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FOOD UNDER FIRE

Handling the heat as health and safety issues reach a boiling point

Industry closes the gap

Leaky Bucket Study finds chains coaxing customers back with better service ● BY MARK BRANDAU

Over the past year, restaurants have been plugging the holes in their operations to hang on to recession-weary customers, and according to the 2010 Leaky Bucket Study, they have begun to turn the tide.

The overall industry "leak size," which measures the percentage of customers who say they're unlikely to return to a particular restaurant, fell from 36 percent in 2009 to 32 percent in 2010, erasing much of the jump from a 29-percent rate in 2008.

But foodservice brands' work is far from over. While the improvement in customer retention is significant, 48 percent of respondents still reported eating out less often, said Arjun Sen, president of ZenMango, the restaurant marketing firm that conducts the annual study.

While that number doesn't jibe exactly with restaurant industry traffic patterns, it means that even consumers who still eat out are more aware of their discretionary income, so restaurants must deliver on expectations of service every time, Sen said.

"Any time there are recessionary forces, consumers cut back on the big things but still spend on smaller things to compensate," he said. "They can't buy a car, but they can take the family out to a midscale restaurant. In nearly every occasion the restaurant has to be a compellingly better option."

The Leaky Bucket study was conducted in March among 2,483 consumers who were surveyed about 146 restaurant brands. While many restaurants' leak scores fell as fewer consumers report a reason not to return, those same customers are aware they can take their dollars elsewhere. According to the survey, 35 percent of respondents began purchasing more food from grocery stores last year, while 25 percent reported opting for a replacement restaurant outside a segment.

"Consumers are choosing from staying in, to [prepared food from] grocery stores, to dining at competing restaurants outside a category," Sen said. "When they're coming to a restaurant, they've got different expectations than before, and they've done their homework."

Some of the industry's largest categories improved their leak sizes from a year earlier, due in large part to a reduction in service or price as a reason for leaving a brand, Sen noted. Bakery's leak size fell from 39 percent to 33 percent, led by a 14-percent decrease from Corner Bakery.

Meanwhile, the burger category fell from 33 percent to 27 percent, stemming from a 4-percent improvement in service leak for the category.

Coffee's leak size also dropped from 33 percent to 27 percent, powered by Seattle's Best's 16-percent overall improvement.

The bar and grill category's 3-percent drop in overall leak size comprised improvements of 4 percent for service and 3 percent for price, even though food was cited more as a reason for leaks in 2010 than in 2009 — 30 percent to 25 percent.

To Sen, that denotes a need to focus on customer service when menus and similar promotions, like recent ones built around the $20 price point at Chili's and Applebee's, leave a category undifferentiated for consumers.

"If you get somebody in a deal, you could lose that person to a better deal," Sen said. "Having a two-for-$20 alone isn't good enough, because I could do two-for-$19, and then somebody would do two-for-$18. You can't own a price point alone. You need a better experience as well."

Aggressive pricing also makes customers wary of getting less for their money, he added.

2010 excerpt of The Leaky Bucket Study

	2010 LEAK SIZE (%)	2009 LEAK SIZE (%)	LEAK CHANGE * ('09 VS. '10, %)	FOOD	MENU	ATMOSPHERE	PRICE/VALUE	LOCATION	SERVICE	FAMILY-FRIENDLY
OVERALL	32%	36%	-4%	31%	21%	15%	29%	33%	18%	16%
BAKERY	33%	39%	-6%	30%	29%	23%	35%	42%	23%	19%
Corner Bakery	27	41	-14	28	15	15	13	27	6	5
Panera Bread	24	27	-3	22	26	15	42	35	12	12
BAR & GRILL	34%	37%	-2%	30%	22%	15%	36%	38%	18%	16%
Applebee's	32	29	2	37	28	19	44	32	22	12
Buffalo Wild Wings	36	39	-3	39	34	22	40	37	19	19
Cheesecake Factory	35	34	1	21	19	21	53	60	18	14
Chili's	29	31	-2	31	23	13	30	33	18	14
Ruby Tuesday	32	34	-3	25	25	18	41	38	21	16
T.G.I. Friday's	27	33	-6	25	22	12	33	36	11	10
BURGER	27%	33%	-6%	32%	22%	14%	30%	31%	18%	16%
Burger King	23	20	3	45	34	23	23	22	24	12
Carl's Jr.	19	37	-18	23	20	7	27	23	12	32
Hardee's	30	31	-1	28	25	24	32	46	25	13
Jack in the Box	22	43	-21	38	23	14	33	24	15	9
McDonald's	17	17	0	50	34	24	26	14	19	10
Wendy's	18	20	-2	36	21	13	19	23	12	8
CHICKEN	28%	33%	-4%	29%	17%	13%	29%	27%	16%	16%
Boston Market	40	35	5	38	30	21	44	42	20	17
Chick-fil-A	27	32	-5	29	20	20	25	42	13	12
KFC	24	23	1	36	18	14	27	16	13	4
COFFEE	27%	33%	-6%	27%	22%	13%	32%	24%	23%	17%
Caribou Coffee	36	37	-1	25	18	7	29	23	34	18
Seattle's Best Coffee	22	38	-16	32	23	18	14	23	21	18
Starbucks	22	24	-1	23	26	13	54	24	14	15
FAMILY STYLE	33%	37%	-5%	32%	22%	19%	27%	37%	20%	17%
Bob Evans	28	38	-10	39	10	12	20	27	16	25
Denny's	36	36	0	31	20	20	25	36	20	12
IHOP	29	30	-1	28	18	14	24	35	13	10
Steak 'n Shake	26	41	-15	32	18	19	25	37	26	11
MEXICAN	31%	35%	-5%	39%	18%	12%	23%	26%	23%	19%
Chipotle	30	37	-7	37	26	17	32	38	17	15
Qdoba	32	39	-7	34	23	15	45	42	21	23
Taco Bell	18	19	-1	36	22	13	18	19	11	9
PIZZA	33%	35%	-2%	36%	22%	18%	24%	32%	15%	12%
Domino's	32	31	1	45	19	14	23	19	9	6
Little Caesars	33	30	2	41	23	22	25	27	16	12
Papa John's	26	33	-7	40	21	16	30	23	16	11
Pizza Hut	24	25	-1	31	17	11	32	22	16	8
SUB/SANDWICH	32%	34%	-2%	34%	19%	15%	29%	32%	18%	17%
Arby's	30	27	3	40	31	19	39	31	21	12
Quiznos	33	33	0	28	22	12	31	29	11	10
Subway	17	16	1	32	23	16	31	16	16	13
SWEETS/TREATS	32%	35%	-3%	26%	21%	13%	29%	36%	12%	14%
Dairy Queen	30	28	2	32	24	17	29	34	15	11
Dunkin' Donuts	28	26	2	31	20	8	18	30	7	6

* DIFFERENCES MAY NOT BE EXACT DUE TO ROUNDING

SOURCE: ZENMANGO

"Consumers are realizing that these deals aren't coming for free," Sen said. "They're apprehensive, thinking that you must be doing something and cutting corners everywhere."

He suggested enhancing experience perceptions with touches that may cost more from the labor side, like sampling. But short-term pain in labor costs might be necessary for long-term profitability, he said.

"Fight to hold on to this customer," Sen said. "If they come back, somebody else lost their business. ... If I can make the customer win, then the customer will make me win long term." ■

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