

## Restaurant Industry Trends

by Doug Kennedy, Bill Way and Bill Ryan\*

For the past three decades, the restaurant industry has consistently posted yearly sales gains. Today's consumers regard food prepared away from home as a necessity. Convenience, a need for socialization and gains in real disposable income have led consumers to spend more of their food dollars in restaurants.

Last year, large chains for the first time captured more of the dining out market than independent restaurants. Their growth has resulted from highly sophisticated companies specializing in sit-down restaurants such as Cheesecake Factory (American), P.F. Chang's China Bristo (Chinese), Morton's (Steak), and Olive Garden (Italian). These and other chains have expanded throughout the country and many are publicly traded (fueling their expansions). The growth of these chains coupled with sluggish economic times have forced many independents out of business.

### Consumer Preferences

According to a nationwide survey conducted by the *National Restaurant Association*, men are more likely than women to use restaurant services (91-percent versus 85-percent during the survey week). Younger adults are more likely to use restaurants than older adults (6.9 weekly restaurant visits for adults 18-44 versus 3.3 visits for adults age 65 and older).

According to research by C&R Research for the National Restaurant Association, there are four broad food attitude segments among today's restaurant patrons:

- Adventurous diners are consumers who are most enthusiastic about trying new types of foods and ingredients. They are frequent diners who are "upscale," educated and more likely to live in urban areas.
- Traditional diners are the least experimental and tend to live in smaller cities. They are often older, less frequent patrons who enjoy comfort foods.
- Health-conscious diners are more concerned about what they eat when dining out. They make food choices based on health concerns as well as

specialized diets such as vegetarian, kosher and high protein/low carbohydrate.

- Carefree diners are the opposite of health-conscious diners and want to forget about eating healthy. These consumers are typically males under the age of 50.

The distribution of diners among these four segments is fairly even, although differences will be found in different communities.

*National Restaurant Association* research point to increased preferences for salads, seafood, chicken and bottled water. Trends specific to full service and quick service restaurants are presented below.

### Full Service Restaurant Trends

Full service restaurants are defined as those establishments with waiter/waitress service and where an order is taken while the patron is seated. They represent 52% of all restaurant sales in the U.S. Growth in this segment is driven in large part by consumer's desire for fun and enjoyment. Growth in sales, particularly at casual-dining (casual dinnerhouse) establishments, are also driven by the number of higher income households.



In many smaller communities, the “supper club” with its aging customer base is being replaced by casual dinnerhouse restaurants. The casual dinnerhouse today reflects more the lifestyle of our society. Casual attire is seen in this style of restaurant, and it appeals to all age groups allowing intergenerational dining. It has a menu which can offer variety from hamburgers to steaks, sandwiches to entrees, appetizers to desserts and also the normal variety of alcoholic beverages. It is more likely to focus on wine or beer today with a meal as opposed to spirits. According to *Nation’s Restaurant News*, dinnerhouses are seen as the vehicle driving growth in the restaurant industry. Prominent dinnerhouses include such powerhouses as Red Lobster, Olive Garden, Chili’s and T.G.I. Friday’s. Other growing chains include California Pizza Kitchen, Chevy’s Fresh Mex, Damon’s Grill, Tony Roma’s and Buffalo Wild Wing’s Grill and Bar among others.

Looking forward, full service restaurants are providing more options to provide consumers with fast and easy food service. A large number of these restaurants are now offering carry-out meals. A recent survey found that 42-percent of adults would be interested in full service restaurants delivering food to their home. The survey also found that 43-percent of consumers would be interested in a drive-thru option at their favorite full service restaurant. This was especially important among younger adults and households with children.

### Quick Service Restaurant Trends

Limited service restaurants are defined as those establishments in which patrons order at a cash register, use a drive-thru or select items from a food bar. They represent 41-percent of all restaurant sales in the U.S. According to *Nation’s Restaurant News*, the largest chains include giants like McDonald’s, Burger King and Wendy’s. In fact the sandwich concepts account for 40-percent of the sales for the top 100. Growth of these restaurants has slowed as there has been significant consolidation in the market. Stronger concepts are overtaking weaker ones, often for purposes of acquiring prime real estate. Co-branding various chains in one building has also constrained the overall growth in the number of units.

The rapid growth in number of the “fast-casual” restaurants will have a significant impact on the overall quick service sector. Fast-casual restaurants offer foods and décor more in line with the casual dining experience. This new category, which falls between the Quick Service and Full Service segments, is less likely to offer fried foods and more likely to have hand-held items such as sandwiches and wraps. These restaurants tend to do their highest sales volume during lunch and generate a higher average

check than traditional quick service restaurants. Eighteen to 34-year-olds are especially attracted to the “fast casual” segment. Chains from the fast casual segment include Culvers, Panera Bread, Chiptole Grill and Noodles & Company.

Looking forward, consumers of quick service restaurants will continue to desire value and convenience. According to a *National Restaurant Association* survey, consumers desire carry-out and delivery and many view takeout as essential to their lifestyle. However, these restaurants will face continuing competition from grocery stores, convenience stores and other businesses courting the takeout market. More consumers are also becoming more value-conscious, a reflection of current economic conditions. Consumers are now expecting better value in terms of price paid, service consistency and food quality. Consumers are also more interested in using technology and many would use self-service terminals if available.

Because of the challenges facing many restaurants, especially independents, it is important that operators and those involved in counseling and encouraging business development stay informed of changing trends in this industry. Fierce competition in the industry will continue and proper menu, service and concept planning must be ongoing to prevent business failure.

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#### Source:

“Restaurant Industry 2003 Forecast,” National Restaurant Association  
“More Local Restaurants Struggle as Big Chains Eat Their Lunch,” Wall Street Journal, July 9, 2002  
Bill Way and Doug Kennedy report titled “New Richmond Restaurant Analysis,” September 2003  
Nation’s Restaurant News, “Special Report: Second 100”, July 28, 2003

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