



Market Brief

Tracking and interpreting restaurant trends

Preparing for the Holiday Season

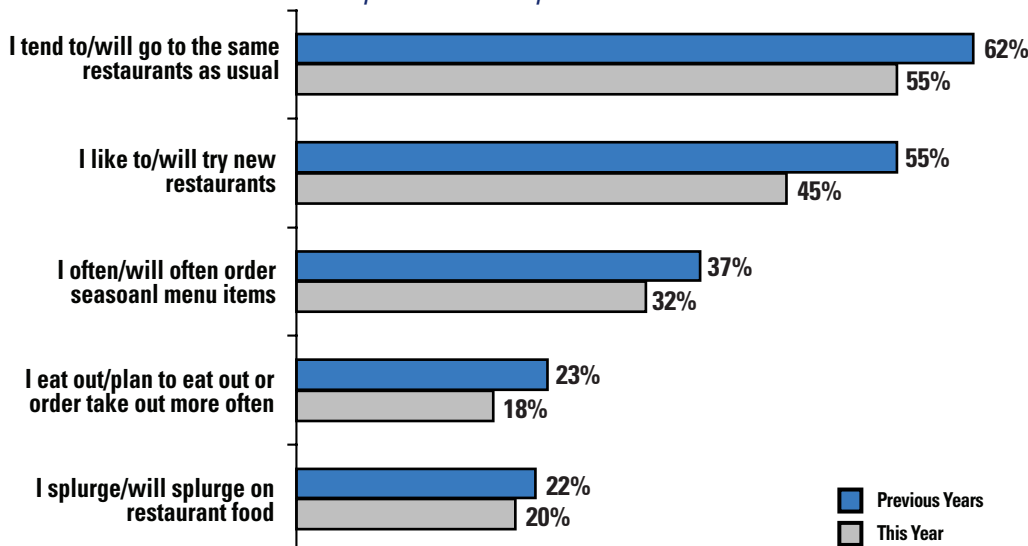
There is no doubt that the upcoming holiday season will be one of the toughest we've seen in a long time. According to TNS Retail Forward, consumer spending will increase just 1.5% in November and December over the same months in the prior year — the smallest increase since 1991. Meanwhile, the National Retail Federation predicts that total holiday sales will rise 2.2% for the November and December period from a year ago, well below the 10-year average of 4.4% and the slowest pace since 2002. Although these two sources don't agree on exact numbers, they both point to a grim picture for the holiday season.

It is worth noting that both of the forecasts highlighted above exclude business from restaurants. To be sure, many if not most restaurants' business will be affected by the downturn in the economy, but the picture may not be as bleak for foodservice as it is for other retail channels.

SUBDUED OUTLOOK FOR RESTAURANTS

More specifically, in a survey done in early October, at the height of the financial market turmoil, 1,000 consumers were asked to compare their dining out habits in previous holiday seasons to what they plan to do this year. Sixty-two percent of consumers report that in the past, they have tended to go to the same restaurants as usual, and 55% report that they have tried new restaurants. For the upcoming holiday season, however, somewhat fewer consumers share these sentiments; 55% report they plan to go to the same restaurants as usual and 45% will try new restaurants. These numbers imply a decline, to be sure, but not an unreasonable one, given the recent economic uncertainty. Similarly, whereas in past holiday seasons, slightly more than one-third of consumers (37%) indicate they've often ordered seasonal menu items, this year, slightly fewer than one-third (32%) intend to do so.

Consumer Dining Behavior During the Holidays
Top Two Box Responses*



*"Agree completely" or "Somewhat agree"

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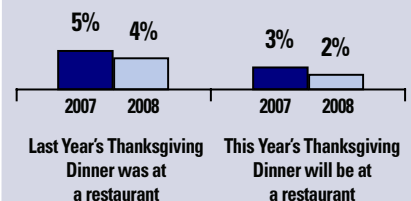
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HOLIDAY TREND BAROMETER: THANKSGIVING

Fewer consumers are planning to eat Thanksgiving dinner at a restaurant this year than last year, and in general, the trend toward Thanksgiving dining appears to be turning away from restaurants.

In 2006, 5% of consumers reported that they ate Thanksgiving dinner in a restaurant. That number dropped to 4% in 2007, and is expected to come in at only 2% this year. Although it is likely that some consumers who plan to have Thanksgiving dinner at home will end up at a restaurant, the current economic conditions are such that many consumers may stick to their intention of having a more inexpensive Thanksgiving dinner at home than has been the case in recent years.

% of Consumer Agreement



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:

<http://m2.tm00.com/Technomic/newsletters/signup.asp>

**RETAIL FOODSERVICE
TREND BARMETER**

PRICES TOP LIST OF CONCERNS

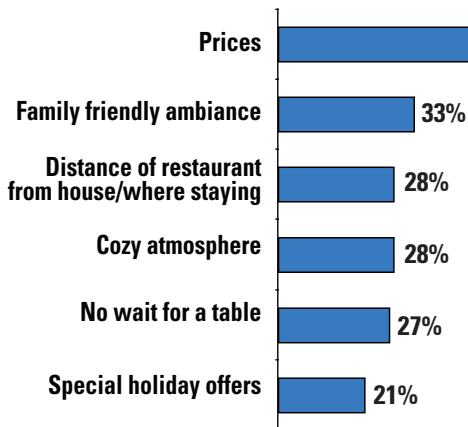
It's hardly a surprise that more than three of five consumers (63%) agree that the top issue influencing their restaurant choices this holiday season will be prices. Many fewer consumers will be basing their choices on factors such as family friendly ambiance (33%), the distance of the restaurant from home (28%), the coziness of the restaurant's atmosphere (28%), not having to wait for a table (27%), and special holiday offers (21%). Still, these are all important aspects of a restaurant's holiday (and everyday) business that deserve careful attention, for low prices alone do not make a successful restaurant.

In terms of who is most concerned about prices at restaurants this holiday season, it seems to be a fairly even split across annual household income brackets. Those who earn under \$25,000 may be less concerned than those who earn more simply because they plan to dine out less frequently (if at all). For all others, the key takeaway is that even in the higher and highest income brackets, significant percentages of consumers report they are apprehensive about restaurant prices during the holiday season.

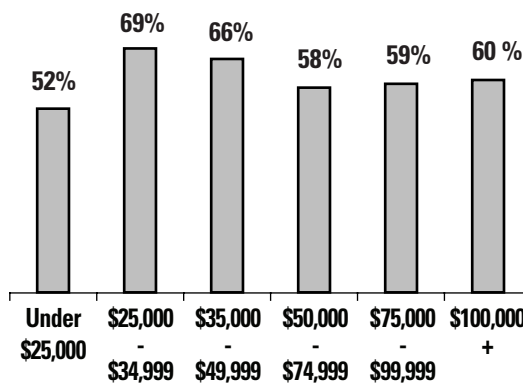
In the past five months, as consumers continue to shift away from full-service and even some limited-service dining, sales of prepared meals or meal components from supermarkets and other retail stores have benefited only slightly.

It is difficult to discern whether this leveling off is a reflection of how many retail foodservice purchases consumers can afford, or whether it reflects the leveling off of retail foodservice purchases' appeal to consumers.

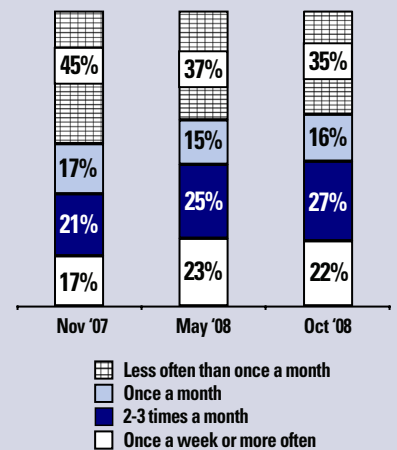
What Will Most Influence Consumers' Restaurant Choices this Holiday Season?



Percentage of Consumers whose Holiday Dining Decision will be Influenced by Restaurant Prices, by Annual HH Income



Frequency of Retail Foodservice Purchases

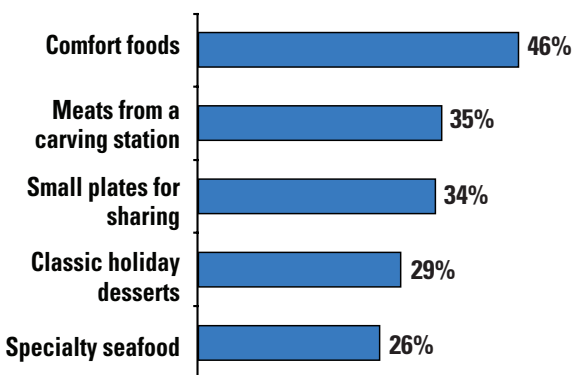


FAVORITE HOLIDAY FOODS

From the preceding paragraphs one might incorrectly assume that many restaurants will be in dire straits this holiday season as consumers pare down their orders. That is certainly not the situation. In fact, consumers report — understandably so — that the top holiday food they plan to order this year is comfort foods (46%), followed by that buffet favorite, meats from a carving station (35%), and then small plates, which are good for sharing (34%). Certainly, comfort foods and small plates are emblematic of dining choices in tougher times, but they also suggest a populace that, while perhaps not able to spend as much as in prior holiday outings, still plans to dine on restaurant food and share good times with others.

On a regional basis, consumers display some slight differences with regard to the foods they expect to order this holiday season. Whether these preferences are economically motivated or are based on long-established regional inclinations is difficult to determine.

Top Foods Consumers Plan to Order this Holiday Season



Top Holiday Foods from Restaurants, by Region

	Northeast	Midwest	South	West
Comfort foods	41%	50%	45%	50%
Meats from a carving station	35	34	34	37
Small plates for sharing	31	43	33	31
Classic holiday desserts	27	27	30	32
Specialty seafood	25	21	28	31

Bottom Line: While restaurants may not be as full or flush with earnings as in recent holiday seasons, there is reason to believe that consumers will still want to celebrate the season with friends, family, and a special meal, provided that restaurants can give consumers the well-priced dishes and atmosphere they crave.

BUSINESS BUILDING IMPLICATIONS:

- Consumers are spending more time than usual searching for ways to save money this holiday season. Your restaurant should not wait until the season is in full swing to stake its claim on holiday dining business. Much earlier than in prior years, be sure to make your offers known, so that consumers can compare deals and seek out those that will allow them to dine within the confines of their budgets. If you're not early in getting the word out this holiday season, you may be too late to benefit.
- Even though consumers are focused more on prices this holiday season than in recent years, it is imperative that operators pay as much attention to other details such as holiday atmosphere and servers' seasonal spirit, special holiday dishes, and other features that differentiate this time of year—and your restaurant—from others. For those consumers who do opt to dine out, their expectations could well be higher than in prior years, as the cost of the meal is more dear to them than it was just a year or two ago.
- Does your restaurant's menu have an abundance of small plates that can be shared, and/or large, family-size platters that are good for a group? Consumers will be looking for shareable dishes this holiday season and may find them at places like Buca di Beppo, which features small, large and "mio" sized portions of most of its appetizers and entrées. If you don't already have a bevy of shareable plates on your menu, now is the time to start creating some new options.

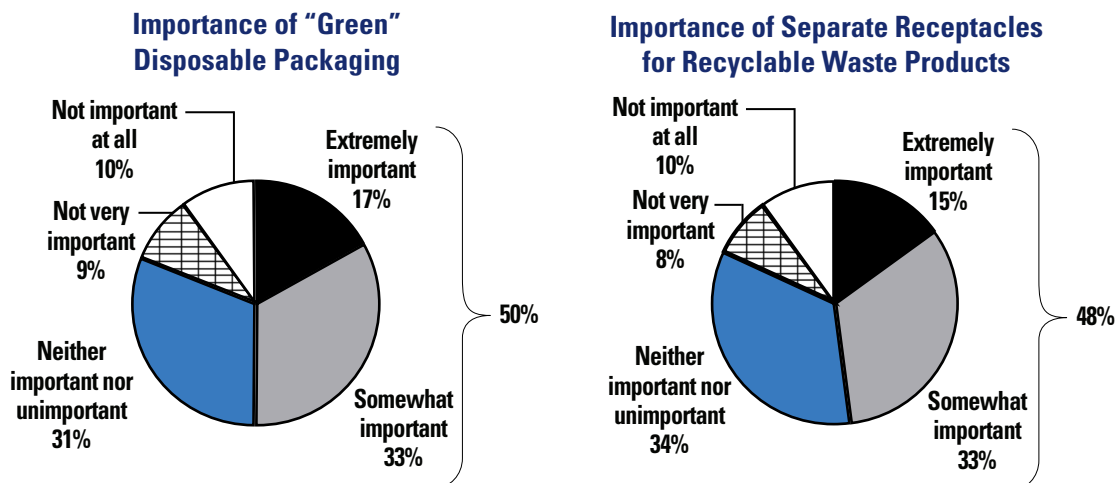
The Greening of To-Go Packaging

It's clear by now that the green movement has exploded. But, it's only as powerful as it is practical. Consumers are looking for partners — from retailers to institutions, household products to workplaces — that are ready to work to make conservation as convenient as buyers demand.¹ The facts are staggering: Domestically, 300 pounds of packaging waste are generated per person annually. Containers and packaging equal 32% of the domestic waste stream, and diners on-the-run contribute 1.8 million tons of fast-food packaging per year, constituting 20% of all litter.²

MANY ARE ALREADY INTERESTED IN GOING GREEN

As it so happens, half of consumers (50%) report that when they get food from a restaurant that comes in disposable packaging, it is either "extremely important" or "somewhat important" that the packaging be green (i.e. biodegradable, made from recycled materials, etc.). While nearly a third of consumers (31%) indicate that green disposable food packaging is "neither important nor unimportant" to them, fewer than one in five (19%) claim it's "not very important" or "not important at all."

On a related note, and in almost the exact same array of percentages as noted above, nearly half of consumers (48%) report that it is either "extremely important" or "somewhat important" to them that limited-service restaurants offer separate receptacles for recyclable products and garbage. Slightly more than a third (34%) indicate that such distinctions are "neither important nor unimportant," while again, fewer than one in five consumers (18%) claim it's "not very important" or "not important at all."



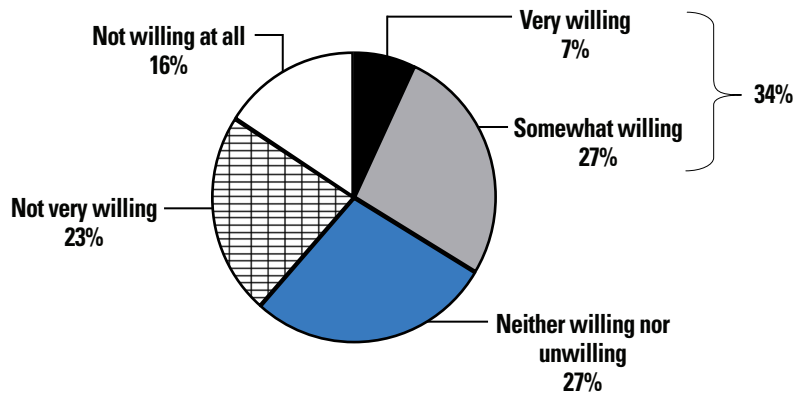
¹ Iconowatch by Iconoculture, September 23, 2008

² "The 2008 Fast Food Packaging Report," Dogwood Alliance

PAYING FOR THE PRIVILEGE

Clearly there is a green vibe that has taken hold among many consumers, but at the end of the day, are they willing to pay more for green packaging? Remarkably, given the current economic environment, approximately one-third of consumers (34%) report that they are “very willing” or “somewhat willing” to pay more for green packaging, while more than a quarter (27%) are “neither willing nor unwilling” to pay more. Fewer than two of five consumers (39%) are either “not very willing” or “not willing at all” to pay more for green to-go packaging.

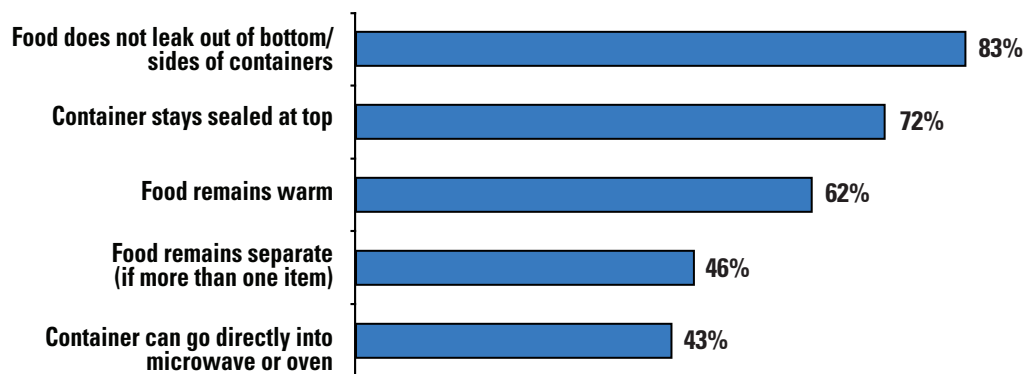
Willingness to Pay More for Green Packaging



ON A REALISTIC LEVEL

Now, it’s all well and good to be aware of statistics about packaging’s effect on the environment, but at the end of the day, going green, as it relates to packaging for food to-go (including leftovers), has to satisfy certain functional requirements, or else few consumers will be convinced to change their habits. Topping the list of critical packaging requirements for food taken to-go (not specifically in green packaging materials), with agreement from more than eight of ten consumers (83%), is the request that food not leak out of the bottom or sides of a to-go container. Next, more than seven of ten consumers (72%) report that it is imperative that the container stay sealed at the top, both to prevent leakage and to keep the food warm. Following on that, more than three of five consumers (62%) indicate that keeping food warm in to-go packaging is important (though not applicable in most instances to leftovers).

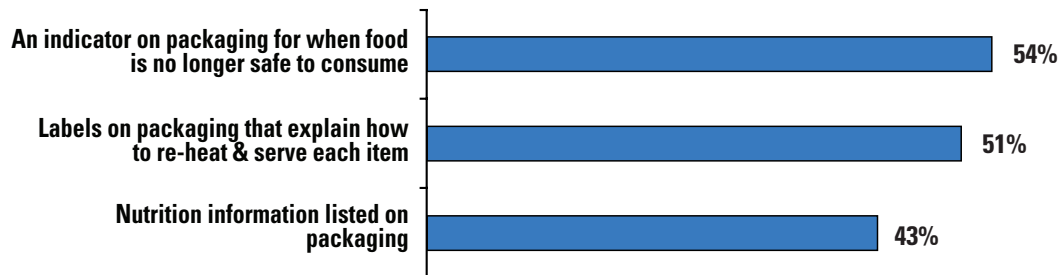
Top 5 To-Go Packaging Requirements



PACKAGING IDEAS TO CONSIDER

Of course, there is a list of what consumers demand from to-go food packaging, and then there is a wish list of features they’d like it to have. Topping the latter list is an indicator on the packaging that would change color or somehow let consumers know when the food is no longer safe to consume (54% of consumers agree). Next are labels on the to-go packaging that would explain how best to re-heat and serve each item (51% of consumers agree). More than two of five consumers (43%) indicate that nutrition information on to-go packaging would also be appreciated.

Most Requested Packaging Improvements



Bottom line: *Certain fundamental aspects of to-go food packaging, including leak-proof and fully sealable containers, are intrinsic to keeping consumers satisfied. If such conditions can be met by green packaging, it is likely that these products would be successful both with current fans of such items as well as others who would eventually be won over, or at least not put off, by the move to greener resources.*

BUSINESS-BUILDING IMPLICATIONS

- The Top Five Trends driving foodservice packaging in 2008 are Design, Portability, The Green Factor, Durability, and Budget. Restaurateurs who are on top of their game will use packaging to add value to their product, distinguish it from the next person's, and create a more profitable market share, all the while touching on as many Top 5 Trends as possible.³ Green is certainly a pivotal part of this equation, but don't forget about the other key points as well.
- Green practices at restaurants are already well under way. According to the National Restaurant Association, more than one-third of restaurants say they are allocating a larger percentage of their budget toward green initiatives this year. While not every operator can be at the forefront of this trend, you also don't want your customers to view you as behind the times. If you have not already done so, make a plan for incorporating green practices of any variety into your restaurant's day-to-day operations, including, but not limited to, packaging considerations.
- If you have a limited-service restaurant, think about implementing a program for separating bottles and cans and other recyclable products from garbage, if you've not already done so. If you have a full-service or limited-service restaurant, why not let your customers know that you buy recycled paper to print your menus, use green cleaning products, or have selected eco-friendly containers for guests' leftovers? Many consumers appreciate knowing that the businesses they frequent are interested in the environment and have taken steps to help make a greener world.

Holiday Spending: Restaurant Gift Cards

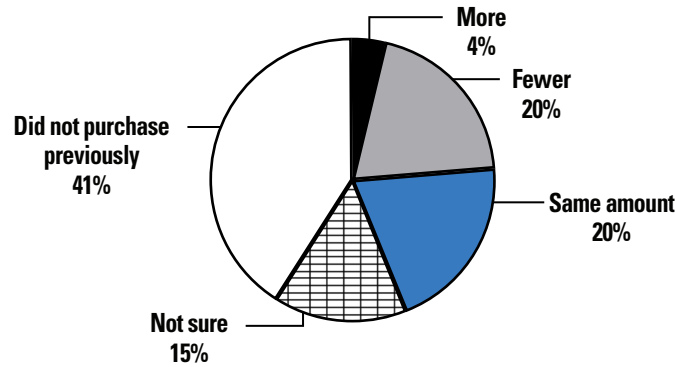
Despite its prediction that gift card sales overall will dip 5% to \$25 billion in Holiday 2008, Archstone Consulting also forecast that the restaurant/fast-food category will sell more cards than any other category. Per Archstone's 2008 Holiday Gift Card Survey, "For many families, eating a meal out is a simple luxury and, therefore, an ideal gift in a holiday season that will otherwise be noted for pragmatic purchases." Archstone's data, however, was collected prior to the major financial markets meltdown in late September and early October.

HOW PURCHASES WILL STACK UP TO THE PAST

Data collected for MarketBrief shows that compared to previous years, a small percentage of consumers (4%) report they plan to purchase more restaurant gift cards during the upcoming holiday season, while precisely two of five consumers (40%), plan to purchase either the same amount of cards as in years past (20%), or fewer (20%). A decent percentage of consumers (15%) are not yet sure how much they will spend on restaurant gift cards this year, and the largest contingent, 41%, or more than two of five consumers, report that they did not purchase any cards in earlier years.

³ "To-Go Packaging: Top 5 Trends," by Julie Sturgeon, *QSRweb.com*, January 24, 2008

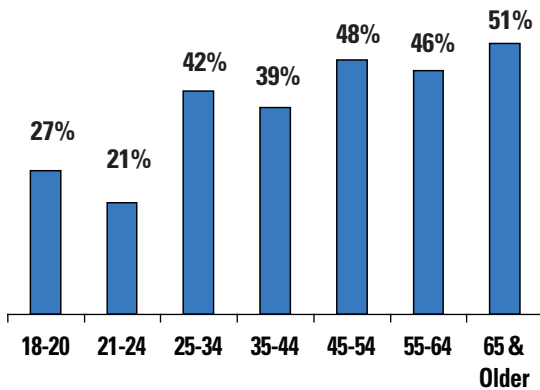
Anticipated Restaurant Gift Card Purchases, Compared to Previous Years



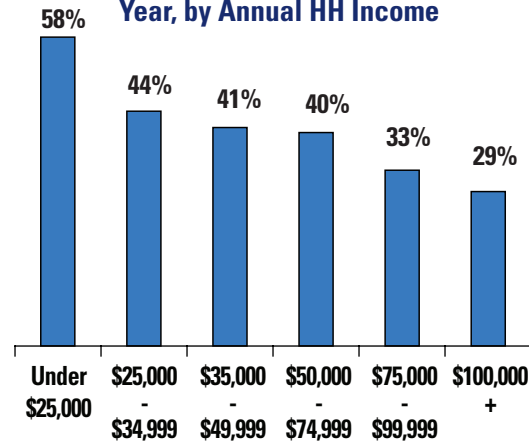
WHO DOESN'T PURCHASE RESTAURANT GIFT CARDS?

In the Holiday 2008 season, 42% of consumers indicate that they do not anticipate purchasing any restaurant gift cards. Further analysis confirms that on an age basis, older consumers report they are much less likely to purchase restaurant gift cards than are younger consumers (18-20 or 21-24 years of age). On the basis of annual household income meanwhile, the less income that is reported, the less likely it is that consumers indicate they plan to purchase restaurant gift certificates. When combined with the information above, which more or less states that it is in fact younger consumers—who tend to have the least income—who are the most likely to buy restaurant gift cards, it helps to assume that the incomes of at least some of these younger consumers are reported as part of their parents' larger, household income brackets.

Percentage of Consumers Who Do Not Plan to Buy Restaurant Gift Cards this Year, by Age



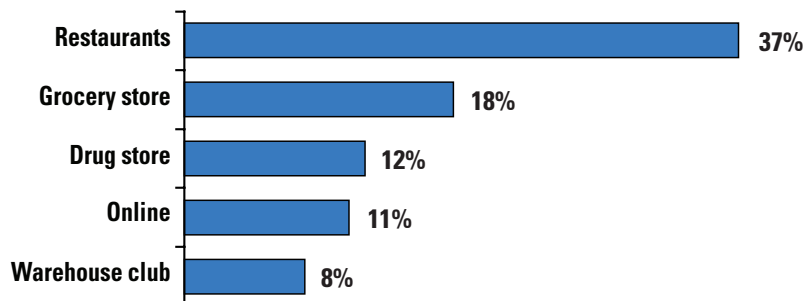
Percentage of Consumers Who Do Not Plan to Buy Restaurant Gift Cards this Year, by Annual HH Income



WHERE GIFT CARDS ARE MOST LIKELY TO BE PURCHASED, AND WHY

Of those consumers who do plan to purchase restaurant gift cards for the 2008 holiday season, well more than a third of them (37%) report they typically purchase, or aim to purchase, such items from restaurants. After that, consumers indicate that they have purchased or will purchase their restaurant gift cards this year at grocery stores (18%), drug stores (12%), online (11%) or from warehouse clubs (8%).

Top Spots to Get Restaurant Gift Cards



Pretty much across the board, consumers who purchase restaurant gift cards at any given outlet report that they go there primarily because of “convenient locations.” On a similar note, many consumers indicate that they will purchase gift cards at restaurants, grocery stores and warehouse clubs simply because they “will be there already.” Given the current, elevated gasoline prices, not having to make an extra trip to buy a gift is of high priority for many consumers. And, by the same token, convenience, in the form of 24/7 business hours and no fuel costs attached, goes a long way towards explaining the appeal of online gift card purchases.

Why Consumers Prefer to Purchase Restaurant Gift Cards At:					
	Restaurants	Grocery Stores	Drug Stores	Online	Warehouse Club
Convenient locations	32%	38%	46%	16%	27%
Can buy at any time, day or night	11	7	12	36	10
Earn points	6	6	5	12	10
Will be there already	33	28	14	8	27
Discounts on cards are offered	5	3	7	10	14
Special gift available with purchase	5	3	1	3	—
Many cards offered in one place	3	14	15	12	13

Bottom line: Sales of gift cards may well be down this year compared to years past, but because a meal out is considered a small-yet-affordable luxury by many people, the restaurant industry — and especially fast-food restaurants — is in a more positive position than many other retail segments to sell cards this holiday season.

BUSINESS-BUILDING IMPLICATIONS

- Archstone notes in its report that sales of gift cards through outside locations, such as grocery, drug stores, banks and kiosks are expected to grown significantly in 2008, by 30% versus 2007. Are your restaurant's gift cards being offered at places other than your restaurant? If so, are you letting your customers know where else they and their friends or family can find your cards?
- In the past, younger consumers have been more likely than older ones to buy gift cards. Restaurant gift cards, however, are often viewed as more personal and sophisticated than a gift card for a mass retailer, for example, and may hold more appeal for older consumers. Especially this holiday season, when expensive, personalized gifts are priced out of reach for many consumers young and old, don't forget to promote your restaurant's gift cards to consumers of all ages, with perhaps even more of a focus on the older ones.
- Make sure that servers are doing their part to promote your operation's gift cards, especially if a special deal is involved. At LSRs, every person taking an order should ask customers if they're interested in purchasing a gift card, and point-of-purchase materials should advertise the cards' availability as well. At FSRs, before servers bring the bill, they should ask customers if they'd like to add any gift cards to their check. In this way, servers can put in some positive words about restaurant gift cards and then quickly add the charges to customers' final bills if they decide to go ahead with a purchase.

Editor's note: Except where otherwise noted, source of data is a periodic overnight survey of 1,000 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in October 2008. Margin of error ± 3%.

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