

Succeeding in a Tough Economy

Tips for delighting repeat customers and cultivating new business



Increasing Traffic and Delivering Value

Now more than ever, operators need to maintain and increase steady traffic from regular customers, as well as cultivate the flow of new patrons. To succeed in this challenging economic environment, restaurateurs must offer the value that customers are looking for while also controlling costs—all without detracting from the dining experience. Restaurant operators are partnering with Sysco to build traffic, operate more efficiently, and achieve success. Learn how.

The Situation

The U.S. economy is going through its worst period since the 1980s and possibly since the Great Depression. Looking ahead, the economy is projected to remain sluggish throughout much of 2009, creating a challenging situation for foodservice operators.

Industry analysts predict that the foodservice industry will experience slow or no growth for the next few years. Nominal growth is estimated to be in the range of 3% annually from 2008 to 2011. This compares with nominal growth of 5-10% from 1971 to 1991 and 4-6% from 1992 to 2007. No real growth is anticipated until 2011. This is in comparison to real growth of 2-3% during most years over the past four decades.

A key indicator of restaurant sales growth is disposable income, which is projected to register a modest 0.2% inflation-adjusted gain in 2009. Operators report growing evidence of reduced consumer spending. Customers are often passing on a second cocktail, foregoing dessert, splitting entrees, and ordering less expensive wines.

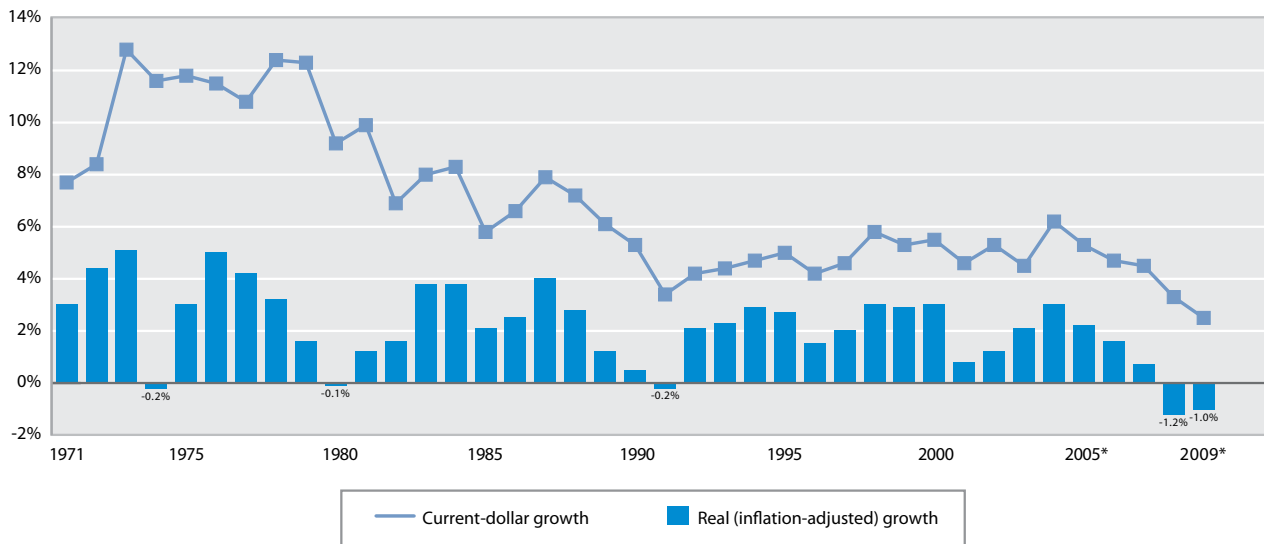
Nominal vs. Real Growth

Nominal growth rates are the total amount of growth from one year to the next, but nominal growth does not account for the effects of inflation. (For example, if your sales were up 8% last year, that is your nominal growth rate.) In contrast, real growth rates do factor in inflation. For example, if inflation is 4%, then the real growth rate (nominal growth minus inflation) is only 4%. While people tend to look at their nominal growth rate, it is real growth that is key.

Along with slowed projected growth, operators are concerned about food costs and increased operating costs. Increasing wholesale food prices will continue to put pressure on restaurants' bottom lines. In 2009, the National Restaurant Association expects wholesale food prices to increase 2.9%.

39 Years of Restaurant-Industry Sales: 1971-2009

This chart shows the sales growth of the restaurant industry since 1971, when the National Restaurant Association first issued its annual forecast. Here you can see the growth in the number of dollars spent each year, and that number adjusted for inflation.



* Growth rates are estimated for 2005 to 2007 and projected for 2008 and 2009. Providing final estimates for restaurant-industry sales from previous years is an ongoing process. The National Restaurant Association's Restaurant TrendMapper offers updated sales estimates as they become available. Visit www.restaurant.org/trendmapper to learn more.

Source: National Restaurant Association 2009 Restaurant Industry Forecast

The Opportunity

The key to success in the current environment is repeat business and the cultivation of new customers. Operators must keep regular customers coming back and must attract new customers who are converted into loyal visitors. This is an issue faced by both full and quick service restaurants.

- The National Restaurant Association's 2008 operator survey revealed that repeat customers represent a majority of sales for full service restaurants. Repeat customers account for 75% of sales at family-dining restaurants, 70% of sales at casual-dining restaurants, and 60% of sales at fine-dining restaurants.
- At quick service restaurants, repeat customers account for 75% of sales. While retaining repeat customers is crucial, so is attracting new ones. NRA research indicates that in 2008, 54% of QSR operators said that attracting new customers was more challenging.



To retain current customers and attract new customers, restaurateurs must offer the value that patrons are looking for. The National Restaurant Association indicates that "expanded focus on value" is the top trend for 2009 among both quick service and full service restaurants. A recent survey revealed that 36% of quick service operators mentioned value as their top trend for 2009, while 16% of casual dining operators, 12% of fine dining operators, and 9% of family dining operators see value as their top priority.



Restaurateurs also must make operational improvements to control costs. The challenge is to meet these goals without detracting from the customer's dining experience. Sysco can help by providing tools and resources that enable operators to maintain and build their traffic and profitability in today's economy.



Best Practices for Driving Traffic

In an environment where consumers' disposable incomes are essentially flat, customers give their highest marks to restaurants that offer the greatest value. High perceived value is a competitive necessity these days. Successful restaurateurs are driving traffic by increasing promotions and offering specials that convey value. However, value does not necessarily mean low price.

Some best practices that can increase traffic include:

- **Offer dining discounts.** Surveys show that customers will patronize a restaurant more frequently if it offers discounts. A NRA survey found that 75% of customers would patronize a full service restaurant more often if it offered frequent-dining discounts or reduced prices on slower days of the week. So, operators should consider offering discounts to drive traffic during off-peak days, off-peak times of the day, or among loyal diners. Discount programs can also be used to attract new customers. Coupons are a flexible discounting option, since they can be easily discontinued when the economic situation improves.
- **Re-evaluate pricing.** There are a variety of ways that restaurateurs can adjust pricing to increase traffic, ranging from smaller portions to special food buys and selective pricing adjustments.



- **Small portions, lower price.** Offering smaller portions at a lower price can enhance perceived value. Operators must use caution, however, not to use terms like “budget” or “light fare” that may have negative connotations for some people, even

those who are value conscious. An alternative name for half-portioned meals that resonates with customers is “small plates.” Offering free kids meals is also a great way to attract families. Despite the current economic conditions, consumers still feel that restaurants are an essential part of their life and, by giving consumers different portion size options, operators can garner some of that valuable market share.

- **Consistent center-of-plate prices.** Consider consistent pricing for center-of-plate items. Many operators are electing to keep entrée prices consistent, while adjusting prices on things like coffee or appetizers. In this way, increased food costs can be offset without raising prices on customers' favorite entrées.
- **Special food buys.** Sysco Marketing Associates are great resources for identifying special food buys that will help keep restaurant food costs in line.



- **Differentiate through menu changes.** Instead of cutting prices, many operators are differentiating their businesses through menu changes. Experimenting with different ingredients and getting creative in the kitchen can really pay off. For example, getting creative with less expensive cuts of meat is a great way to add profitability and excitement to your menu. It is also possible to add variety to the plate in strategic ways. For example, consider replacing a traditional plate that has three components (an 8-ounce protein, 4-ounce vegetable, and 4-ounce starch) with a plate that has four lower-cost

components (a 6-ounce protein, a 3-ounce starch, a 3-ounce hot vegetable, and a 3-ounce legume).

Sysco Marketing Associates can provide restaurant operators with valuable input about the design and functionality of menus. They have up-to-date information about each item's food cost, and more importantly, the gross profit it generates. Using this information, Marketing Associates can help operators analyze their menus which can help operators make decisions about item placement. The result: maximizing sales of high-profit items.



- **Focus on customer intimacy.** Because regular customers are the lifeblood of restaurants, operators are doing whatever they can to retain them and to transform new customers into repeat patrons. Successful ways to increase customer intimacy include recognizing customers and knowing them by name, addressing special requests whenever possible, and innovating the menu to encourage return visits.

- **Look for creative marketing opportunities.** Marketing programs are a crucial way to drive traffic to a restaurant. These programs don't need to be expensive to be effective. Creative approaches can generate impressive results.

- **Email marketing.** This is a low-cost way to generate traffic. The first step is building a customer database. Then, create a campaign. A rule of thumb: less is often more. Keep messages short and specific and limit the number of emails sent to customers.

- **New forms of media.** Think about using new media for fresh exposure. Social networking services like Facebook, MySpace, and Twitter enable restaurants to create a presence that is reachable by millions of users and is cost-effective.

- **Specific marketing tactics for repeat and new customers.** To increase traffic from repeat customers, consider using loyalty programs, special events, and "bounce back" promotions that are designed to encourage additional visits. To generate new customers, programs like advertising and promotions in local businesses are more likely to be successful.

- **Sysco iCare.** Sysco has formed partnerships with several marketing service companies. These partners help operators drive traffic by:

- Creating affordable email marketing campaigns and guest surveys (Constant Contact)
- Executing effective direct mail promotions (Moving Targets)
- Filling empty tables (Restaurant.com)
- Developing customized Web sites (Orderze.com) Enabling take-out and catering orders online (Executive Dining Club)
- Assisting with email marketing and online reservations (Fishbowl Marketing)

Note: Much of the information in this publication has been drawn from: "**National Restaurant Association 2009 Restaurant Industry Forecast**" and Technomic's "**Future of the Independent Operator: Implications of Likely Change**" (10/08)

Information on the Sysco iCare program and on each iCare partner can be found at www.syscoicare.com.