



Coupon Usage At Restaurants

Amid soaring fuel costs and a housing and credit crisis, Americans last year halted a 16-year trend of declining coupon redemptions by turning in 2.6 billion manufacturers' coupons. That marked the first year since 1992, when nearly 8 billion coupons were used, that redemptions had not fallen. Historical trends show that coupon redemption rates rise when prices and unemployment are going up, so more coupon use is expected this year.¹

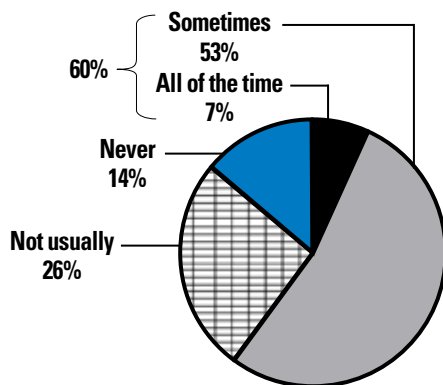
Where restaurants are concerned, less information is publicly available about coupon redemption rates. Plenty of restaurants offer coupons, but are they too being snapped up and redeemed at a higher rate than in the past few years? If so, who is using them?

A BROAD SWATH OF CONSUMERS USE RESTAURANT COUPONS

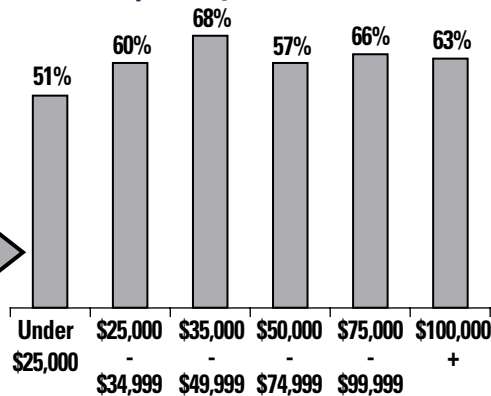
In a recent survey of consumers, three of five (60%) indicated that they use coupons "sometimes" or "all of the time" at restaurants. While slightly more than a quarter of consumers (26%) report they do "not usually" use coupons in restaurants, only 14% report "never" using them at all.

The 60% of consumers who "sometimes" or "always" use coupons are spread out fairly evenly across the income spectrum. If anything, more consumers in some of the higher annual household income brackets report using coupons at restaurants than do those in some of the lower brackets. This suggests that income is not a factor in restaurant coupon usage.

Coupon Usage Rates at Restaurants (Dine-in or takeout)



Percentage of Consumers who "Sometimes" or "Always" Use Coupons, by Annual HH Income



RESTAURANT COUPON USAGE IS ON THE RISE

Given the current and continuing economic downturn, it's perhaps not surprising that, per the chart on the next page, nearly one-third of consumers (29%) indicate they are using coupons at restaurants more frequently than they were six months ago. More than half (53%) are using them as frequently as they did six months ago, and fewer than one of five consumers (18%) are using them less frequently (possibly because they're dining out less frequently overall).

¹ CMS Inc.; Associated Press, July 28, 2008

INSIDE MARKETBRIEF

Paying by Credit/Debit Card at Restaurants.....p.3

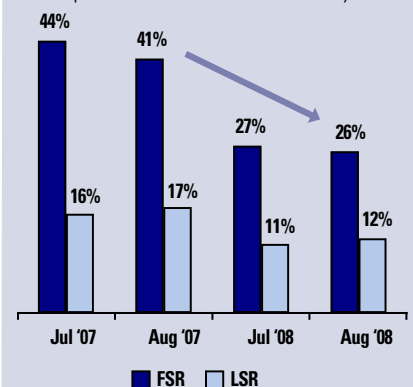
The Art of Menuing Wine.....p.5

HEAVY RESTAURANT USAGE TREND BARMETER

Compared to a year ago, heavy restaurant usage has decreased at both LSRs and FSRs. The decrease is much more pronounced at FSRs (down 17 percentage points in July 2008 from July 2007, and 15 in August) than at LSRs (down 5 percentage points in July and August 2008 from the same months in 2007).

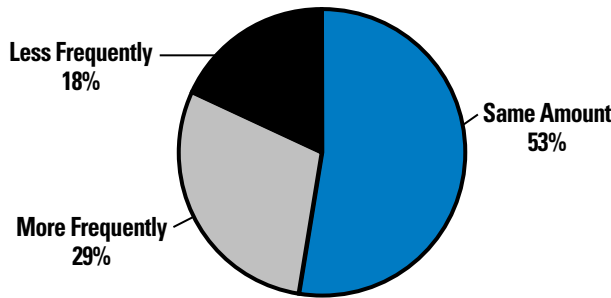
Additionally, while there are traditionally at least twice as many heavy LSR users as FSR users, the gap between the two has nearly been cut in half between July and August 2007 and 2008.

Heavy Restaurant Usage (Two Times a Week or More)



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>

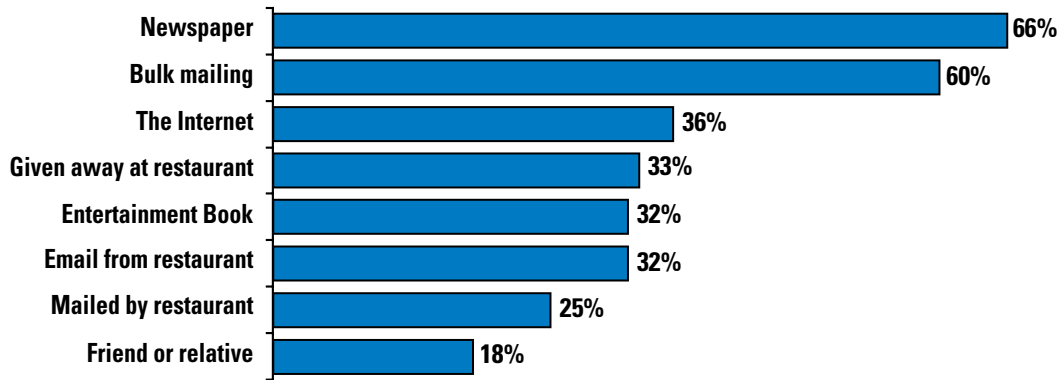
Compared to six months ago, I am using coupons at restaurants...



WHERE CONSUMERS SOURCE COUPONS

Two-thirds of consumers (66%) indicate that they get their restaurant coupons from the newspaper, most likely from Sunday FSIs (free-standing inserts). Quite a few consumers also report getting coupons from bulk mailings, where they're mixed in with coupons for other restaurants, home services, etc. The Internet is where 36% of restaurant coupon-seekers turn, and according to industry trends, this source is growing more rapidly than any other.² Exactly one-third of consumers procure restaurant coupons from the restaurants themselves (33%), and slightly fewer from Entertainment Books (32%), or via emails from restaurants (32%).

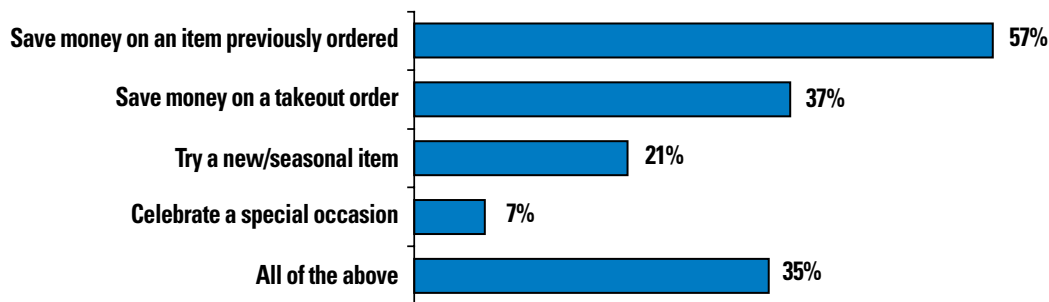
Where Consumers Source Their Restaurant Coupons



WHY CONSUMERS USE RESTAURANT COUPONS

Approximately two-thirds of consumers (67%) indicate that they use restaurant coupons primarily to save money on items that they've tried on previous occasions. Meanwhile, more than one-third of consumers (37%) use a coupon to get a discount on a takeout order, while slightly more than one of five (21%) report using a coupon to try a new, seasonal, or limited-time item. Many consumers (35%) use restaurant coupons for all of these reasons and more.

Why Consumers Use Coupons at Restaurants



WHY CONSUMERS DON'T USE RESTAURANT COUPONS

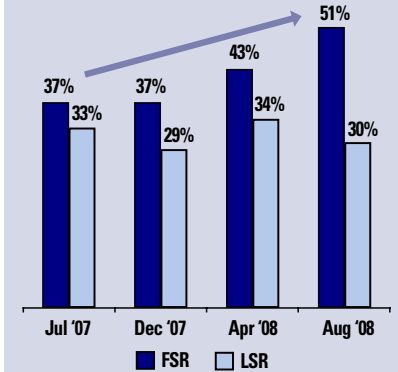
As noted above, 14% of consumers report that they never use coupons at restaurants. Many of these consumers indicate that coupons are simply too much of a hassle (43%), but a significant percentage of non-users (35%) also indicate that they don't know where to find restaurant coupons.

² Scarborough Research

GAS PRICE TREND BAROMETER

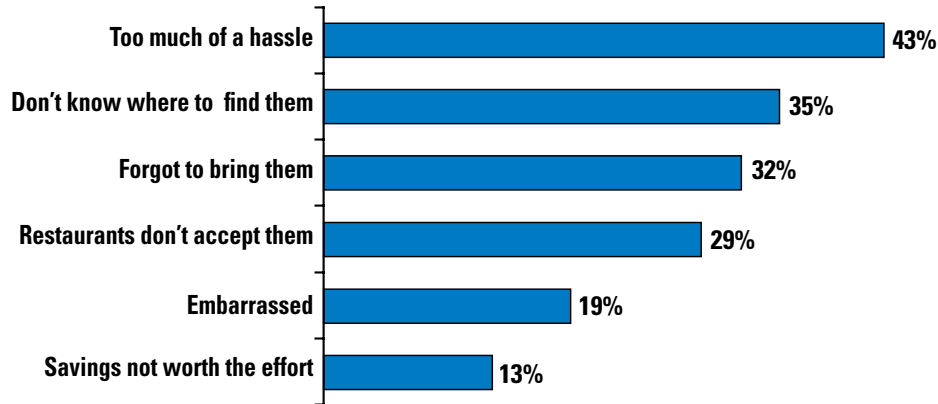
More than half of consumers (51%) are cutting back on spending at FSRs due to higher gasoline prices, while fewer than one-third of consumers (30%) are cutting back on spending at LSRs for the same reason. In many cases, diners who no longer want to drive to FSRs may be going to LSRs instead, whose locations tend to be more plentiful and convenient.

% of Consumers Cutting Back on Spending at FSRs and LSRs Due to Higher Gas Prices



In the past year, an increasing percentage of consumers have cut back on spending at FSRs while the percentage cutting back at LSRs has fluctuated within a range of only 5 percentage points. LSRs' lower check averages, combined with their ubiquitous locations, likely accounts for their more limited loss of business.

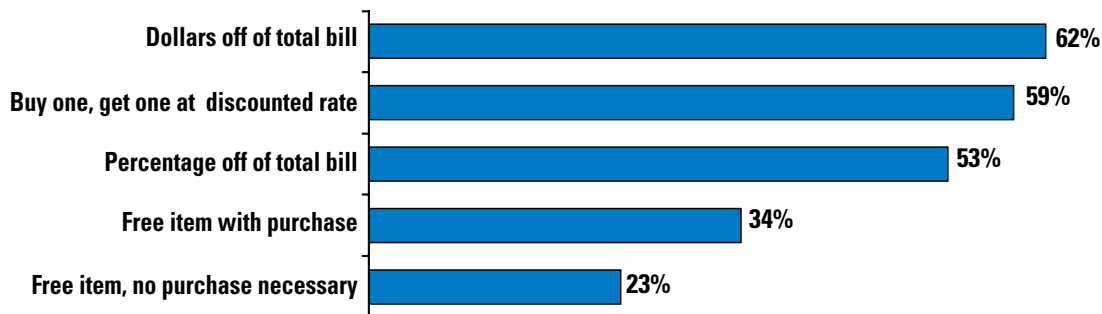
Why Consumers do not use Restaurant Coupons



PREFERRED TYPES OF COUPONS

Of those consumers who do use restaurant coupons, more than three of five (62%) indicate that they prefer one that offers a set amount of dollars off of the total bill. Nearly as many consumers (59%) like a "Buy One, Get One" coupon that allows for a second entrée, meal, or some other component at half price. Getting a percentage off of the total restaurant bill also is popular with more than half of consumers (53%).

Preferred Types of Restaurant Coupons



Bottom Line: Many consumers are looking to use coupons at restaurants nowadays, but operators who want to get in the game should tailor their coupon offerings as much as possible by target population and preferred coupon type, since one size of restaurant coupon does not fit all.

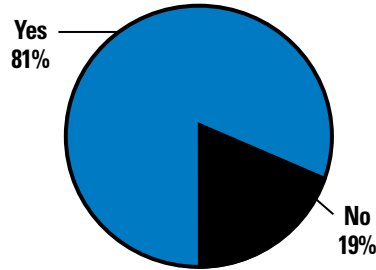
BUSINESS BUILDING IMPLICATIONS:

- Companies such as Cellfire allow consumers to access coupons directly on their mobile phones. Recognizing the potential for such an arrangement, Arby's recently announced that it will use Cellfire to distribute mobile coupons redeemable at 250 of its restaurants. Cell phone technology is the next frontier in couponing, and offers operators a novel way to bring in business.
- A "dollars off" coupon is a great way to encourage consumers to try new products. Recently, Carl's Jr. was offering \$1 off of any size Prime Rib Burger, \$1 off a Monster Breakfast Sandwich and \$1 off a Banana Cream Pie Hand-Scooped Shake. By presenting consumers with their favorite type of coupon, and making it applicable to new items, Carl's Jr. is helping its customers as it also helps to create business for its new products.
- Consumers do not like to be teased by difficult-to-redeem coupons. If you want your promotions to generate traffic and new business, make it easy for consumers to both obtain and redeem the coupons you're offering. For example, try using more than one distribution method (i.e. FSI and Internet), and make sure the coupon is relevant to how consumers tend to order at your restaurant.

Paying by Credit/Debit Card At Restaurants

In a society long-enabled by cheap credit, it has become increasingly rare for consumers to carry large amounts of cash. Even as we experience an economic slowdown partially spurred by high credit card debt levels, more than eight of ten diners (81%) still report that they use credit or debit cards to pay for food from restaurants.

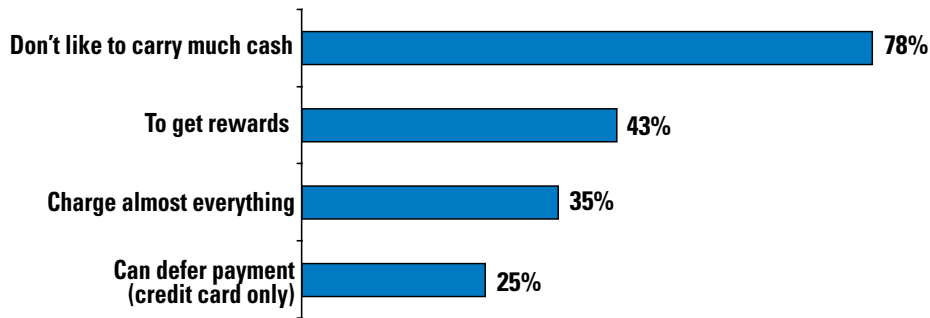
Do you ever use a credit or debit card to pay for food from a restaurant?



CREDIT/DEBIT CARDS A PREFERRED FORM OF PAYMENT

By far, the primary reason why consumers use credit or debit cards at restaurants is that they don't like to carry much cash; more than three-fourths of consumers (78%) indicated as such. Put another way, credit and debit cards equate to convenience. Other factors that influence consumers' decision to use credit or debit cards include getting rewards (43%) and the fact that many consumers normally charge almost all of their purchases anyway, meals included (35%).

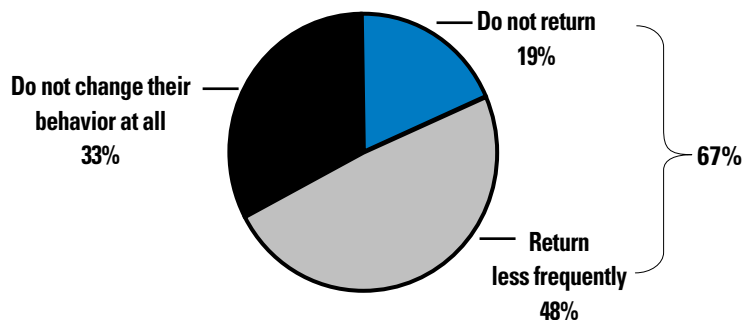
Why Consumers Use Credit/Debit Cards at Restaurants



IMPACT OF NOT ACCEPTING CREDIT/DEBIT CARDS

When restaurants do not accept credit or debit cards as a form of payment, nearly one of five consumers (19%) will not return, while nearly half (48%) indicate they will return, but less frequently than they otherwise might. Only a third of consumers (33%) report that they do not vary their dining frequency at all when a restaurant does not accept credit or debit cards as forms of payment. In effect, a combined two-thirds (67%) of a restaurant's business potentially is affected when it declines to accept credit or debit cards.

Consumer Reaction When Restaurants Do Not Accept Credit/Debit Cards

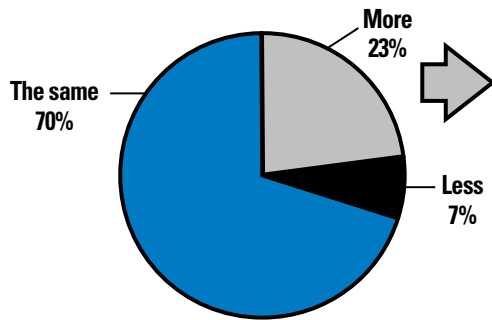


MANY SPEND MORE WHEN PAYING BY CREDIT/DEBIT CARD

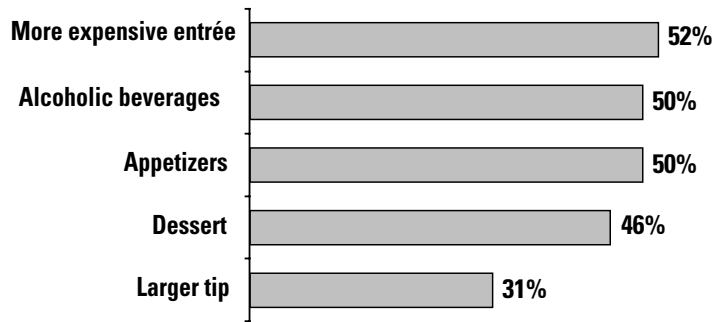
Although seven of ten consumers (70%) report they spend the same amount at a restaurant whether they pay in cash or by credit or debit card, nearly a quarter (23%) indicate that they spend more when they do not pay in cash. Only 7% of consumers spend less when using a credit or debit card at a restaurant than when paying in cash.

Of those who do spend more when they pay by credit or debit card, more than half (52%) report they spend more on their entrée, while nearly as many (50%) tend to spend more on alcoholic beverages or appetizers. Slightly fewer consumers (46%) increase their spending on desserts when paying by credit or debit card, and nearly one-third (31%) indicate that they leave a larger tip.

Amount Consumers Spend with a Credit/Debit Card at a Restaurant, Relative to Cash



Where Consumers Spend More with Credit/Debit Cards



Bottom line: The majority of consumers rely on the convenience of credit or debit card payment options when purchasing food from a restaurant. Those restaurants that do not offer this service run the risk of losing business.

BUSINESS-BUILDING IMPLICATIONS

- Despite their reliance on credit and debit cards, many diners are still squeamish about surrendering their cards to complete strangers. To counter the threat of security breaches, some restaurants — especially in Europe — have embraced tableside credit card processing machines. With these machines, the card never has to leave the diner’s view, putting diners and management alike at ease.
- Consumers report that getting rewards is one big reason why they like to use credit cards. “Value Seekers” in particular are looking for additional ways of putting their expenditures to work for them. Credit card/debit card rewards provide consumers with just that.
- For operators who do not yet accept credit or debit cards, perhaps it’s time to re-think your strategy. Having two-thirds of your potential business affected negatively by a lack of credit/debit card payment options seems like a high price to pay in comparison to any credit card transaction rate you might have to shoulder.

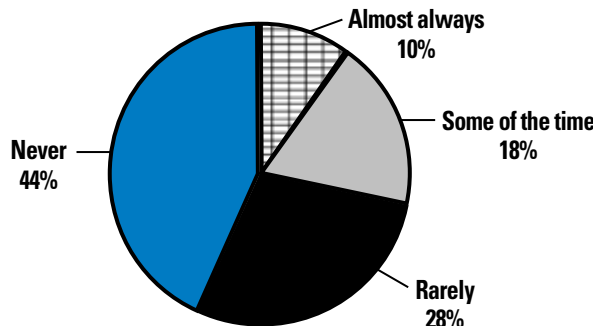
The Art of Menuing Wine

Wine is an essential component of many full-service restaurants’ business. To that end, fine-dining chains such as Morton’s The Steakhouse and hospitality group B.R. Guest — which has properties in multiple cities — have instituted internal wine-knowledge and wine-serving training programs for their staff. After all, at a place like Morton’s, where up to 29% of the sales come from wine, it’s essential that servers be well-versed in wine.³

WINE IS BIG BUSINESS

Although only one of ten consumers (10%) reports “almost always” ordering wine when dining at a full-service restaurant for dinner, almost one of five (18%) orders it “some of the time.” Together, this combined 28% of consumers, coupled with another 28% who report that they “rarely” order wine, account for the approximately \$12 billion that was spent on wine in restaurants in 2007.⁴ That’s a hefty figure, especially factoring in that more than two of five consumers (44%) report they “never” order wine at a restaurant.

When Consumers Order Wine at a Restaurant



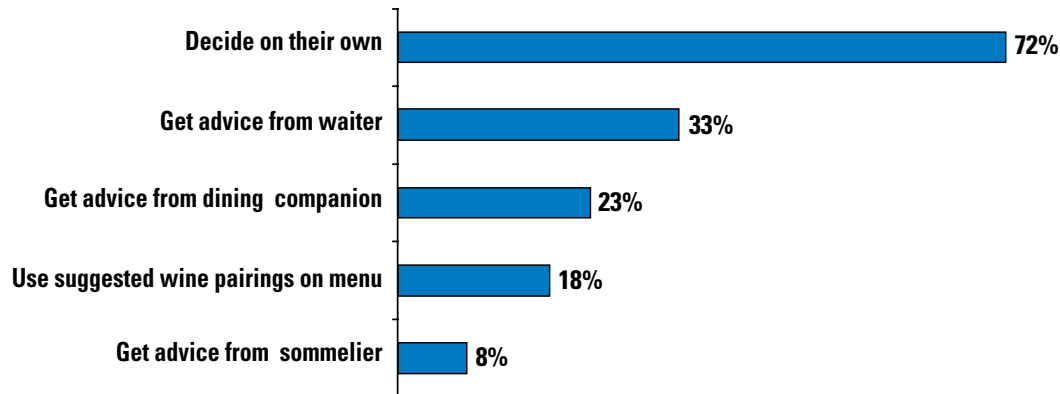
³ “Wine Lessons,” *Restaurant Business*, July 2008

⁴ Technomic, Inc.

HOW THE DECISION IS MADE

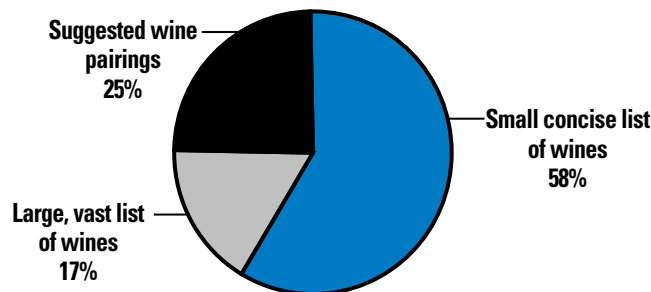
When it comes to selecting their wine, consumers rely first and foremost on themselves for guidance: more than seven of ten consumers (72%) indicate that they prefer to decide on their own what wine to order. Much further down in the rankings, one-third of consumers (33%) report that they get advice from their waiter, while nearly a quarter (23%) seek advice from a dining companion, when choosing wine to accompany their meals. The use of suggested wine pairings or the advice of a sommelier may rank lower than other options simply because neither is as prevalent.

How Consumers Prefer to Select their Wine



Wine lists can be created and displayed in many ways. For many diners, a list that is too lengthy or too complex is not ideal. Rather, a majority of consumers (58%) prefer to see a small, concise list of wines available by the glass that are designed to complement the food on the menu. Exactly one quarter of consumers (25%) indicate that they like to see suggested wine pairings next to items on the menu. At 17%, fewer consumers report that they prefer a large, vast list of wines that offer great variety but which are not paired with food on the menu.

Consumers' Menu Preferences when Ordering Wine



A PREVIEW CAN BE KEY TO MAKING A SALE

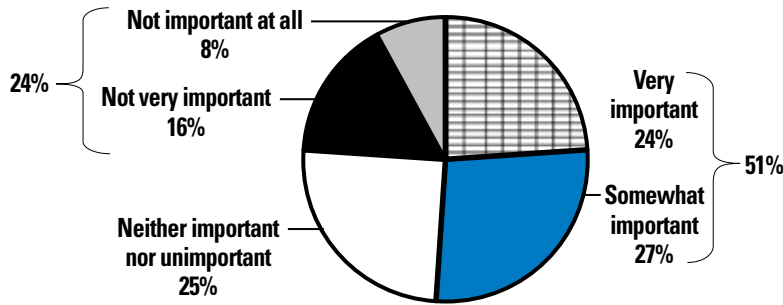
According to California wine advocacy group the Wine Institute, wine by the glass accounts for roughly three out of every four wine purchases in restaurants.⁵ Research done for MarketBrief (not illustrated here) supports that statistic: 68% of consumers indicated they prefer to order a glass of wine (approximately 8 ounces) when dining out; 19% prefer a carafe (approximately 16 ounces); 10% prefer a bottle of wine; and 3%, a flight of 3 or more glasses of wine.

Building on that information, it make sense that more than half of consumers (51%) feel it's "very important" or "somewhat important" that they be able to taste a wine before ordering it a glass of it. After all, that glass of wine is likely a major component of the evening's dining experience. Nevertheless, one-quarter of consumers (25%) find it "neither important nor unimportant" that they be able to taste a wine before ordering a glass of it, and nearly a quarter (24%) indicate that it is "not very important" or "not important at all."

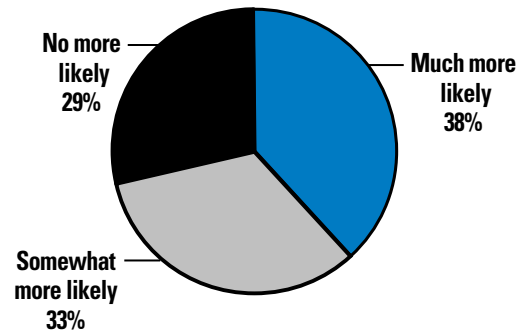
On a related note, nearly two of five consumers (38%) report that being able to taste a wine before ordering it would make them "much more likely" to order a glass of wine, and one-third (33%) report that they would be "somewhat more likely" to order a glass of wine if they could taste it first. Fewer than one-third of consumers (29%) indicate that the ability to taste a wine prior to ordering a glass of it would have no effect on their purchase behavior.

⁵"Cracking the Code of Restaurant Wine Pricing," *The Wall Street Journal*, August 15, 2008

How Important is it to Taste a Glass of Wine Prior to Ordering It?



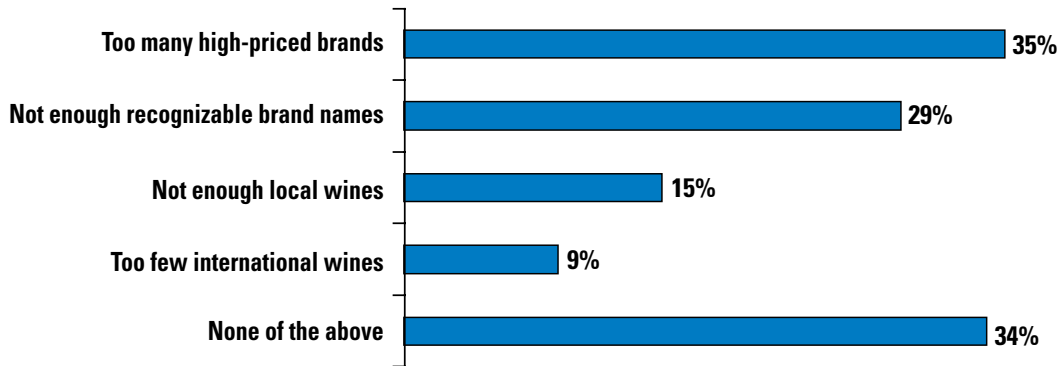
Would Tasting a Wine Make You More Likely to Order It?



A Delicate Balancing Act

We asked consumers about their top complaints regarding restaurant wine lists. Slightly more than one-third (35%) agree that wine lists in restaurants have too many high-priced brands. Other consumers feel that there are not enough recognizable brand names (29%) or not enough local wines (15%) on the lists they encounter. Overall, these are issues that can be addressed effectively by operators, though possibly not all at once.

Top Consumer Complaints About Restaurant Wine Lists



Bottom line: *Menuing and serving wine in an effective manner is a complex undertaking with multiple, intricate factors ranging from breadth of varietals served, price points, serving size, etc. to consider. For those operators who do get it right, however, the bottom-line payoff can be quite handsome.*

BUSINESS-BUILDING IMPLICATIONS

- Is your staff knowledgeable about wine? Can they articulate to diners the most important aspects of the wines on your menu such as mouth feel, taste description and region, as well as why those wines in particular have been selected? If you're not 100% sure of the level of wine knowledge amongst your staff, take the time to bring in an outside resource for a wine-training course. It may cost you some money up front, but the return, in terms of increased sales of wine made by a well-informed staff, should more than offset the initial expense.
- If you do not already, consider allowing guests to taste a glass of wine before ordering it. Olive Garden, among other restaurants, has pursued this path, and many consumers seem eager to embrace it. Given the current economic uncertainty, consumers may well want to be sure of the wine they plan to order before spending money on a glass of it.
- Some diners who rarely or never order wine when they dine at a full-service restaurant may be intimidated by wine lists and find it easier to not order wine at all rather than make a mistake or ask for help. In such cases, it may make sense for operators to have both a small, concise list of wines in addition to suggested wine pairings on the menu, thus taking the risk out of the decision for diners who are less well-informed in the ways of wine.

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 August 2008. Margin of error ± 4.5%.*

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