

# Understanding the New Economy

Lessons from the past and tips from the present  
to succeed in a soft economy<sup>1</sup>

## Building Traffic in Challenging Times

Amid a host of challenging economic factors, operators are fighting back. They are taking advantage of lessons learned from the past, and leveraging new trends for promotions and innovations. Operators are partnering with SYSCO to build traffic and achieve success. Learn how.

## The Situation

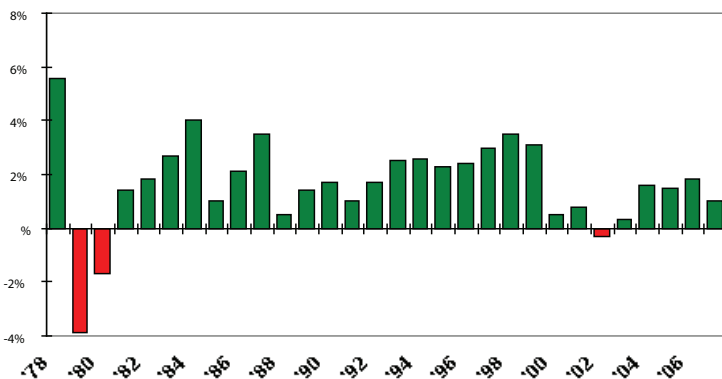
Operators face tough economic challenges. These challenges include:

- Food prices that are escalating at the fastest rate in 17 years
- Record high gas prices that are decreasing consumers' willingness to drive and eat out
- Rising unemployment
- Continued housing market concerns
- Low consumer confidence

## The Result

These factors have conspired to constrain growth in all segments of the foodservice industry. In 2007, restaurant industry traffic grew just 1%, which is far below the industry's historical rate of growth, and check size grew at its slowest rate in a decade.

**Restaurant Industry Traffic**  
Annual Growth Rate (1978-2007)



Source: The NPD Group/NPD Foodservice/CREST

Confronted with these challenges, operators are asking, "What can we do?" In partnership with SYSCO, operators can fight back by:

- Learning and applying lessons from past periods of economic softness

- Looking at best practices from the present
- Leveraging tools and resources from SYSCO

As the expression goes, the best defense is a good offense. For foodservice operators in challenging times, the best strategy is often an offensive strategy which focuses on building traffic.

While the current situation is a challenge, over the past 30 years, the U.S. economy and the foodservice industry have experienced several periods of economic softness. Analysis of these periods provides valuable perspective to help operators select their best course of action.

SYSCO offers a wealth of tools and resources to help operators maintain and grow their profitability in today's economy.

Among the important lessons from the past:

- **The economy will pick up.** Difficult times don't last forever. The economy will inevitably pick up and those who make good decisions and take the right actions during challenging times will be even stronger and better positioned when the economy improves.
- **Passing higher food costs to consumers is risky.** Operators who did this in previous periods of food inflation didn't always fare particularly well. The key is adjusting prices strategically, which can mean just raising prices on select items or communicating a new message that creates more value.
  - *Menu analysis and engineering.* Wouldn't it be great to have another set of eyes looking at your menu's design and functionality? SYSCO Marketing Associates can provide you with up-to-date information on each item's food cost and, more importantly, the gross profit it generates. Using this information, Marketing Associates can help you make decisions on item placement on your menu, so you are maximizing the sales of your high profit items.



- **Emphasizing convenience and value.**

- Historically, in slower economic times, consumers have focused on convenience items (such as hand-held foods) or have traded down in a variety of ways. Thus off-premises dining remained strong, and this appears to be the trend again. In the past, consumers ordered fewer and less expensive items; traded from mid-scale to QSR; switched from entrees to appetizers and sandwiches; went from ordering á la carte to bundled “value meals”; decreased consumption of purchased beverages; and chose to forgo desserts.

To address these trends, operators can offer menu items and promotions that deliver value and do so in a profitable way through combo meals, mini desserts or appetizers, and possibly through free drink refills.

- **Continuing to invest in marketing pays dividends.** During challenging economic times, operators that have continued to market their operations through promotions, advertising, and direct and Internet marketing have often performed better and emerged from these periods stronger.

- *Promotions.* Recent research indicates that menu price and use of coupons/special

promotions are among the most significant factors affecting consumers’ decisions to visit a particular restaurant.

- *SYSCO iCare.* SYSCO has formed partnerships with several marketing services companies.



These partners help operators drive traffic by:

- Gathering insights on guest dining and purchasing habits (BizGrader.com; Insight Guest Relationship Management)
- Creating targeted direct mail campaigns (Marathon Press)
- Establishing a web presence through targeted email and mobile messaging, and online ordering (Fishbowl Marketing)
- Creating and marketing patron-purchased gift cards (Elavon)
- Featuring your menu in the phone directory (Yellow Book)
- Analyzing your menus to maximize profitability (Focus Marketing)
- Filling empty tables (Restaurant.com)

Information on the SYSCO iCare program and on each iCare partner can be found at [www.syscoicare.com](http://www.syscoicare.com).

Furthermore, a few new trends have emerged:

- **More at-home preparation.** Concurrent with the decline in female workforce participation rates, households are preparing more of their own meals at home. This trend was underway but

has been exacerbated by the soft economy. As a result, operators aren't just competing with other operators; they are increasingly competing with home-based meal preparation.

- **Greater emphasis on health.** Price is not the only factor on which consumer's base their restaurant decisions, but also healthier fare. As consumers seek healthier items for themselves and their families, operators are adjusting their offerings accordingly. This can even be seen in QSR where salads are increasingly common, and where operators are offering fruit and vegetables as an alternative to French fries.

## Best Practices for Succeeding in the New Economy

How will you stay current on industry trends?

SYSCO Marketing Associates have their pulse on the industry. They know which items and flavors are hot and which aren't. They also have the latest information on new products that can enhance your menu and increase customer traffic. There are several techniques that operators are using to succeed in the current economy:

- **Targeting meal times where traffic is growing.** In past periods of economic decline, traffic from family parties and lunch traffic declined the most. Currently, lunch and dinner traffic are the weakest and breakfast and snack traffic are the strongest.
  - Many operators are focused on combating these trends by building breakfast traffic with premium/specialty coffee and promoting breakfast sandwiches and burritos. In efforts to drive afternoon snack traffic, operators are offering snack wraps, promoting WiFi, and running promotions from 2 p.m. to 4 p.m.
  - The types of promotions used may differ by restaurant segment. For example: QSRs use promotions to drive traffic all day while mid-

scale and casual dining promote more for dinner traffic. In addition, QSRs tend to offer combo meals and daily specials for lunch traffic while mid-scale and casual dining offer discounted prices or a free item. Coupons and discounted prices are used most frequently to drive supper traffic.

- **Targeting loyal, repeat customers.** Operators need to define their target customers and ensure they are delivering compelling, differentiating, and value-added services. By marketing to loyal customers and increasing the traffic from them, operators can grow at any time. Examples of ways to spur repeat traffic include offering different specials each day and using loyalty cards.
- **Targeting specific consumer segments.** Operators are creating more kid-friendly environments, adding "small appetite" items to their menus, and offering "kids eat free" promotions. Different consumer segments tend to be attracted to promotional offers from different restaurant segments.
  - QSR promotions tend to attract 18- to 34-year-old consumers.
  - Midscale promotions attract consumers over 50 years of age, who are this segment's most frequent users. Also, operators are targeting older consumers (those over age 65), which can build traffic as these consumers continue to eat more of their meals away from home.
  - Casual dining promotions have broad appeal.
- **Continuing to innovate.** Even when consumers are watching their pennies, they still want to try new things. A constant stream of new menu items, new promotions, and new marketing efforts is necessary to stimulate consumer interest. Successful operators will constantly experiment with new items to learn what appeals to consumers and is most effective at boosting traffic and loyalty.

<sup>1</sup>Much of the information in this publication has been drawn from the following NPD Group reports: "How Do Economically Challenging Times Affect Consumers' Use of Restaurants?" (2/08) and "Working Magic... The Art of the Deal."

For more information, please contact your SYSCO Marketing Associate.