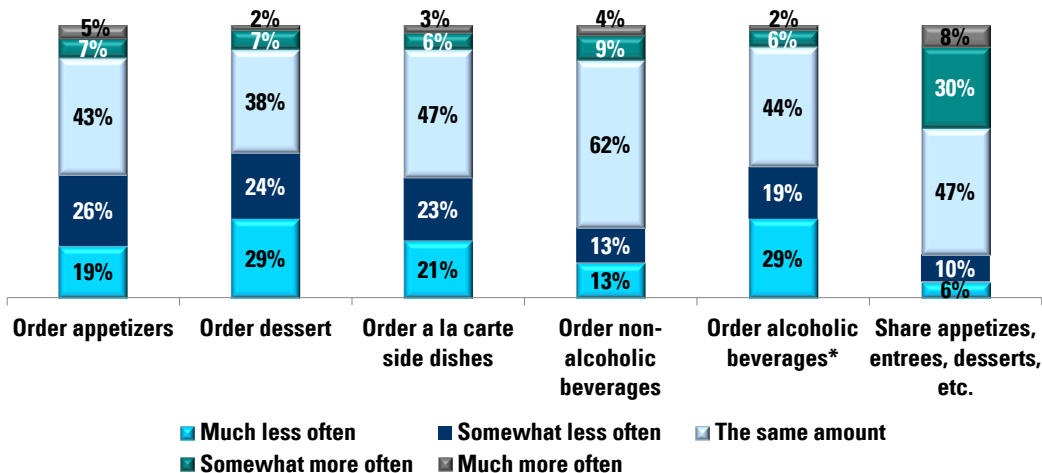
When we probed consumers further about their spending intentions in different types of restaurants, we found the same pattern that we saw for visitation intentions: more plan to cut back on their orders than to step up spending. The proportion anticipating cutbacks was smallest for fast-food restaurants, since these are already the most economical restaurant options with the simplest menus.

In the next six months, when I dine at __, I will spend....



Compared to LSR menu boards, full-service restaurants' more complex menus give consumers many decisions to make about what to order and how much to spend. Consumers were most likely to say they'd cut back on desserts (53%) and adult beverages (48%). Fewer plan to reduce orders of appetizers (45%) and sides (44%); on the other hand, 38% specified that they would share appetizers more often, implying fewer orders from the dining party. Perhaps surprisingly, consumers were most likely to say they would maintain current ordering patterns for non-alcoholic beverages—an easy meal element to eliminate in favor of free tap water, but also a low-priced item compared to other meal parts.

In the next six months, I will...



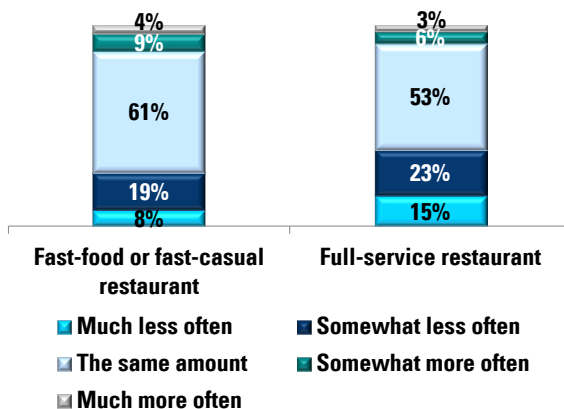
*Base: 475 consumers over the age of 21

Note: respondents were asked to consider takeout/delivery and dine-in occasions

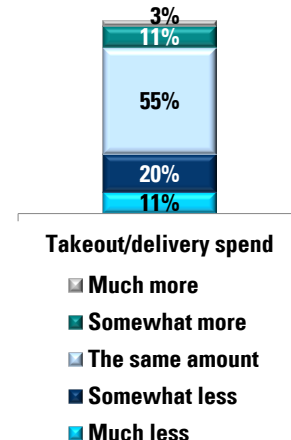
TAKEOUT INTENTIONS ALSO DECLINE

While most consumers expect to maintain their current takeout ordering patterns in the coming year, those who plan to change their patterns usually specified cutbacks—particularly at full-service restaurants, where four out of 10 expect to cut back and just one out of 10 looks forward to ordering takeout more often. When we asked consumers about takeout spending, we saw the same pattern: three out of 10 expect to spend less even when they do order takeout.

In the next six months, I will order food for takeout or delivery from a ...



In the next six months, I will spend ____ when I order food for takeout or delivery

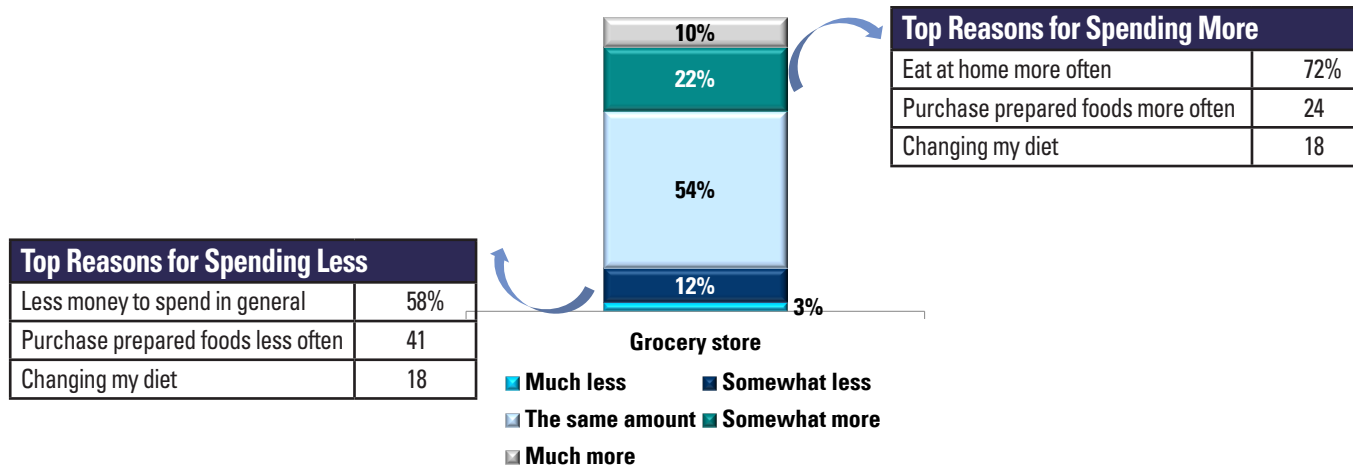


WHERE FOOD DOLLARS WILL MIGRATE

Clearly, consumers have to eat, whether or not they have resolved to forego foodservice occasions. The implication is that they will source more food from supermarkets. That's the way consumers see it: more than three out of 10 plan to spend more on groceries in the next six months, mostly because they expect to eat at home more often. On the other hand, 15% of consumers anticipate spending less in grocery stores, either because they expect to have less money to spend or because they intend to cut back on their use of supermarkets' prepared foods.

Of prime concern to restaurateurs is the fact that grocery-store offerings increasingly include sophisticated prepared foods as well as refrigerated and shelf-stable ingredients for home-cooked meals. Recent research shows that consumers are sourcing prepared meals from a wider range of retail foodservice operations than they were two years ago, many times at the expense of restaurants.

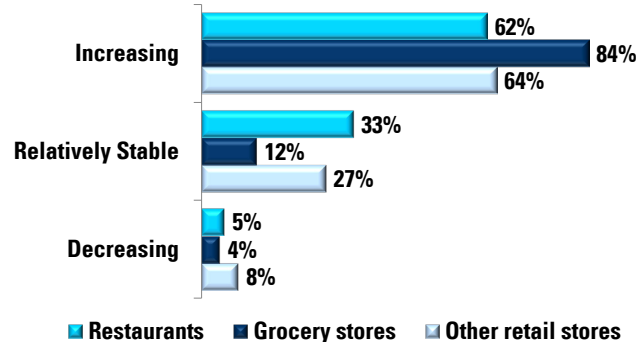
In the next six months, when I shop at the grocery store/retail food store, I will spend...



CONSUMERS UNDERSTAND THE ECONOMICS OF THE FOOD BUSINESS

At a time when consumers are grumbling about many sectors of the business community—Wall Street, Big Oil, Big Pharma and on and on—very few seem to resent the money extracted from them by either food retailers or restaurants. They have definitely become cognizant of price increases: 84% say they have experienced bigger bills at the grocery-store checkout counter and 64% have noticed higher prices in retail stores generally. Restaurant prices seem more stable in contrast, with 62% of consumers saying they've noticed increases but a third saying that their restaurant checks have remained the same.

At the following locations, have you noticed that prices are generally ...?



Most consumers correctly diagnose rising energy prices, food commodity prices, overall inflation and a constrained economy as the key causes of increases in food prices at both retailers and restaurants.

Top Reasons Why Consumers Believe Restaurant Prices Are Increasing	
Increased cost of gasoline/energy	72%
Increased cost of food ingredients	69
General price inflation	62
General state of the economy	42
Rising wages for restaurant workers	10

Base: 309

Respondents selected up to three reasons

Top Reasons Why Consumers Believe Grocery Store Prices Are Increasing	
Increased cost of gasoline/energy	80%
General price inflation	65
Increased wholesale cost of food	61
General state of the economy	44
Grocery stores just want to make more money	11

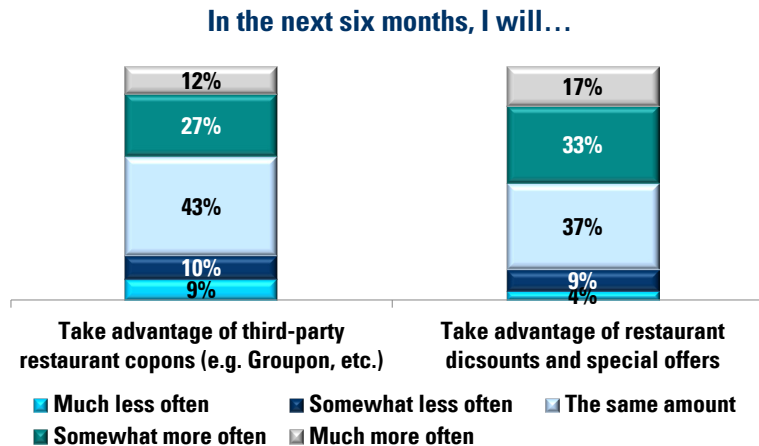
Base: 419

Respondents selected up to three reasons

WHAT CONSUMERS EXPECT FROM RESTAURANTS: DIRECT DEALING

Just because consumers understand restaurateurs' problems doesn't mean they don't expect some help coping with their own financial challenges. Even as input costs have risen for restaurant operators, diners continue to demand price deals.

The meteoric rise of third-party "daily deal" websites such as Groupon has profoundly changed discounting practices in the industry. But today's consumers prefer simpler, more direct transactions: when they plan to dine out, they're more likely to look to the restaurants themselves for discounts and deals, rather than to any third party.



Bottom Line: It's clear that consumers, by necessity or by choice, will continue to pursue a variety of ways to keep their foodservice spending as low as they comfortably can. They may empathize with operators' growing price pressures, but they will still insist on competitive prices in exchange for their patronage. To get ahead, operators must focus relentlessly on cost control, productivity—and staying close to their customers. Operators can position themselves to take share in an environment of little to no growth, but only if they strongly differentiate their concept and offerings and present a value proposition of price plus "something more."

BUSINESS-BUILDING IMPLICATIONS

- Consumers expect to see deals, but building traffic by cutting prices is not a viable strategy in the long term—particularly as operators' costs for food and other inputs begin to rise. Rather than trying to gain attention with unsustainable price deals, the most successful restaurants offer a variety of everyday pricing options for all needstates, with a tiered or "high-low" price structure.
- To stand out from their competitive set and indirect competitors, restaurants must offer fare that is fresh, innovative and craveable. To shift consumers' focus away from price, restaurants can emphasize their enhanced food quality. Data shows that consumers are willing to pay more for better ingredients.
- Keeping the menu fresh and interesting may not require a complete overhaul of recipes. Incorporating new and unusual flavors into existing menus can be a low-cost and easy way to grow sales and attract new customers. A recent flavor study showed that flavors imparted by spreads, sauces or condiments that come with food are appealing to 61% percent of consumers.
- The key to pleasing a wide range of consumers is flexibility. Offering more options in portion sizes addresses more consumer needs without the appearance of discounting. Small plates, snacks, bar menus and combo deals attract value-conscious diners and satisfy demand for healthier menu items.
- New dayparts offer a way to maximize the use of restaurant real estate and labor. Possibilities include breakfast, lunch, happy hour, early-bird dinner and late night. Some limited-service restaurants are adding full service in the evening.

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 November 2011. Margin of error $\pm 4.4\%$.

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