

Consumers Change Spending Habits, Restaurants Feel Pinch By Norman LeBlanc, CPA

It's no secret that the economy is struggling and so are many businesses right along with it. This presents a double edged challenge for the restaurant industry. Unfortunately, as trends and economics change, so do the spending habits of consumers. For the past four years, even before the economic downturn, the restaurant industry has been experiencing a shift in the type and expectations of its customers.

Historically, restaurants have served a number of purposes to the average diner . . . some frequent restaurants for the atmosphere, some for value, some for variety, and some for convenience. It now seems that many diners are expecting to have all of these things at the same time. This is not necessarily bad news. Although there will always be price based competition with customers seeking the highest value - you can also win their heart with things your competitors may not be able to provide. Things such as a scenic location, a large menu, or a trendy atmosphere. The key is to find your strengths and be sure they are well known – both publically and internally. More good news: most of the industry is comprised of small operators. The chains, as large as they may seem, account for only 8% of the total market. 92% is still controlled by owner-operators.

In the most recent studies by the US Census Bureau, 80% of overall restaurant revenues are derived from households. The remaining 20% are from businesses and tourism. This of course makes restaurants very vulnerable to consumer behavior and very sensitive to changes in disposable income. A change in the labor market, gas prices, tax rates, or consumer confidence all determine how many disposable dollars households have and are willing to part with. A run up in energy prices like we experienced in 2008 is a double whammy to restaurants because costs are rising and revenues are falling.

Nearly 70% of restaurant revenues come from households with incomes above \$50,000. Attaining this level of income usually requires both spouses to work and it indicates that dining out for this large class of customers is mostly for convenience and time savings. Price will be important but variety and ease will be every bit as important. The establishments that are forecast to weather this storm the best are the casual dining, full service restaurants with a wide and varied menu. This is the traditional family style location with reasonable price points, fair portions, and a variety of foods considered standard fare.

What can you do? Change with the times. The establishments doing well despite the current economic climate are the ones that are willing to change and not rely on only what's worked for so many years. Customers today are very discerning. They expect to have a dining experience that includes variety, ambiance, and value. They also demand things like complete control of their meal; sauces on the side, no salt, no dairy, low cal, the list is endless. This almost surely means rethinking the kitchen operation and probably the order taking as well. But forward thinking is what separates the leaders from the stragglers.

The economy seems to be nearing bottom or at least it won't see much additional deterioration. All indications are that the remainder of 2009 will likely see flat sales and costs. There is no doubt that the year will be filled with bumps, both up and down. It will be difficult to resist thinking that things are getting better one month and then thinking we are backsliding the next. It will likely take nine months to see a trend but as always, things will get better.