



Restaurant Industry Performance
A Year in Review & A Look Forward

Coming out of 2012 we see “Certain Uncertainty” in 2013

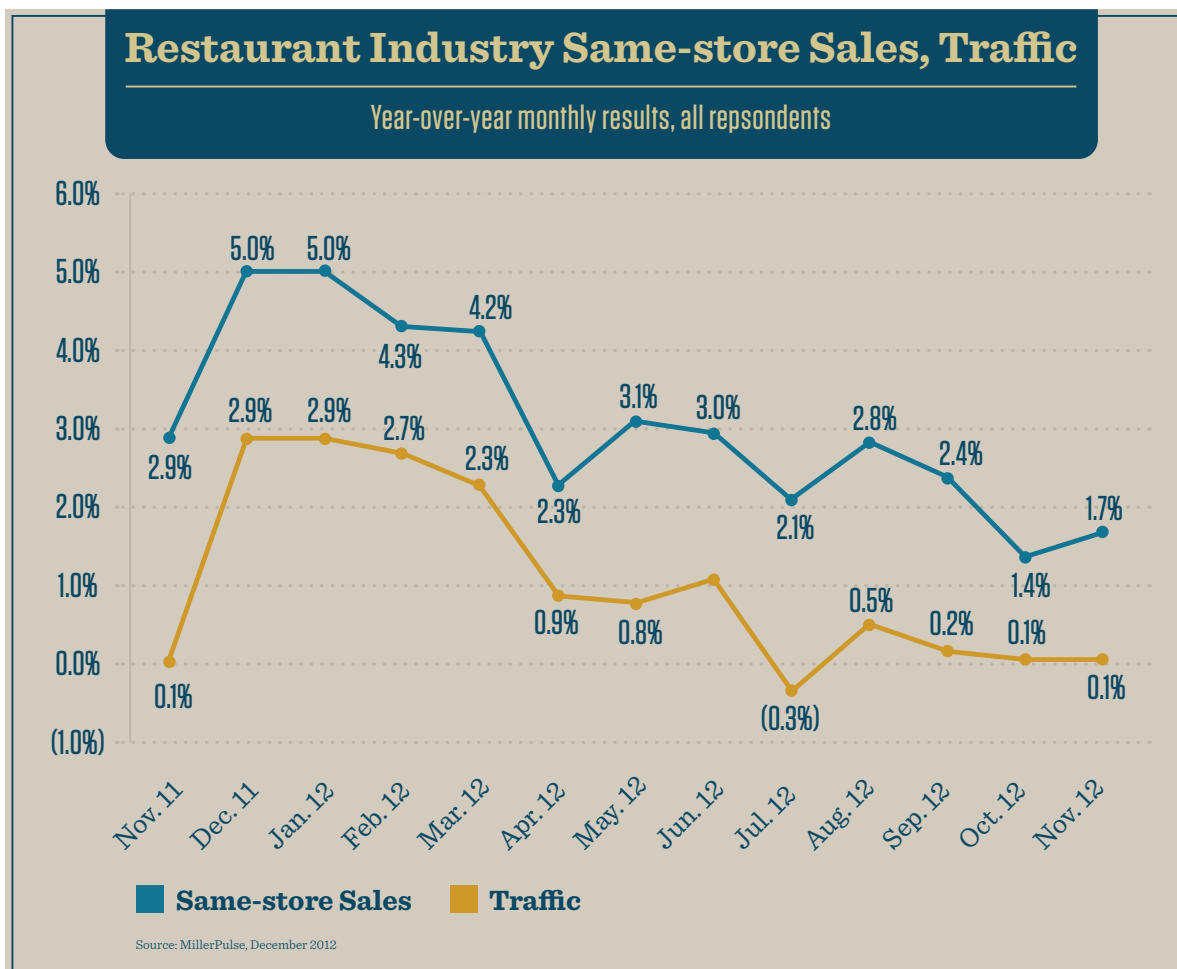
Well it has been an interesting year for the foodservice industry and our country as a whole. What started with fairly optimistic expectations for the restaurant business finished with “mixed emotions” due to a significant level of uncertainty going into 2013.

We started 2012 with a projection of \$631.8B in retail sales for the restaurant industry as forecast by the National Restaurant Association, projecting the strongest year on record. And all indications are that we will actually hit \$636.4B for 2012, or an after adjustment for inflation increase of 1.3%. Under most circumstances this would signal high expectations for even better times ahead. But this does not appear to be the case.

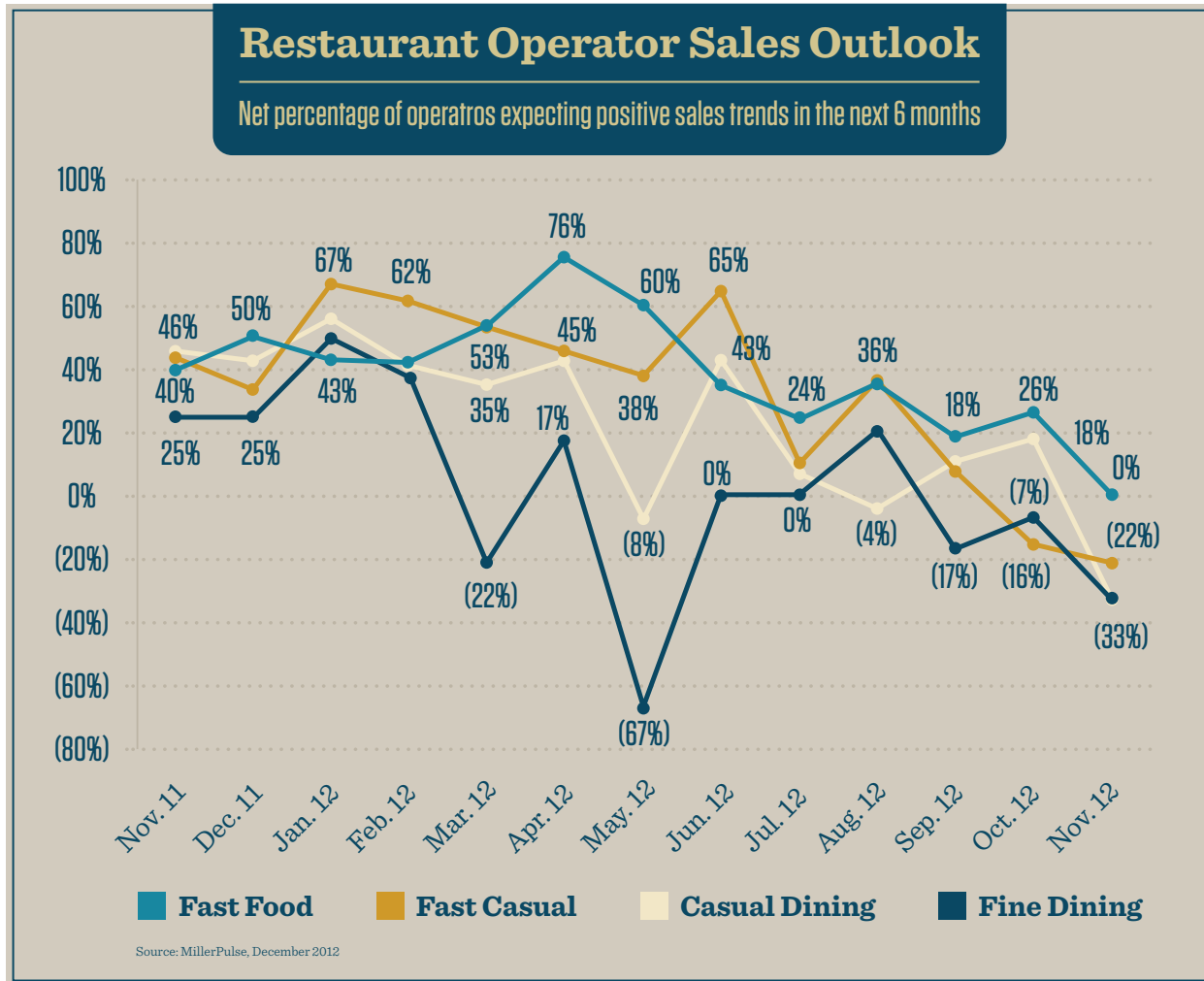
Even with industry sales projections for 2013 of \$650.5B, the overall industry outlook appears shaky. The NRA’s 2012 National Household Survey indicates that only 1 out of 10 households describe the overall US economy as “excellent”, with 36% calling it only “fair” and an overwhelming majority, 53% view the overall economic situation as “poor”. Compound this with the fact that we are nearly 5 years removed from the so-called financial crash that caused the Great Depression II and to date less than half of the total jobs lost have been recovered; thus it is no surprise that consumer confidence is pretty fragile going into 2013.

Plus recent economic indicators regarding the restaurant industry’s performance are softening as we end 2012:

- Wholesale commodity prices are up 2% overall for the last 12-month period
- Same Store Sales were mixed, and softening in October
 - McDonalds Same Store Sales fell 1.8% in October for the first time since 2003



- Customer Traffic Counts had a net decline in October and this trends appears to be continuing
- The Restaurant Performance Index in October fell to 99.5, the lowest level in 14 months



In a recent article written for the NRA, Lisa Jennings suggests that restaurant operators “should prepare for another year of economic chicken, with consumers reluctant to spend until the job outlook improves, and employers unwilling to hire until household spending increases”. This pretty much sums up the potential we see for our industry in 2013, “Certain Uncertainty”.

So realizing that uncertainty is a given for 2013, how do we react and prosper in such an environment?

Keys to Success in an Uncertain Marketplace

Probably the main key to success in an *uncertain marketplace* is the foresight and ability to conduct effective “segmentation marketing” activities. Even though the restaurant industry has not, and will not fully recover in 2013, there are certainly pockets of opportunity within our marketplace. Smart marketers will map out a plan to effectively “mine these growth pockets”.

The steps to effective Segmentation Marketing.

1. Define the “Growth Segments”

First look to industry segments where growth potential is the strongest. With the nominal growth of the restaurant industry projected to be 3.8% for 2013, we need to look at industry segments that have projected growth in the 4.4 to 5.9% range (or 15 to 55% above projected average growth). And then put an increased amount of our marketing and sales efforts behind these segment targets.

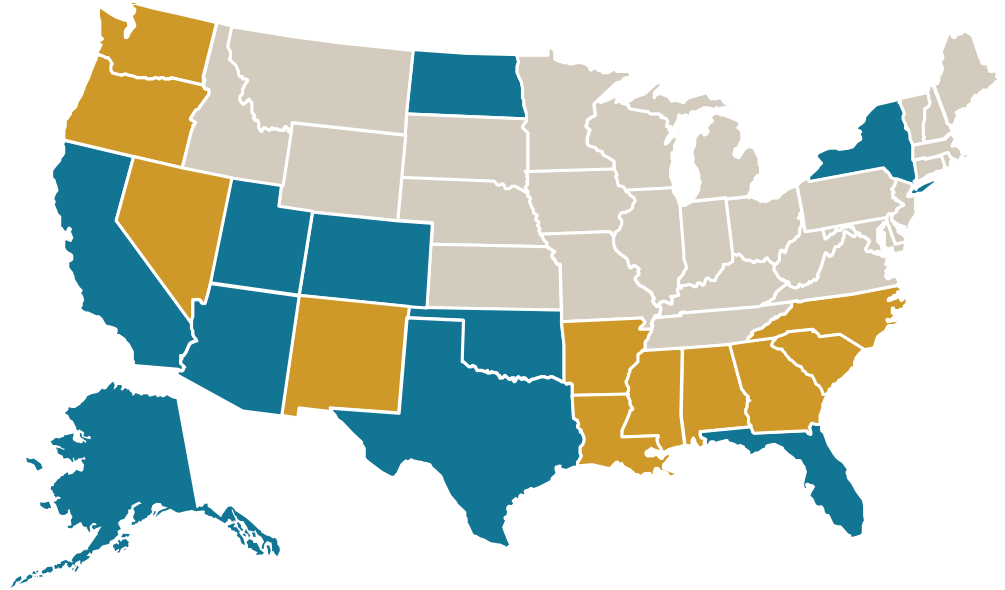
Growth Segment Targets	
Commercial Segments	Nominal Growth for 2013
QSR/LSR Restaurants	4.9%
Social Caters	5.6%
Snack & Non-Alcoholic Beverage Bars	4.3%

Note: Full service restaurant formats will continue to see soft growth for 2013, with projected nominal growth of only 2.9% (23.7% below the industry average)

Growth Segment Targets	
On-Site Operations	Nominal Growth for 2013
Manufacturing & Industrial Plants	5.2%
Healthcare	5.5% (Hospitals alone – 4.5%)
Lodging & Resorts	4.9%

2. Target “Growth Regions and States”

Growth state-by-state varies. So it makes sense to try to conduct regional and state-by-state efforts to capitalize where growth opportunities exist. If we look at projected growth on a regional level, we see that the “tidewater and sunbelt” regions swinging from Virginia, down through the South and across the Southwest over to the West coast offer the greatest opportunities.



Growth Regions and States

Top-10 Growth States	Nominal Growth
Texas	5.0%
North Dakota	4.8%
Florida	4.7%
California	4.3%
Utah	4.1%
Colorado	4.0%
New York	3.9%
Alaska	3.9%
Oklahoma	3.9%
Arizona	3.9%

Growth Regions and States

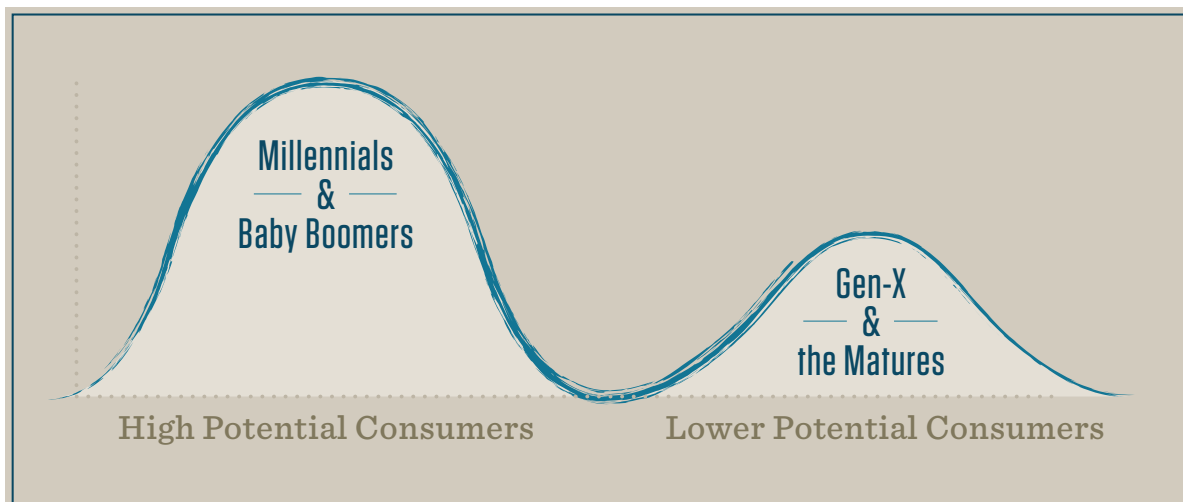
Top Regional Opportunities	Nominal Growth
West South Central (Texas, Louisiana, Arkansas, Oklahoma)	4.6%
Pacific (California, Hawaii, Washington, Oregon)	4.1%
South Atlantic (Florida, Georgia, S. Carolina, N. Carolina, Virginia, West Virginia)	4.0%

3. Target “Powerful” Consumer Demographic Groups

With consumer confidence fragile, we need to look to demographic groups that offer the most significant potential for foodservice spending and who generally have a more positive outlook about their overall economic future.

We have a “double bi-modal” consumer demographic distribution in our country with two powerful groups exercising critical influence on the foodservice industry. There are two major foodservice influencers in the Baby Boomers and Gen-Y, also known as the Millennial generation, and two lesser influencers in Gen-X and the Matures.

Boomers have been exerting influence on the restaurant industry since the 1970s, and while they are still a significant group that needs attention, the Millennials are “coming of age” and will have a major impact on the health of foodservice moving forward.



Millennials born (roughly) from 1982 through 2004 number 80 million plus (similar in size to the Baby Boomer population) and have become a significant “spending influence” on the restaurant industry.



This group is more inclined toward discretionary spending than any other of the generational groups because they have fewer financial responsibilities and less need than older consumers to accumulate wealth. Plus they remain insanely optimistic, even in the face of the current economic pressures our country faces. So they should be on everyone’s radar screen for 2013 and beyond. For complete information on the Millennial Generation please contact Mindy Armstrong.

So while the future of the restaurant industry still appears to be solid in the long term, the near term challenges will yield success to those who can navigate the uncertain terrain most effectively.

Best wishes for a prosperous New Year!