



Market Brief

Tracking and interpreting restaurant trends



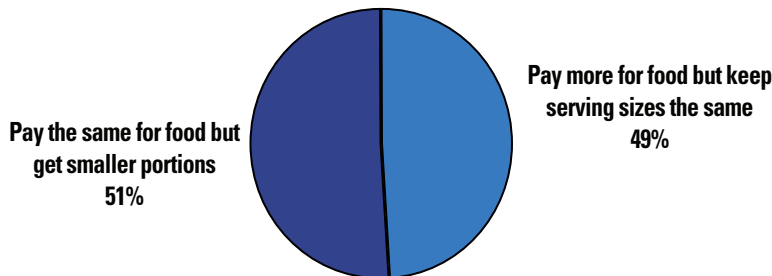
Good Things Can Come In Small(er) Packages

As recently as a year ago, restaurants had little motivation to offer reduced portion sizes. Customers had come to associate huge quantities of food with value, and for restaurants, larger portions were actually more profitable: food was relatively cheap, so larger servings could boost average checks beyond the price needed to provide that larger serving size.⁵ Nowadays, however, the rapid rise in food costs, combined with the public backlash against the obesity epidemic, have made offering “small plates” and smaller portion sizes an appealing option for many restaurants.

SIZING UP THE SITUATION

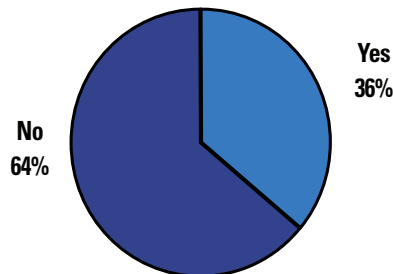
Indeed, many operators are grappling with whether to raise prices on their menus but keep serving sizes the same, or hold prices steady but make serving sizes smaller. Unfortunately, consumers can shed little light on this issue, since they are divided on it as well: just over half (51%) of consumers indicate they'd prefer to continue paying the same amount for food but get smaller portions, while just under half (49%) indicate they'd prefer to pay more for food but keep serving sizes static.

What Consumers Want



Tapas have been popular in the U.S. for some time now, and “small plates” have come to occupy the middle ground between appetizers and entrees at many independent restaurants. Lately, fast-casual and limited-service chains such as T.G.I.Friday's, Au Bon Pain and Quiznos have begun to offer food in reduced portion sizes as well. It's not surprising then that already, more than a third of consumers (36%) report that they have ordered a “small plate” or smaller portion from a restaurant. Still, the majority of consumers (64%) have yet to do so.

Have you ordered a “small plate” or smaller portion from a restaurant?



SIZE MATTERS

For those consumers who have tried smaller portions, more than half find them appealing because they offer the right amount of food for their appetites (56%) and because they provide portion control (55%). The fact

⁵ “Will Diners Swallow This?,” *The New York Times*, March 25, 2007

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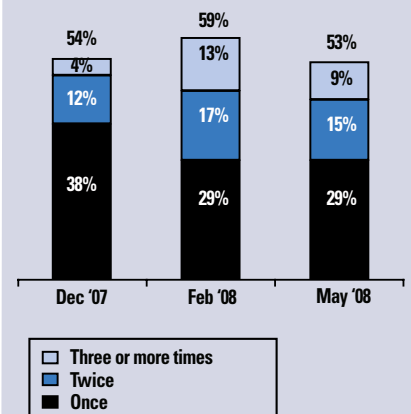
FSR TAKEOUT TREND BAROMETER

Full-service takeout in May 2008 was down by six percentage points from February, but very close to December, 2007 levels. FSR takeout at the lowest frequency was consistent between February and May 2008, but higher in December.

Fewer consumers in May than February ordered FSR takeout twice a week or more. Some consumers may have shifted to ordering once a week, while others are likely switching to supermarket prepared foods instead.

FSR Takeout in the Past Week

(% who ordered)

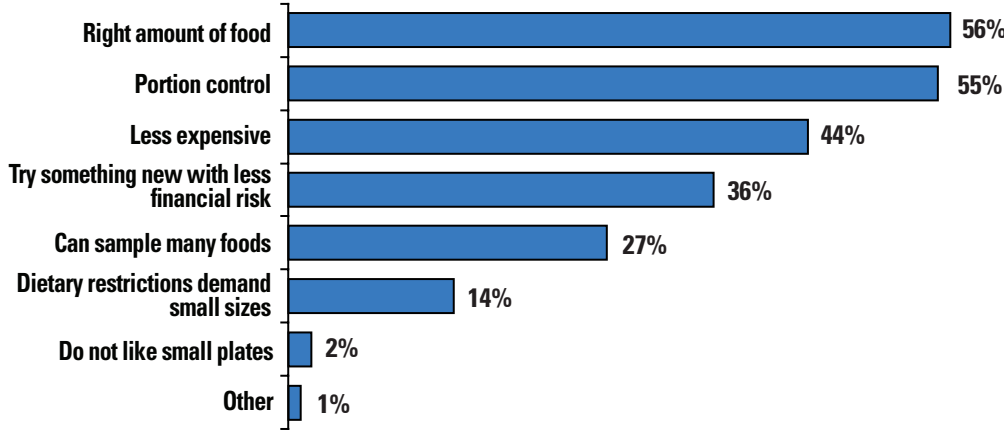


Editor's note: Look for several up-to-date metrics that shed light on key industry trends presented in this space in each month's MarketBrief. For comparison, you can find past Trend Barometer metrics online at: www.technomic.com/operator/amexmarketbriefs

**RETAIL FOODSERVICE
TREND BAROMETER**

that smaller portions tend to be less expensive hits home with more than two of five consumers (44%), while more than one of three (36%) like that smaller portions afford them the opportunity to try new foods without spending a lot of money on them. Slightly more than a quarter of consumers (27%) enjoy smaller plates because they can sample many foods in the span of one meal. Notably, only 2% of consumers who have tried smaller portions indicate that they disliked them.

Why Consumers Find Smaller Portions Appealing



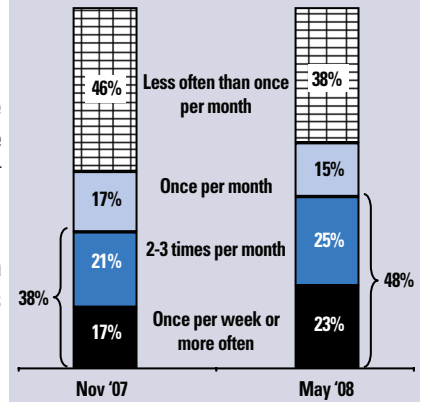
In the future, more than half of consumers (55%) indicate that they plan to try smaller portions if such options are offered at restaurants they frequent. For the 45% of consumers who are not interested in trying smaller portions, the driving force behind that decision is fear that the amount of food provided will be too meager to satisfy their hunger (54%). Others, quite simply, like large portions (50%).

Of course, if price is not an issue, a certain percentage of consumers (15% in this case) see no reason whatsoever to order a smaller portion. Yet others feel that small plates or smaller portions tend to contain foods they do not like (13%), an obvious turn-off. Interestingly, many consumers who selected "other" wrote that they like larger portions because it provides them with leftovers for an additional meal. It seems there is no simple math where portions sizes are concerned.

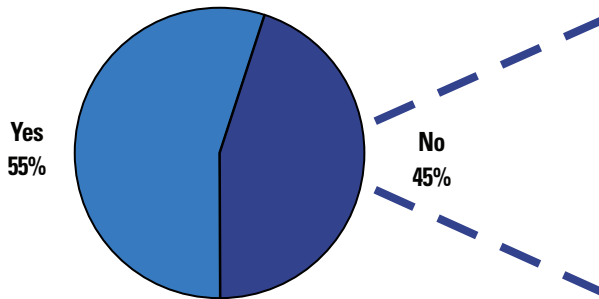
Retail foodservice purchases have increased in several ways over the past six months. First, more consumers overall are purchasing prepared meals or meal components from supermarkets and other retail food stores.

Second, the frequency of purchase has grown: the percentage of consumers who purchased prepared foods from a retail foodservice outlet 2-3 times a month or more in May 2008 grew by ten percentage points from November, 2007.

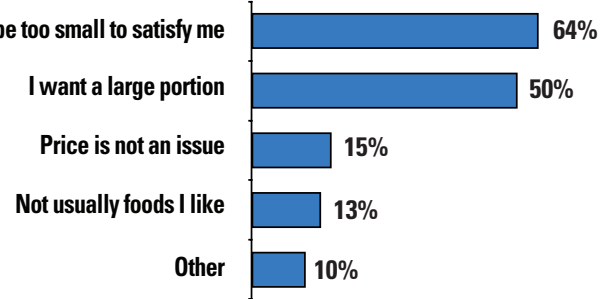
Frequency of Retail Foodservice Purchases



Do you plan to try a smaller portion in the future?



Why not?



Bottom Line: Many, but not all, consumers are interested in trying small plates or smaller portion sizes. Money matters do play a part in this decision, but culinary curiosity and concerns about personal health factor in as well. There is ample opportunity for operators and consumers alike to benefit from the introduction of additional small plate and smaller portion options.

BUSINESS-BUILDING IMPLICATIONS:

- In order to gain new business but not alienate those who prefer full-sized entrées, consider taking a page out of T.G.I. Friday's playbook: offer both petite- and regular-sized versions of some menu favorites. Or, think about creating a tiered portion and pricing system similar to Buca di Beppo's mio/small/large one, in which smaller portions are available, but pricing is most advantageous with the largest size.
- To address the concerns of those diners who feel that small plates will not satisfy their hunger, why not offer a flight of small plates for one set price? Make sure to include plenty of protein-rich, satisfying small plates such that three or four will add up to a full meal.
- Small plates can be a true indulgence for diners on a tight budget. By topping off a portion of homemade mac n' cheese with lobster nuggets, or shredding Kobe beef into a tiny taco, restaurants can attract adventurous eaters who want to splurge, but can only afford to do so within their means.

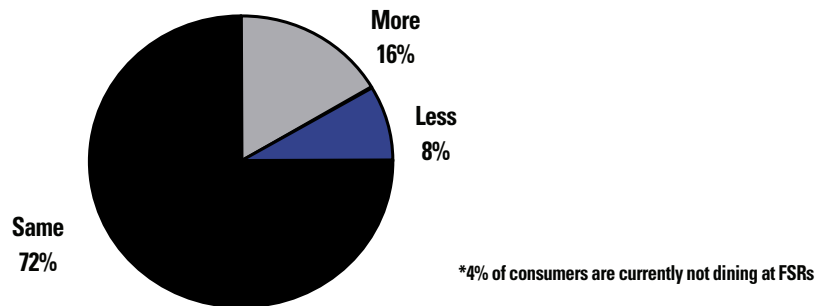
Tipping Weathers the Economic Storm

According to the National Restaurant Association, the restaurant industry employs 13.1 million people in the U.S., making it the nation's third-largest employer. Tips, which comprise 30% to 60% of a server's wages and even more at upscale eateries, are vital to the restaurant industry.⁴ Of those consumers who dine at full-service restaurants, nearly all (98%) say they leave a tip.

STORMY WEATHER DOES NOT SINK EVERY SHIP

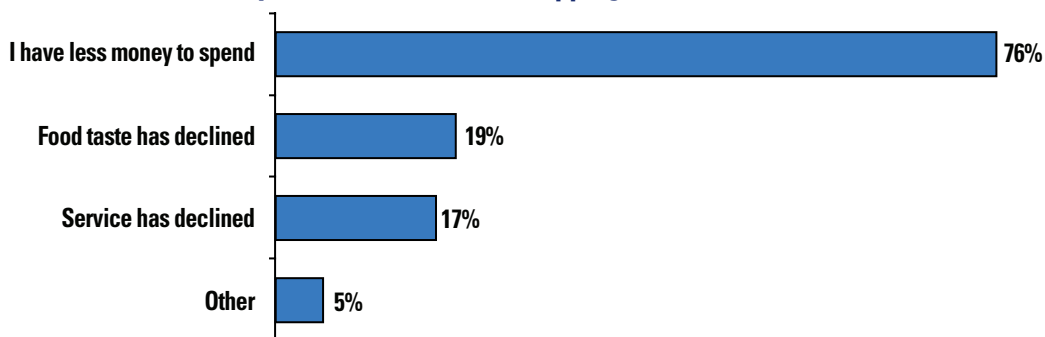
While no comprehensive survey of tipping has been conducted to date, common wisdom holds that in bad times, tips go down. Data collected recently, however, does not bear out this point. In fact, compared to six months ago, nearly three-fourths of consumers (72%) indicate they are tipping the same amount, while 16% indicate they are tipping more. Fewer than one of ten consumers (8%) reports tipping less.

Compared to Six Months Ago, Consumers at FSRs are Tipping*:



Among the top reasons why some consumers are tipping less, more than three-fourths (76%) report that they have less money to spend. Fewer consumers cited reduced satisfaction with food (19%) or service (17%) as reasons why they are tipping less. Clearly, the current economic situation is the real culprit behind any evidence of diminishing tips.

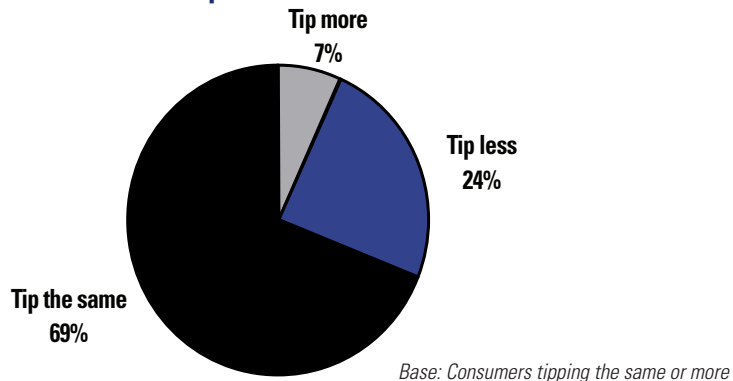
Why Some Consumers are Tipping Less



FORECAST FOR TIPPING IS PARTLY SUNNY

Of those consumers who report that they are tipping the same or more than they were six months ago, nearly seven of ten (69%) intends to continue tipping the same amount even if the economic situation should worsen further. Nearly a quarter of these consumers (24%) plans to tip less in the face of continued economic difficulties, while fewer than one of ten (7%) will tip more under such conditions.

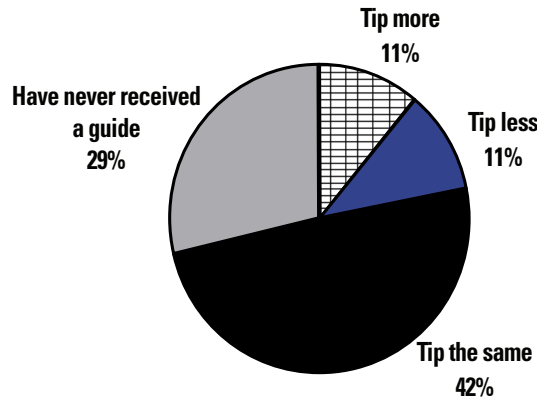
How Consumers Will Tip if the Economic Situation Worsens



⁴ "Tip-Dependent Workers Feeling the Slump," *Los Angeles Times*, April 29, 2008

Talk of tipping inevitably leads to discussion of the size of the tip. What is generous by one person's standards, after all, may be stingy by another's. Often times, full-service restaurants offer computer-generated tipping guides that appear automatically on the bottom of their checks. Of the 69% of consumers who have received such tipping guides, more than two of five (42%) report that they tip the same after having used the guide as they would have without consulting it. That is, they are already tipping within the suggested range. After consulting the tip guide, slightly more than one of ten consumers (11%) offers a higher tip than would otherwise have been the case, while the same percentage of consumers offers a lower one. This suggests that the same amount of consumers tend to over-tip as under-tip.

How Consumers Respond to a Check with a Tip Guide



Bottom line: The majority of consumers currently provide tips consistent with what they provided six months ago and intend to continue to do so, despite whatever turbulent times may lie ahead.

BUSINESS-BUILDING IMPLICATIONS

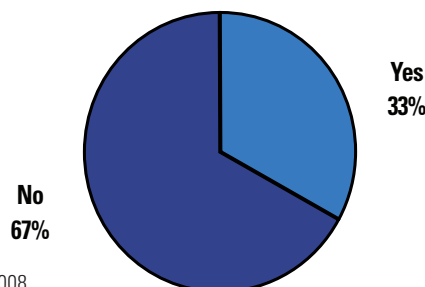
- By far, most consumers plan to continue to leave reasonable tips. Keep in mind, though, that service is a big component of value, and consumers expect more value in tough times. Make sure that your staff is exceeding expectations so that customers feel they are getting the level of service and quality of food that their generosity merits.
- At a time when dining promotions and coupons are abundant, it's important to gently remind customers that a tip should be calculated off of the un-subsidized price of a meal, and not the discounted price. One way to accomplish this may be to automatically print a note to this effect on all checks. This is a topic that no server should have to broach directly with the customer.
- Ensure that servers understand the relationship between check average and tip; that is, as one increases, so does the other. This, in turn, should encourage servers to raise the check average by recommending appetizers, drinks, desserts, and other add-ons.

SOME RESTAURANT PATRONS THIRST FOR BOTTLED WATER

In 2007, bottled water consumption was 22.5 gallons per person, up 7.1% from the year before.¹ Bottled water's sales have increased dramatically over the past 10 years and consumption of the beverage has doubled in that time period. For the first time ever, though, growth in bottled-water servings in restaurants slowed in 2007, dipping from double- to single-digit increases.² Much of this can be attributed to the bad press that bottled water received over the course of the past year, combined with rising cost consciousness among consumers.

By and large, most bottled water in the U.S. today is bought at retail. Bottled water remains a popular menu item, however, especially in quick-service restaurants (which account for more than 80% of the bottled-water market in commercial foodservice).³ One-third of consumers (33%) report that they have ever ordered bottled water from a restaurant (this includes takeout orders).

Have you ordered bottled water from a restaurant?



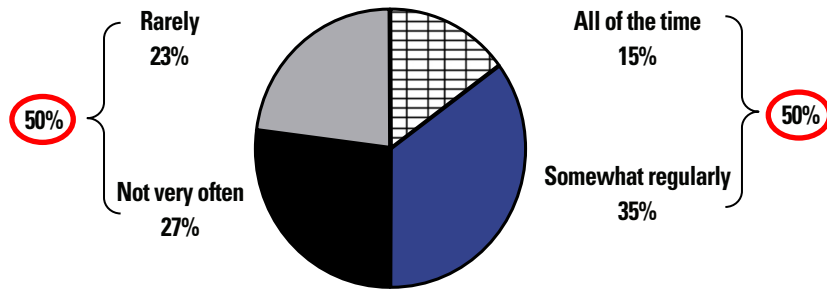
¹ "U.S. Per-Capita Consumption," *Beverage Digest*, April 25, 2008

² "Bottled Water Remains Big with Health-Conscious Guests," *Nation's Restaurant News*, April 14, 2008

³ The NPD Group

Of those who have ordered bottled water from a restaurant, a combined half of consumers order it somewhat regularly (35%) or all of the time (15%) while the other half of consumers order it rarely (23%) or not very often (27%). The size of this market could suggest that the need for bottled water in restaurants is not as critical as some operators may perceive it to be.

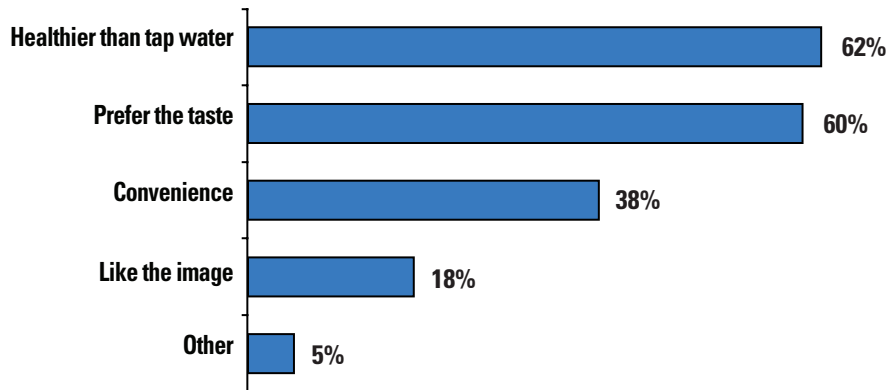
How Often Bottled Water is Ordered



QUENCHING A NEED

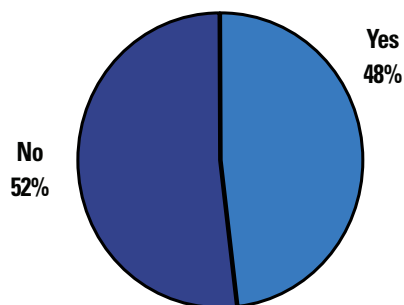
The decision to order bottled water with restaurant food, for those who do so all of the time or somewhat regularly, is based upon several salient factors. Topping the list, more than three of five consumers (62%) report ordering bottled water because they believe it is healthier than tap water. Slightly fewer (60%) simply prefer the taste of bottled water to that of tap. Nearly two of five consumers (38%) cite bottled water's convenience as a key factor in their purchase decision when ordering it with restaurant food; this ties in with bottled water's popularity in the QSR channel, where it teams up well with food that is ordered to-go. Fewer than one of five consumers (18%) is motivated to purchase bottled water by the image associated with it.

Top Reasons Consumers Order Bottled Water

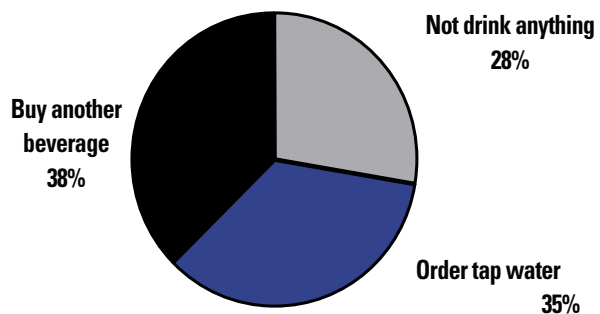


Approximately half (48%) of those consumers who regularly order bottled water with restaurant food report that they typically drink it as their primary beverage. Nearly two of five (38%) of these consumers further indicated that if bottled water were not available at a restaurant, they would buy another beverage for their meal instead, while a bit more than a third (35%) would order tap water, and more than a quarter (28%) would not drink anything. There were no consumers who reported that they would not purchase food from a restaurant at all if it did not offer bottled water.

Is bottled water typically your primary beverage with a restaurant meal?

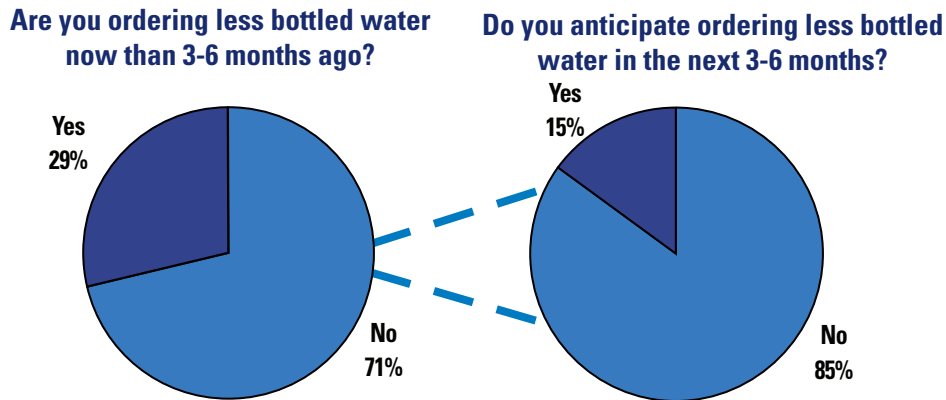


What would you do if bottled water were not available?



NOT QUITE SLOWING TO A TRICKLE

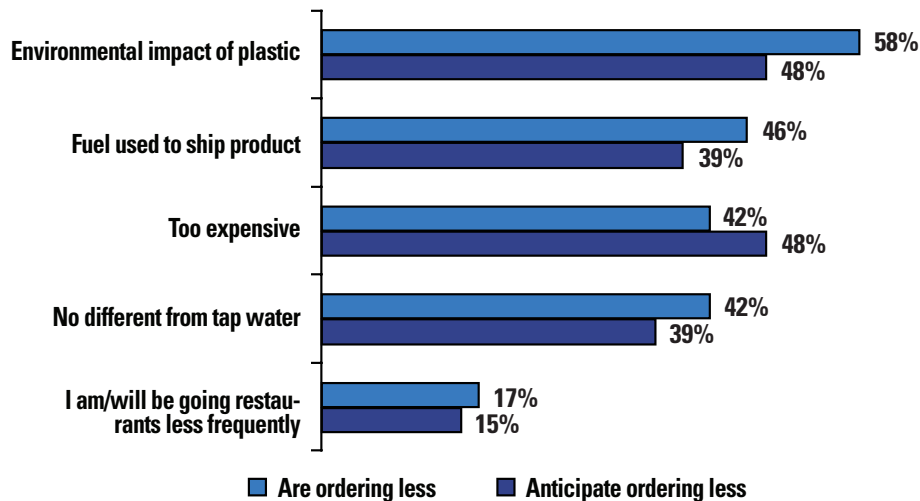
Currently, close to one of three consumers (29%) reports ordering less bottled water now with restaurant food than 3-6 months ago. Of those consumers who have not cut back on their bottled water intake, 15% anticipate doing so in the next 3-6 months.



The reasons why some bottled water connoisseurs are ordering fewer bottles from restaurants these days are not necessarily the same reasons why their fellow aficionados anticipate cutting back in the near future. More specifically, for those consumers who have already cut back, the leading causes are concern about the environmental impact of the plastic used in the bottles (58%) and the fuel used to ship the bottles (46%). The cost of bottled water mattered less to this group, as did the fact that many noted no taste difference between tap and bottled water (42% for both responses). Among consumers who anticipate ordering less bottled water with restaurant food in the next 3-6 months, however, the expense of bottled water is as essential to that possible decision as is concern about the impact of the plastic (48% for both responses).

In general, for those who have already cut back on drinking bottled water with restaurant food, the prime motivations are environmental concerns, while for those who may cut back in the near future, economic concerns will be as prominent as environmental ones, if not more so. Though a substantial number of bottled water consumers have already reduced, or soon plan to reduce, their intake of bottled water due to fewer restaurant dining occasions, this is far less pertinent to the situation than other, more robust factors.

Why Consumers are Cutting Back or May Cut Back on Bottled Water

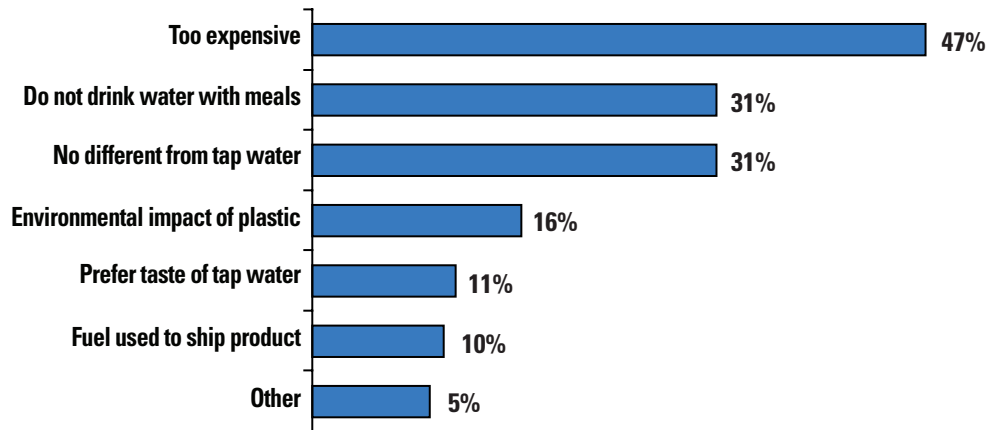


COMING UP DRY

Consumers who have never ordered bottled water from a restaurant, or who order it rarely or not very often, most likely avoid bottled water due to its cost. Indeed, nearly half of consumers (47%) who do not order bottled water with restaurant food abstain because bottled water is too expensive. Almost one-third (31%) of those who do not purchase bottled water report that they do not drink water with meals, while the same amount of consumers report they do not find bottled water to be in any way different from tap water.

The environmental impact stemming from the creation of the plastic bottles themselves turns 16% of consumers away from ordering bottled water, while for 11% of consumers, a preference for the taste of tap water deters them from purchasing it in bottles. Concerns over the fuel used to ship bottled water affects 10% of consumers' decisions to forgo it.

Top Reasons Consumers do not Order Bottled Water



Base: Those who never or seldom order bottled water

Bottom line: Bottled water is not an integral part of most consumers' restaurant meals. Some consumers clearly prefer to drink bottled water while dining out, but if it were not possible to do so, little, if any, business would be lost.

BUSINESS-BUILDING IMPLICATIONS

- Several independent operators, such as Chez Panisse in Berkeley, CA and Toro in Boston, MA, have installed BOH filtration and/or carbonation systems to provide their customers with filtered tap and sparkling water. If going green is part of your restaurant's mission, consider installing similar systems as well.
- There is no denying that for many restaurants, bottled water sales bring in a lot of money. Rather than lose that income stream entirely when switching to tap water, why not follow the lead of several NYC-based restaurants and use an in-house carbonation system to make unique soft drinks? Homemade sodas in flavors as diverse as cherry-yuzu, peach, guava, passion fruit-lime and rhubarb tonic are served around New York City, and at least one restaurant offers a carbonated iced tea.
- At a time when consumers are watching their wallets quite closely, restaurants may actually gain sales by not offering bottled water. If customers are not pressured early on in the meal service to decide between bottled and tap water, they may feel more warmly towards their servers and the restaurant overall, resulting in additional add-on sales as the meal progresses.

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 May 2008. Margin of error \pm 4.5%.

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