

SMART MARKETING

Discounting Is Dead; Long Live Discounting

A recent report issued by the NPD Group suggests what an increasing number of restaurants are sensing – consumers are becoming slightly less focused on price points or deals at restaurants.

The number of respondents who said they are looking for restaurant deals is trending downward, from 29% a year ago to 22% in March. Restaurants have begun to ease away from deep discounts and are becoming more selective about price-based promotions, but distancing themselves from deals will likely be gradual and slow. In fact, **how quickly and completely consumers will release their grasp on price is unknown.** Consider that Restaurants & Institution's 2010 New American Diner Study found consumers still put price before all other elements in dining decisions – nearly 60% agree that, "In choosing a restaurant, price is usually my first consideration." Diners across the board named lower prices as the top incentive at breakfast, lunch, and dinner that would encourage them to eat at restaurants more often.

So, how can restaurants appeal to price-conscious consumers but not define themselves by price? **New delivery channels are taking coupons and discounts to the next level – and to new audiences.** For example, offers made to restaurants' social media followers are working well. In fact, 63% of respondents to the R&I study said coupons and deals are what they most want when they connect to restaurants' Facebook or Twitter accounts. Restaurants are becoming increasingly adept with offers – such as asking followers to mention a specific tweet to get a special deal. They are also making announcements of last-minute specials and invitations for happy hour specials. In addition to driving traffic quickly, offers aimed at restaurants' social media audience are viral and build those communities further.

With over four million subscribers and more than four million coupons sold to date, **Groupon is a force in the electronic coupon category.** Subscribers receive a daily email with a special offer in their cities to see, do, and buy, including discounts on restaurant meals, such as paying \$25 for a coupon (or "groupon") for \$50 worth of food. The offer becomes the exclusive subject of a daily email (including photos, information about the business, and links to its Web site). There's no upfront cost to businesses to participate; Groupon processes the transaction and retains a portion of each "groupon" sold. Because businesses specify a minimum number to be sold for the deal to be valid, subscribers often use email and social media to spread the word. Restaurants say that participating has helped them reach new audiences – notably the young and Web-savvy – without spending time and money on marketing. Groupon reports that its customers spend an average of 60% above the value of the coupon. (Visit grouponworks.com for more information and to schedule a deal.) Also, look for Seattle-based collective buying service Tippr – now in eight major U.S. markets with plans to launch in more than two dozen in 2010. Tippr negotiates with popular places to eat, drink, shop, etc., for large discounts. The deals are guaranteed to subscribers; the more people who buy, the better it gets, so Tippr encourages passing deals along via social media (Visit blog.tippr.com/merchants to learn how it works.)

Part friend-finder, part city guide, and part game, **Foursquare is a location-based social networking app that is becoming a boon to savvy businesses.** Foursquare members (currently over 1M), use the GPS-based app to "check-in" from wherever they are (a museum, a bar, a restaurant, etc.) via iPhone/Blackberry/Android/Palm Pre, text message, or Foursquare mobile. Foursquare tells their network of friends, recommends things to do nearby, and awards points and badges for activities – like trying a new restaurant, visiting one more than anyone else (which earns the title of "Mayor" there), or adding a new place to Foursquare's listings. The friendly competition keeps it fun and provides members an incentive to frequent businesses – especially those that reward them with deals (e.g., free drinks, free apps, 20% off) for being the Mayor, for their 10th check-in there, etc., when they show proof (on their iPhone or other mobile device). Some businesses reward every member who checks in. If a member is at your bar/restaurant, Foursquare tells the member what he or she has to do to receive the offer. If the member is nearby, they will let the member know if your restaurant caters to Foursquare users. Restaurants promote Foursquare deals in house and via social media, where the deals get passed along. (Visit foursquare.com/businesses to learn more and to sign up your restaurant for Foursquare specials.)



Competing on Quality

"While much of the industry has been competing for lowest prices, we chose to further improve our customer experience

– adding a line of chopped salads, reformulating certain soups, improving our French baguette, and introducing new small batch coffee blends from South and Central America. We use hearts of romaine exclusively in salads and manage lettuce production, reducing the time from harvest to fork to yield the freshest possible product. During the summer months, salad sales grew 30% year over year, due to higher check averages and higher gross profit dollars."

– Scott Davis, exec. vp/chief concept officer, Panera Bread

"In 20 years, we've never cut back on quality, something our customers tell us they really value.

Some recent adjustments have even enhanced quality. We made two slices of cheese standard on all cheeseburgers, continued to serve our standard two slices of high quality tomatoes during the recent shortage without increasing prices, and increased our standard pickle serving from four to five."

– Molly Catalano, director of communications, Five Guys

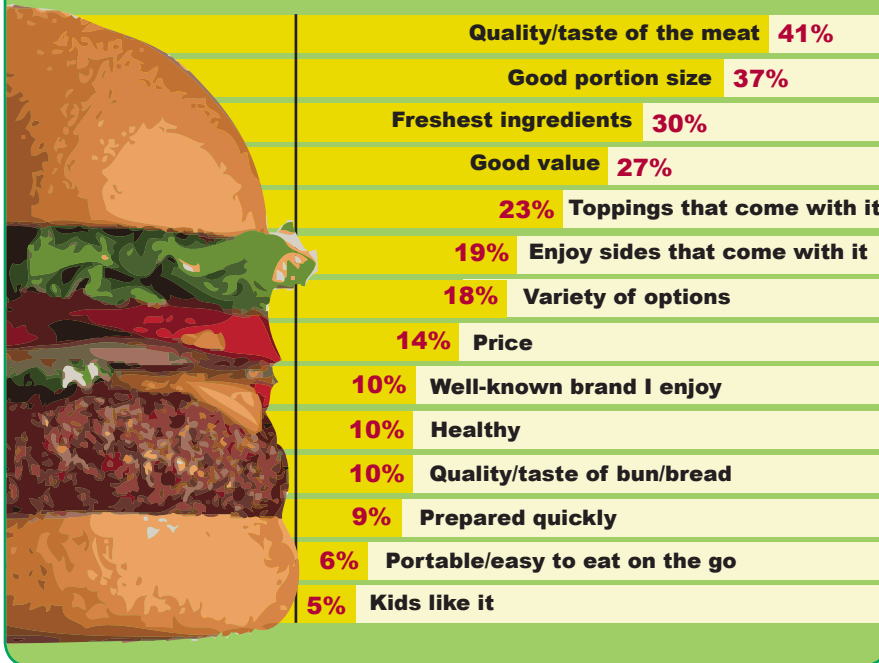
"We've refused to budge from our mission to provide the highest quality food and dining experience for our guests;

we would never consider serving lesser cuts of meat or turning tables faster. Even in this difficult economy, we have been confident that people would pay a few dollars more for certified Angus prime beef. As a result, we far surpassed anticipated sales, and 90% of our customers are repeat."

– Rosemary Statlere, marketing director, Red, The Steakhouse, Cleveland, OH and Miami, FL

Burgers' Premium

The most appealing attribute about burger options from fullservice restaurants



Notes: Results are from 2,529 respondents, of whom 1,194 eat burgers at least once/week; 832 once every two-three weeks; and 503 once a month or less. Participants could choose up to three responses.

Source: 2009 Burger Consumer Trend Report, Technomic, Inc.; © Technomic, Inc. 2009

According to a recent report from Technomic, Inc., burgers are one of the hottest menu trends – and their popularity isn't limited to quickservice. "Burgers may be the one area of foodservice that American consumers are less willing to cut back, despite the current economic environment," says Darren Tristano, executive vice president, Technomic, Inc. This is an important opportunity, given that a significant percentage (about a third) of consumers are willing to pay more for a specialty and/or premium burger – because, according to Darren, "The value proposition is heightened." What makes a burger "premium" in the eyes of consumers? Almost three-quarters cited the quality/type of meat (Angus, Wagyu); about the same percentage responded that it's a high-quality cut of meat (sirloin). (The report notes that both Angus beef and sirloin cuts have risen in popularity in the last couple of years.)

In fact, from fast food to fullservice, it seems to be more about the beef than any other factor. Across all restaurant segments, consumers cited good quality/taste of meat (or other protein) as the #1 or #2 most appealing burger element. What's on top counts, too – when all restaurant segments are included, quality/taste of the toppings rises to 41% of consumers who ranked this element #1 or #2. Of particular interest to fullservice operators seeking to tap into the potential of burgers may be the fact that nearly half of consumers (47%) said they think restaurants should offer a variety of burger sizes, ranging from mini-burgers to half-pound burgers. [For more information and to purchase Technomic's comprehensive Burger Consumer Trend Report, visit: technomic.com/files/products/2009_burger_brochure.pdf](http://technomic.com/files/products/2009_burger_brochure.pdf)

AROUND THE USA

Taxing Legislative Issues

Most states are facing enormous fiscal challenges and, to create needed revenue, some are looking at taxes that will have an impact on restaurants.

Pete Meersman, president, Colorado Restaurant Association, notes that the state has recently repealed the sales tax exemption on most packaged goods used for carryout orders. (Colorado restaurateurs will now pay sales tax on the purchase of "non-essential" packaging, e.g., napkins, straws, bags.) **Colorado** also repealed the "Utilities Sales Tax Credit," so restaurateurs no longer get a 55% sales tax deduction on the utilities they use to process/prepare food. . . .Patrick Conway, president/ceo, **Pennsylvania** Restaurant Association, says the governor hopes to completely revamp the state "sales and use" tax in Pennsylvania, reducing it from 6% to 4%, while extending the tax to cover a list of 74 items and services that are currently exempted (including accounting, advertising, legal, and gratuities). . . .According to Rob Gifford, president/ceo, Michigan Restaurant Association, the governor of **Michigan** is

"Like so many states, the Colorado legislature is looking for any, and all, ways to compensate for its tremendous budget shortfall."

– Pete Meersman, president, Colorado Restaurant Association

proposing to reduce the sales tax on restaurant meals from 6 to 5-1/2%, but apply the 5-1/2% sales tax to all services.

Twenty-four states now borrow from the federal government to cover unemployment benefits. It's estimated that by mid-2010 this number will grow to 40 states. Employers in 36 states face unemployment insurance tax increases ranging from a few dollars to nearly \$1,000 per worker in 2010. Even states like **Tennessee** – which is not currently borrowing but is experiencing massive outflows from its unemployment insurance funds – are pursuing unemployment insurance tax increases. Connie Vickery, government affairs director, **Indiana** Restaurant Association, says, "Last year we were able to lower unemployment insurance rates, using National Restaurant

Association data showing that restaurants pay more to the pool than they take out. This year unemployment insurance rate increases were considered, but not officially proposed. We're expecting increases to come up again in the 2011 session."

At the moment, **Chicago** is the only major city with a sugary drinks tax – a flat 3% of the cost of the bottle or can. However, sugary drink taxes are being proposed in **Philadelphia** and **Pittsburgh** – two cents per ounce, including fruit juices. **New York** and **California** are considering an excise tax on soda and other sugar-sweetened drinks that would be imposed at different rates on syrups/simple syrups, bottled soft drinks, and powders or base products, to be paid by all those who purchase these products.

Keeping Wine and Spirits Flowing

Sales of wines and spirits are vulnerable in a weak economy. According to Restaurants & Institutions' 2010 New American Diner Study, almost 70% of respondents surveyed said they don't order or they limit purchases of alcoholic beverages when dining out – up from 58% from last year. Some restaurants have been keeping alcoholic beverage sales flowing by interacting more with customers, offering interesting/unique wine and spirits, and providing great values for premium products.

ENGAGING CUSTOMERS WITH MORE PERSONALIZED SERVICE: Guests in the lounge at the Fifth Floor, San Francisco, CA, have the opportunity to interact with a bartender who works from a cocktail cart. “We have a small bar and a large lounge area,” explains Jacques Bezuidenhout, master mixologist. “The cart has been great way to extend the bartender experience to guests in the lounge and to generate additional revenue. Prior to having the cart, Jacques says most lounge customers simply ordered a glass of wine; now they're having cocktails before and after dinner. The cart holds 15-20 bottles, and the focus is on classic cocktails with no more than four ingredients – Manhattans, martinis, etc. If it's not too busy, Jacques says he asks guests if they'd like to make their own cocktail, which many enjoy doing. To reinvigorate and elevate the cocktail experience, The Phoenician, Scottsdale, AZ, did away with its well spirits and traditional cocktail list and put the focus on hand-selected, premium spirits. “We now list the individual spirits, their price, country of origin, and distillation process,” explains Thomas “Mac” Gregory, food and beverage director. “As an example, we have 117 vodkas, which means a guest may have any one of 117 Bloody Marys, ranging in price from \$8 to one for \$37 – and a dialog with the server or bartender is virtually guaranteed.” Guests are intrigued and often trade up, Mac says. Training for the evolving beverage program is ongoing and offered to every member of the staff. In fact, some valets and concierges have become certified sommeliers. The Phoenician staff learns the story behind each product so that they can share unique nuggets of information with guests.

“We're having success hand selling boutique wines sourced from artisan vineyards in California and Italy. To engage customers and develop a dialog, we share the stories behind the wines.”

– Adrian Tonon, director of operations, Cafe Cortina, Farmington Hills, MI

KEEPING IT INTERESTING WITH NEW CREATIONS AND UNIQUE EXPERIENCES:

Craigie on Main, Cambridge, MA, offers a “Cocktail Whim” for \$20 – a flight of four two-ounce cocktails (citrus, brown, sparkling, and egg-based) after the kitchen closes, from 10pm to 1am. “It's a great way to let bartenders experiment and for customers to try some drinks they might not normally,” says Tony Maws, chef/owner. He says they sell five to ten Cocktail Whims a night and they've created a lot of buzz, helping bring in customers late night when it's slow. Bouchon in Yountville, CA, and Beverly Hills, CA, is working with local wineries that are creating handcrafted wines exclusively for them. These unique, single barrel red and white wines are available by the glass (\$8), half-liters (\$25), and liters (\$50). This “Vin de Carafe” program refers to the classic bistro dining for which Bouchon is known.

OFFERING PREMIUM PRODUCTS AT GOOD VALUE:

As Ruby Tuesday moved its brand away from a bar and grill concept to upscale casual dining, Andy Scoggins, vp of culinary and beverage, says they began using only natural juices (no syrups), upgraded the wine list, added regional craft beers, and shifted to premium well spirits. “Using these ingredients, we tested a \$5 Margarita and \$5 Long Island Tea, which sold so well that we recently decided to offer our entire line of specialty cocktails and well drinks for \$5 – it's a value you can't find anywhere else,” Andy says. Hyatt Hotels' “Sip and Dip” bar menu encourages customers to select an appetizer and dipping sauce, plus one glass of pre-selected premium wine, a cocktail or beer, for an inclusive price of \$16. “This promotion has been a great way to give our guests value – it's been so popular that many properties are continuing it,” says Barry Prescott, corporate beverage director. As a result of a recent customer survey that revealed customers were not very comfortable ordering wine by the bottle, Hyatt has introduced two sizes of quartinos, which have become so popular that Barry says they account for 70% of wine sales.

Text For Business

In the growing arena of marketing to mobile devices (primarily phones, including smart phones such as the Blackberry and the iPhone), text (or SMS) marketing stands out as an efficient and cost-effective point of entry, well within the grasp of even small businesses. **“The place to start with mobile marketing is definitely texting,”** says Amy Baglan, vp, EzTexting, a simple, affordable texting service used by a variety of industries, including restaurants. “One of the great things for restaurants is that it's immediate. If you have excess product or empty seats, you can send a text with a special offer to your list and drive traffic within an hour.” The restaurant industry, notably in the quickservice sector, is beginning to realize the value. According to a recent survey by the National Restaurant Association, 26% of quickservice operators say they market their businesses through cell phone text messages; 53% plan to offer more. (For text message marketing basics, visit restaurantbriefing.com and see “New Age Marketing” in Special Edition 2, 2009.)

A text campaign can include contests (known as “text to win”), text clubs, loyalty clubs, voting/polling – and mobile coupons, discounts, and special offers. “It's all possible, but you need to first ask yourself how your customers want to interact with your brand,” cautions Amy. **“The most effective campaigns keep things as simple as possible. Start slowly – with special offers,** for example. Try it out and see which ones get the best response rates.” Kim Dushinski, founder, Mobile Marketing Profits, a consulting firm, agrees. “Maybe a buy-one-get-one-free offer is more appealing to your customers than 25% off the entire order. Or perhaps giving people a shorter time frame to use the coupon will give you a better redemption rate.” (Note: When customers come to the restaurant to redeem offers, the code on their mobile devices is entered into the POS system and/or can be tracked manually.)

Another important variable is frequency. “There's no magic formula,” says Amy. “For most restaurants, I'd say three to four times a month. What's most important is that your subscribers feel they are getting something interesting and of value. This will keep response rates high and opt-out rates low.”

To learn more and get started with text message campaigns, including Kim's list of companies that provide a variety of services, visit mobilemarketingprofits.com/vendors/text-messaging/

Taking Restaurants to the Streets

Food carts and trucks are bringing life and varied cuisines to the streets. In Los Angeles, for example, people drive miles to get to certain trucks and then wait in lines. **Now some fullservice restaurants are joining in, purchasing or leasing trucks outfitted with full kitchens.** Trucks follow set routes and/or park at street fairs, college campuses, football stadiums, zoos, and office parks (some of which require permission). The trucks are often wrapped with the restaurant's graphics, turning them into huge mobile advertisements, and tweets and emails inform customers of their locations.

Mary Sue Milliken, co-owner, Border Grill, Santa Monica, CA, says they like to take their taco truck to places where there's a captive crowd, where food is not readily available (e.g., little league games, the LA marathon, artwalks) and use it a lot for charity events. Dwayne Beliakoff, owner, Violetta, Portland, OR, bought the "Rollin' Etta" truck early this year to keep his staff busy when Violetta's opening was delayed. "It's been an instant hit – the truck's been voted as having one of the top five burgers in town, and it's been a great way to stimulate interest in Violetta in advance of our opening," says Dwayne. The trucks are also ideal for catering private and corporate events. "We're catering a lot of onsite corporate meetings as companies have cut back on offsite meetings," says Julie Shenkman, co-owner, Sam's Chowder House, Half Moon Bay, CA. "Our 'Chowdermobile' is very dramatic – we prepare lobster clambakes in a big wooden steamer, and everyone gets involved watching the preparation. And, if we're on private property, alcohol can be served."

THINGS TO CONSIDER: Leasing or buying. Border Grill chose not to commit to buying initially; instead, they leased a truck for \$3,500/month and they've just ordered a custom truck for \$150,000. Violetta found a used truck online for \$30,000, as did Sam's. Learning the nuances of health and transportation departments' **rules and regulations** can be challenging and time consuming, advises Julie. Mary Sue adds, "We're a company that walks the straight and narrow, so we've taken the time to learn all the regulations." All three have **eco-friendly policies** and are committed to sustainability – not only for food product, but for the truck itself, including running the trucks on recycled cooking oil, having garbage cans built in, recycling plastic and glass, and using compostable/biodegradable packaging. For all three trucks the **menu choices** reflect the popular menu items, which is another way the trucks also help to market the restaurants. The **number of staff** on the trucks varies. Border Grill staffs two to seven on its truck, depending on where it's going. "People waiting in line makes us crazy – we've even sprung for a wireless, handheld POSitouch order/payment device on our new truck," says Mary Sue. "The faster you can service people, the more you can serve – volume is key when you're serving quality food at low prices."

TODAY'S CONSUMER

Recovering the Luxury Market

TREND: Consumers are willing to splurge – 83% said they would do so by going out to celebrate a special occasion like a birthday, anniversary, or holiday.

OPPORTUNITY: Upscale restaurants and/or those charging premium prices face some challenges competing for this business. Consumers typically have fewer resources, and definitions of luxury are broader. For some, it still means a formal experience; for others it may be a celebrity chef-driven menu, specialty local ingredients, or a superior service experience. Regardless, consumers are reconsidering what justifies a premium. Upscale restaurants need to hone specific identities that consumers can understand and connect with as they determine what deserves their time and money. This brand promise must be consistently communicated and delivered, from the look and feel of the

restaurant Web site through the thank-yous as guests depart. Whatever it is that makes your restaurant experience unique, clearly articulate and deliver on it. In marketing luxury, it's also helpful to provide consumers with "permission" to trade up. An incentive can be contributing to a greater good – 69% said that a reason to splurge is if part of what they pay goes to a good cause. This concept of social responsibility extends beyond literally supporting charities to include business practices and environmental consciousness (sustainability, no waste, etc.) – a restaurant's mission beyond food.

CAUTION: When consumers choose luxury/upscale venues, expectations are high. Operators, especially fine dining, must do more to prove the value – to make every penny worth it.

Data source: The Luxury Market and the Recovery Customer, Yankelovich/The Futures Company.

MAKE PARTNERSHIP REWARDINGSM with American Express

Since 1992, American Express has partnered with Share Our Strength® – contributing more than \$30 million – to fight childhood hunger. "For the 19th consecutive year, American Express is a national sponsor of **Share Our Strength's Taste of the Nation**," says Curtis Wilson, vp and gm, restaurant industries. "Our support means that 100% of the ticket price is devoted to this vital cause."

All funds raised at Taste of the Nation events will benefit the **No Kid Hungry** campaign, a national effort to end childhood hunger in America by 2015. Through No Kid Hungry, Share Our Strength, a national nonprofit, works with community organizations fighting hunger, teaches families how to cook healthy meals on a budget, builds public-private partnerships – nationally and at state levels – to end hunger and ensures that children from many low-income families are enrolled in federal nutrition programs.

Since 1988, Taste of the Nation events have raised more than \$73 million towards eliminating childhood hunger. To join with the 3,000+ chefs, mixologists, and restaurateurs who will participate by donating their time, talent, and specialties to the events in 40 cities this spring and summer, visit tasteofthenation.org.

To learn about other ways to share your strength to end hunger in America, visit strength.org or call (800) 969-4767. And look for **The Great American Dine Out** this fall – September 19-25 – which also supports No Kid Hungry. During this week-long national event, which involves thousands of restaurants and millions of consumers, participating restaurateurs select the way they want to contribute (e.g., a percentage of sales, the sale of a specific menu item).

Briefing Editorial Office
505 Court Street, Suite 3H, Brooklyn, NY 11231
Telephone 800.342.2788 Fax 718.237.2882
email: editors@restaurantbriefing.com

Published exclusively for
American Express Travel Related Services Company, Inc.
by Davidson/Freundlich Co., Inc.

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