



Market Brief

Tracking and interpreting chain restaurant trends

OFFER REWARDS...GAIN LOYALTY... INCREASE FREQUENCY

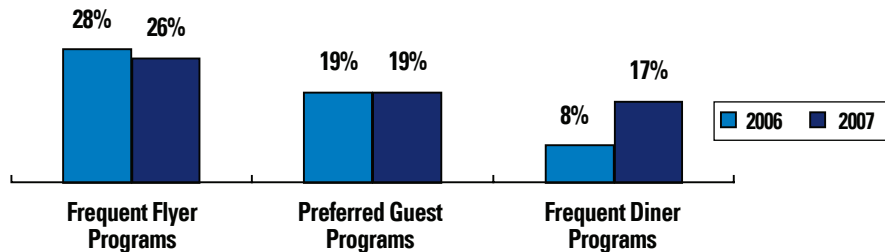
The primary purpose of frequent diner programs (which are defined here as programs where consumers' purchases, dollars spent or visits are tracked, and in return they receive rewards such as gift certificates or free meals) is to increase customer loyalty and thereby increase visit frequency. There are also several less obvious benefits to building a database of frequent diners.

In this month's *MarketBrief*, we track the growth in consumer participation in frequent diner programs, investigate to what degree these programs put restaurants that offer reward programs into consumers' consideration set and determine what rewards would most motivate consumers to join a frequent diner program.

Frequent Diner Programs Catching On

Reported participation in frequent diner programs doubled in one year. In August 2007, 17% of consumers said they were members of a frequent diner program at an FSR vs. 8% in August 2006. On the other hand, participation in frequent flyer programs and preferred hotel guest programs remained relatively unchanged.

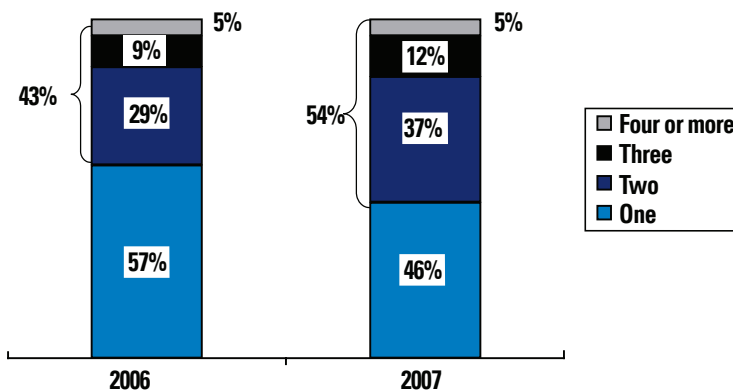
Reward Program Participation



Not only are more consumers joining FSR frequent diner programs – many are registered with more restaurant reward programs than a year ago. In 2006, 43% of consumers who participated in FSR reward programs reported belonging to two or more. A year later this group jumped to 54%.

Number of Frequent Diner Program Memberships

2006 vs. 2007



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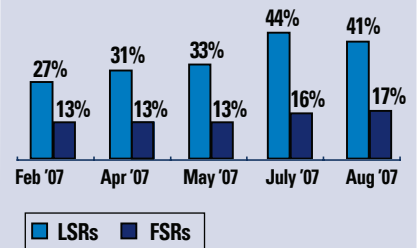
HEAVY RESTAURANT USAGE TREND BARMETER

Heavy LSR and FSR usage appears to trend up through spring and into the summer. The percentage-point increase from May to July was significantly more substantive for LSRs (33% to 44%) than FSRs (13% to 16%).

Also, at any given time there are more than twice as many heavy LSR users than FSR users.

Heavy Restaurant Usage (Two Times a Week or More)

LSRs vs. FSRs

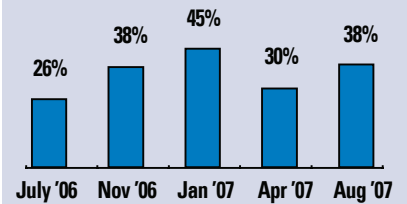


Editor's note: Look for several up-to-date metrics that shed light on key industry trends presented in this space in each month's *MarketBrief*. For comparison, you can find past *Trend Barometer* metrics online at: www.technomic.com/operator/amexmarketbriefs

**FOOD SAFETY
TREND BAROMETER**

Concern over food safety is once again on the rise. In August, 38% of consumers reported that they were "extremely concerned" about food safety. Concern was at its highest in January 2007 following reported E. coli outbreaks. The current increase could be due to recent reports about tainted Chinese food imports. (See story "Tainted Imports From China Have Not Gone Unnoticed" on page 6 for more detail.)

% of Consumers "Extremely Concerned" About Food Safety

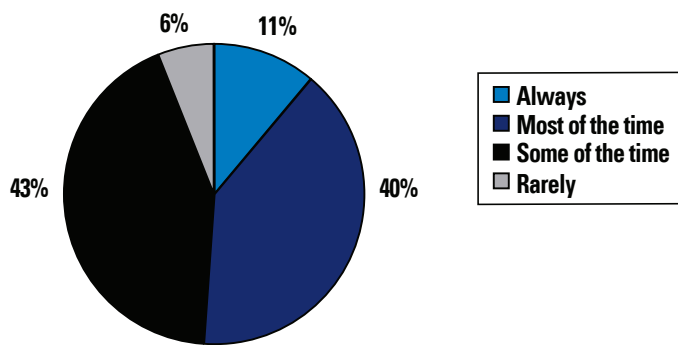


Editor's note: Source of data is periodic overnight survey of 500 consumers representative of the U.S. population, conducted via the Internet by Technomic, Inc. in August 2007. Margin of error ± 4.5%.

Moving Your Restaurant to the "Short List"

A frequent diner reward program can help your concept better compete by making your restaurant a "top-of-mind alternative." Almost all of the consumers (94%) who participate in a frequent diner program reported that those restaurants are in their consideration set at least "some of the time" when choosing a full-service restaurant. Approximately one of ten consumers (11%) reported that these restaurants are "always" part of the consideration set. Two of five consumers (40%) reported that these restaurants are considered "most of the time" and another two of five (43%) reported that they are considered "some of the time." Only 6% said that these restaurants are "rarely" part of the consideration set and no one reported they are "never" considered.

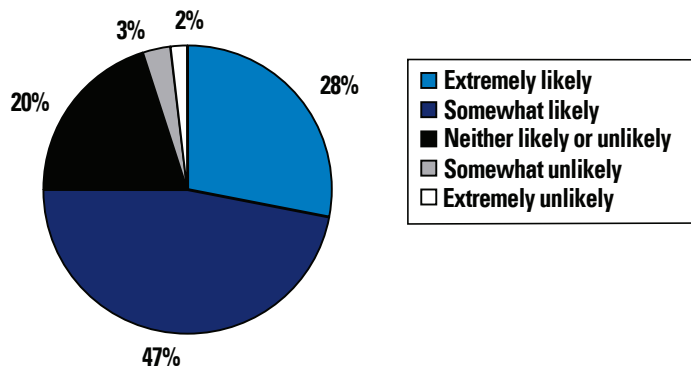
If you are a member in a restaurant's reward program, how often do you consider going there when eating out?



Reward Programs Do Motivate Visits

Reward programs are a great way to increase visit frequency. Over a quarter of consumers (28%) report they are "extremely likely" to increase the number of visits they make to their favorite restaurant if they could participate in a reward program for frequent diners. Almost half (47%) reported that they are "somewhat likely" to increase their number of visits. In fact, only 5% reported they were "unlikely" to go to their favorite restaurant more often if they offered a reward program.

Likelihood of Increasing Visits if Favorite Restaurant Had a Reward Program

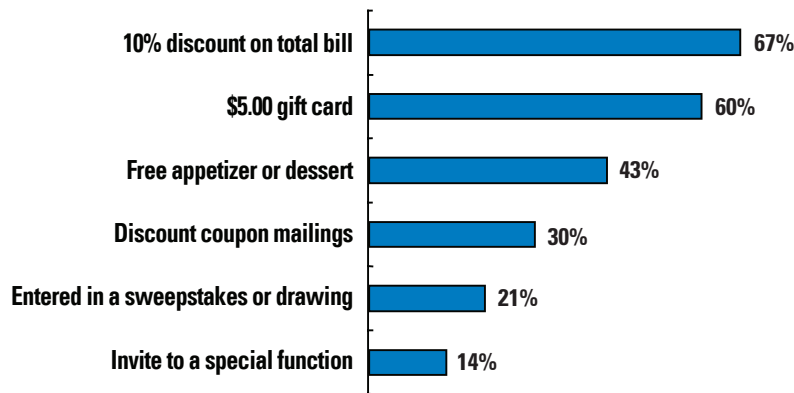


Show Me the Money

Most consumers want to see a financial benefit before joining a reward program. Approximately two-thirds of consumers (67%) would be influenced to join a restaurant reward program if they received 10% off their total bill. Three of five (60%) would be motivated to sign up at a restaurant they enjoy if they received a \$5.00 gift card toward their next visit.

Free and discounted items can also be motivating. A free appetizer or dessert could influence two of five consumers (43%) to join a restaurant's frequent diner program. Less-motivating incentives are inclusion in discount coupon mailings (30%), being entered into a sweepstakes or drawing for a prize such as a trip or a car (21%) and an invitation to a special function at a restaurant, such as a local celebrity chef demonstration (14%).

Most Appealing Motivators for Joining a Frequent Diner Rewards Program



► Bottom line: *There is no doubt that consumers want to participate in frequent diner reward programs. There is also no doubt that these programs can help restaurant operators garner a more loyal customer base and increase traffic. The tricky part will be creating a program that entices consumers to join, recouping the costs involved in building such a system and, in the end, increasing your bottom line.*

Business-Building Implications

- There are numerous benefits to setting up a frequent diner program. Once in place your frequent diner database can be used for direct marketing both online and through the mail, utilizing customized messages to your best customers. Your frequent diner database can also track the type of promotions customers are responding to and which ones aren't working as well.
- Just offering a program won't get all your customers' immediate attention, especially the infrequent or lapsed users. These are the customers whose visits you would like to increase, but at this point aren't yet loyal to your concept. Getting them to join your program will likely take an immediate tangible reward. One possible approach that could help you recoup the cost of this reward is charging a membership fee. One local chain restaurant charges their customers a \$20 fee to join their frequent diner program, but in return the customer receives a \$25 gift card to be used on their next visit. This could be a win-win for your restaurant. If they redeem their gift card you've prompted them to return for a second visit. If they don't redeem their gift card then you just made \$20.

LESSONS LEARNED FROM HOME MEAL DELIVERY

Operating for 50 years, one of the oldest players in the home meal delivery business is Schwan's. They describe themselves as an online grocery and meal delivery service and promote their "premium, gourmet meals" as the "ultimate convenience" because they are delivered right to your home. Beyond Schwan's, the big players in home meal delivery (HMD) have been weight-loss companies like NutriSystem, Jenny Craig and Seattle Sutton.

A few new locally-based home meal delivery services have entered the foodservice market. Like Schwan's, these companies are targeting today's busy consumer. They also promote their offerings as "healthy" and "fresh." While the success of these companies may not directly impact the restaurant business, they do demonstrate that consumers continue to look for convenient methods of sourcing high-quality meals.

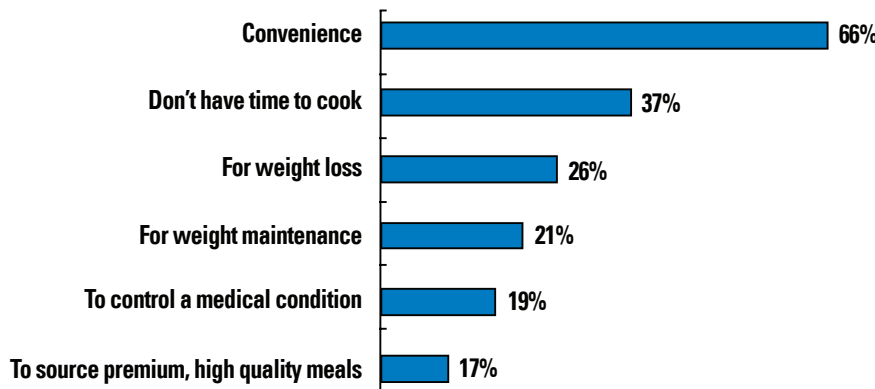
Convenience is the Primary Appeal of HMD

Home meal delivery businesses that promote their services as "convenient" appear to be on target with their marketing. Two-thirds of consumers (66%) cite convenience among the primary reasons they would consider using a home meal delivery system. Over a third of consumers (37%) would consider using this type of service because they don't have time to cook, perhaps another way of describing their need for convenience.

After convenience, the most motivating reason for using a home meal delivery service appears to be for maintaining or improving health. Consumers report that they would consider using this service for weight loss (26%), weight maintenance (21%) and to control a medical condition (19%). Only 17% would consider using this service to source premium, high quality meals.

Reasons for Using a Home Meal Delivery System

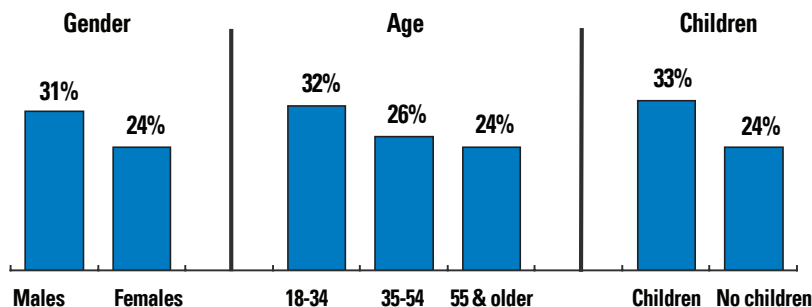
% of Consumers



HMD Customers are Younger, Often Have Families

Over a quarter of consumers (28%) have used a home meal delivery service in the past. These services seem to hold a greater appeal with younger consumers who might also be raising families. More males than females (31% vs. 24%) reported using a home meal delivery service. HMD past users were more likely to be between 18-34 years of age (32%) than 35-54 (26%) and 55 and older (24%). Consumers who have children were also more likely to use a home meal delivery service in the past than those who don't (33% vs. 24%).

Have you used a home meal delivery system service in the past?

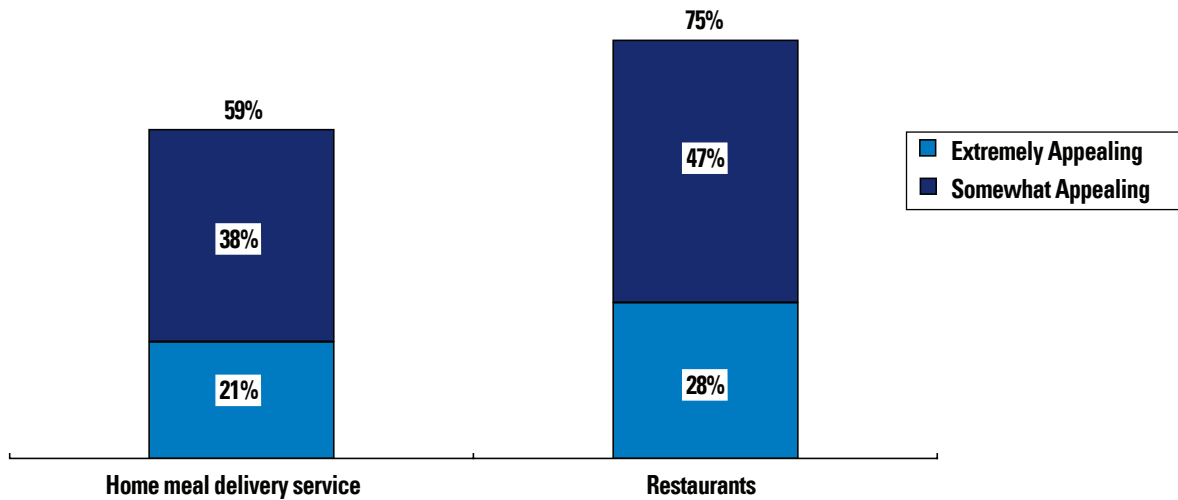


Restaurant Home Meal Delivery is Appealing

Many consumers like the idea of being able to order healthy, ready-to-heat meals delivered to their homes. Approximately three of five (59%) found this concept either “extremely appealing” or “somewhat appealing” in terms of traditional HMD services. However, consumers have even greater interest in sourcing these meals from restaurants. In fact, three-fourths of consumers (75%) liked the idea of being able to order healthy restaurant-delivered ready-to-heat meals.

Appeal of Healthy, Ready-to-Heat Meals Delivered to your Home

Traditional Home Meal Delivery Service vs. Restaurants



► **Bottom line:** *Convenience drives many foodservice choices. In the last five years, full-service restaurants have changed the way they have traditionally conducted business to better accommodate the time-pressed consumer whose decisions are driven by a need for a convenient foodservice solution, including adding curbside delivery and online ordering. Ready-to-heat restaurant meals also appeal to the same time-pressed customer.*

Business-Building Implications

- Obviously it isn't feasible for most restaurants to start their own home meal delivery service, but what can be learned from this research is that consumers find the idea of restaurant-branded, prepared meals more appealing than the meals that home meal delivery services are providing. If you are a large chain with name recognition, then you might want to consider taking some of your signature menu items to the retail market. Hooter's has done this with their chicken wings, as has T.G.I. Friday's with several of their appetizers.
- Restaurant operators might also consider menuing ready-to-heat catering items. If your restaurant does an excellent lasagna or meatloaf or any other item that can be served family-style, consider selling these items in frozen or refrigerated formats. Several pizza operators sell their pizzas this way both onsite and online.
- Consider the possibility of partnering with a company that already has an online home meal delivery business. FreshDirect, a home meal delivery service in the New York area, recently partnered with New York City restaurant Rosa Mexicano. FreshDirect will be offering eight of Rosa Mexicano's branded ready-to-grill items.

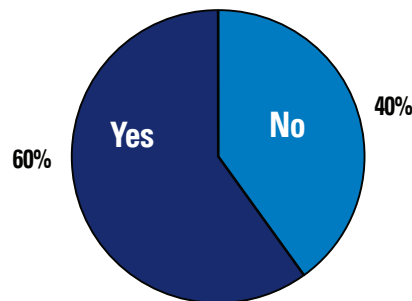
TAINTED IMPORTS HAVE NOT GONE UNNOTICED

Food imports from various countries, including Mexico and Canada, are refused entry into the US each month. China often tops the monthly list of countries whose products were refused entry to the U.S., but inspectors recently reported that the frequency of these product rejections is increasing.¹ In this section of *MarketBrief* we look at how many consumers are aware of tainted food imports recently being detained by the FDA, how concerned they are and which countries' imports consumers are most concerned about.

Many Aware Tainted Food Products Have Entered the U.S.

The majority of consumers (60%) were aware that the FDA recently detained tainted food imports that had entered the U.S. More males (69%) reported they were aware than females (52%) and more consumers 55 and older (75%) and 35-54 (61%) were aware than consumers 18-34 years of age (48%).

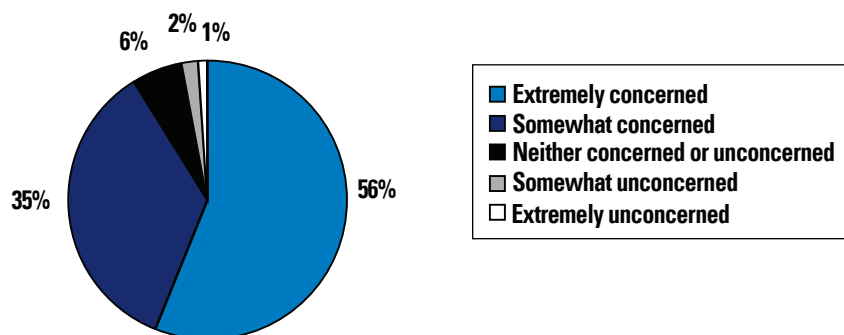
Were you aware the FDA recently detained tainted food imports that had entered the US?



Many are "Extremely" Concerned

From past tracking on food-safety trends we know that consumers' behavior can change when they are concerned about a food-safety issue. Of those aware, the vast majority (91%) are concerned about tainted food being imported to the U.S. from other countries. More than half of consumers (56%) of these consumers report being "extremely concerned" and over a third (35%) are "somewhat concerned." Women were more likely than men to report they are "extremely concerned" about tainted food being imported to the U.S. from other countries (65% vs. 46%).

How concerned are you about tainted food being imported to the U.S. from other countries?

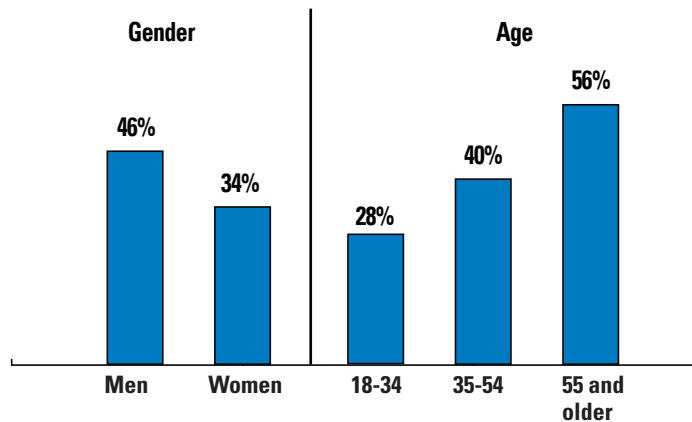


¹ Homeland Insecurity. *Is China trying to poison Americans and their pets?* www.worldnetdaily.com, May 27, 2007.

News of Tainted Imports Can Impact Purchases

A significant portion of those aware of tainted imports reaching the U.S. are wary of these products. Two of five consumers (40%) report that they would avoid purchasing food products from certain countries. Men were more likely than women to avoid certain sources of products (46% vs. 34%). Consumers 55 and older (56%) and 35-54 (40%) are more likely to be monitoring the country of origin of their food than consumers 18-34 years of age (28%).

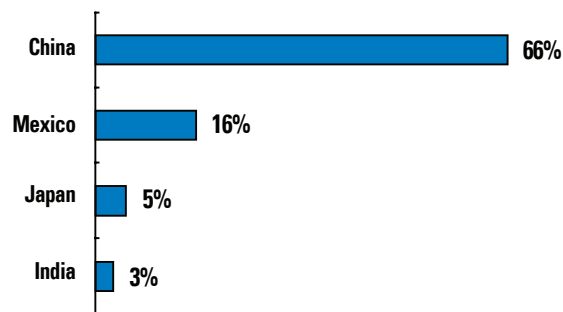
Are there any countries' food products you prefer not to purchase?



Consumers Avoiding Food Products from China

Consumers were four times more likely to name China than any other country when identifying which sources of food products they prefer not to purchase. Two-thirds of consumers (66%) specifically named China, followed by Mexico (16%), Japan (5%) and India (3%).

Which countries' food products do you prefer not to purchase?



► **Bottom line:** A few months ago, hundreds of Americans lost their pets to kidney failure caused by contaminated pet food from China.² Since then, lead-contaminated toys produced in China have been recalled. Consumers are also hearing that foods imported from China contain substances that, in the U.S., are not permitted in food. Until China puts into place a quality control system, there will likely be consumers who avoid foods produced or processed in China.

Business-Building Implications

- This controversy could lead to more consumers choosing food products that are made and produced in the U.S. Some consumers are already seeking out locally-grown food products. If you have been thinking about adding some menu items with locally sourced ingredients to your menu, now would be a good time to test these items.
- If your operation menus fish or seafood, be prepared to tell consumers where they were caught. Several species of fish and seafood from China have been detained because they contain substances not permitted in seafood.
- Check your pantry. You might be surprised at the number of canned and dry goods processed in China. More and more consumers are reporting that they are reading labels, and now some are looking to see where their food was produced. Operators should be prepared for questions about the origin of the ingredients in their food.

² The Bulletin Online: Global Security News & Analysis. *How the pet food scare affects global health.* www.thebulletin.org, May 6, 2007.

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