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Restaurants Face Changing Habits, As Well As Recession

by Karlene Lukovitz, Wednesday, Mar 19, 2008 5:00 AM ET

A COMBINED ONE-TWO PUNCH OF recession and changing consumer behavior is producing one of the toughest business environments in decades for the restaurant industry, according to a new report from The NPD Group, titled "Why This Downturn Will Be Different for Restaurants."

During two of the four recession-related downturns in the industry during the last three decades (1983 and 1990-91), the growth of restaurant traffic slowed, but did not actually decrease. During the 2001-03 recession, traffic growth slowed more substantially, but stayed in the positive column except for 2002, when it declined by less than 1%.

But in 1979, when exceptionally high inflation came into play, restaurants experienced a nearly 4% drop in traffic, followed by another dip of over 1% in '80.

While energy and food inflation have not yet come close to reaching the levels they reached in '79-'80, NPD's analysts say that today's economic dynamics are more similar to that period than to those of the other recent recessions.

They also point out that 2007 restaurant traffic saw no organic growth last year. Traffic was up by just 0.7%--and that was driven primarily by unit expansion, which suggests that traffic was flat on a comparable-store basis. This was the smallest traffic gain since the 2000-03 recession.

Obviously, inflation and economic uncertainty are forcing consumer spending cutbacks. And although supermarket food inflation is higher than it's been in 17 years, restaurant meals still cost about three times as much.

Customer traffic may stay positive in '08, "but will likely come in



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below '07 levels," says Bonnie Riggs, author of the report.

Riggs says that the economic stimulus package may help, as a package did in 2001. "While it was a short-term boost, it did keep the industry in a positive position," she notes.

But this time, the economic downturn is being exacerbated by existing trends that are having a negative impact on restaurants. "While the economy is a major factor here, this particular slowdown goes beyond just plain economics," Riggs says. "NPD is seeing consumer behavior at restaurants changing" as a result of shifting lifestyles.

One factor is a slowdown in the growth of women entering the workforce. "Over the last several decades, the restaurant industry's growth was heavily driven by a greater percentage of women joining the workforce, but that trend is over," comments Harry Balzer, VP and author of NPD Group's annual "Eating Patterns in America" report. This trend "may be more of a long-term issue for the industry than the current economic situation," he adds.

Population survey data show that the number of women ages 25 to 54 in the workforce jumped from 31% in 1948 to 76.8% by 1999. But this growth has hit a plateau since, and a "relatively flat trajectory" is also expected going forward, according to an analysis by the Federal Reserve Bank of San Francisco.

Other factors contributing to restaurant challenges:

* While dinner traffic held up during previous recessions, the number of restaurant diners was in decline before the economy headed south. Restaurant breakfasts and snacks are increasing, but it's difficult to grow in the face of lost main-meal revenue.

* There is much greater competition now from ready-to-eat, frozen and other meals available in supermarkets.

Despite the challenges ahead for 2008, opportunities do exist. Riggs says restaurant operators and marketers need to understand what drives consumer behavior and how they manage their costs when they visit a restaurant.

What can restaurants do?

Understand what drives consumer behavior and how they manage their costs when they visit a restaurant, and look for new ways to offer value and make the restaurant experience as pleasant as possible, says Riggs.

"In the current environment, there are more restaurant companies going after fewer dollars. To drive traffic, they're going to have to establish a competitive point of difference in terms of a value proposition," she notes.

And given that many majors are already competing head to head with pricing tactics like price/value menus, they may need to look at how to add food quality/variety and service differentiators into

the price/value relationship, she adds.

Karlene Lukovitz can be reached at klukovitz@klmedialink.com.

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