THE EATING OUT MARKET IN THE UNITED STATES

HIGHLIGHTS

In 2001, total restaurant – industry sales are projected to reach a record $399.0 billion, equal to 4% of the U.S. gross domestic product (GDP). The forecast by the National Restaurant Association predicts that top-line sales for foodservice will rise 5.2%, or an inflation-adjusted 2.7%, over total sales of $379.2 billion for 2000. The industry should post its 10th consecutive year of real sales growth.

The restaurant industry employs 11.3 million people, making it the nation’s largest employer outside the government, providing a ladder to management opportunities for many. Tableservice-restaurant operators report that more than eight out of 10 salaried employees started as hourly workers.

There are 844,000 locations nationwide that offer foodservice up from 491,000 in 1972. The restaurant industry share of the food dollar today is 45.8%, compared with only 25% in 1955. Projections indicate that by the year 2010, 53% of the food dollar will be spent on food away from home.

- Food and drink sales at lodging places are projected to reach $20.1 billion in 2001 a gain of 2.7% in real terms. The market’s growth is expected to be below the 3.4% inflation adjusted pace of 2000 because of slower growth in personal and business travel.

- The hotel restaurant segment is by far the largest in the lodging place market. This segment’s food and drink sales should expand 2.9% in 2001 to hit $19.3 billion, would offset inflation adjusted declines of 6.6% in motor hotel restaurants and 4.3% in motel restaurants.

- Overall, food and drink sales have been declining as a percentage of total lodging place revenue, in part because lodging prices have risen at a faster pace than food and drink prices. Also, a growing number of lower priced hotels that offer free breakfast but no other meal service has driven down percentages. Sales of alcoholic beverages also have declined as a percentage of total food and drink revenue.

- Sales at quickservice restaurants are expected to exceed $111.9 billion in 2001, representing a 4.4% increase over the segment’s 2000 sales level of $107.3 billion. In inflation adjusted terms, sales at quickservice restaurants are projected to increase at a 1.8% rate in 2001, down slightly from the 2.1% gain in 2000.

Overview

The projected slowdown in real sales growth is the result of somewhat slower growth expected in that national economy, as well as slower unit growth within the quickservice segment. There is currently a considerable amount of consolidation taking place within the quickservice marketplace, as some concepts are being taken over by other companies for either real estate
investments or to change the concept. Unit growth also is slowing as several large chains reduce the proportion of company owned restaurants in their systems and sell units to franchisees.

Sales at full service restaurants are expected to reach $143.3 billion in 2001 up a healthy 4.0% in real terms from 2000. In comparison, sales at full service restaurants posted a somewhat stronger 4.6% real advance in 2000. Considering the impact that spiralling prices for gasoline and home heating fuels coupled with strong spending on durable goods is having on the typical family, full service restaurants are showing surprising strength. Just a few weeks ago, this type of pressure on the consumer’s pocketbook might have dampened industry sales growth more than it did this past year. So, what’s different about 2000, and will it continue in 2001?

Clearly a strong economy coupled with high levels of employment and buoyant consumer confidence has helped to maintain industry growth. Favourable demographics and changing attitudes about how we socialize are playing important roles as well.

As essential component of consumer lifestyles, the restaurant industry is projected to post a solid 2.7% gain in real sales in 2001. Driven by growth in the number of higher income households – which are prime restaurant customers – as well as by a growing need for convenience and value, the restaurant industry should benefit from continued gains in consumers’ real disposable income in the positive economic environment expected for the coming year.

Environment

Despite such upbeat predictions, the restaurant industry remains a very competitive environment. Almost three out of four consumers report that they have more restaurants to choose from today than they did two years ago. So it’s not surprising that restaurateurs are paying more attention to design, décor and atmosphere in order to differentiate themselves from the growing competition. After years of seeking competitive advantages through food and service, more restaurateurs are focusing on another frontier – their restaurant’s physical setting.

It appears that food, service and the physical setting have different degrees of importance in generating overall customer satisfaction. Customer satisfaction with food and service has been and continues to be of utmost importance, which is why restaurateurs devote most of their attention to those elements. If food or service does not meet customers’ expectations, satisfaction with the physical setting is likely to be insignificant.

Once the food and service expectations are met, however, the importance of the restaurant’s setting in generating satisfaction depends on the type of experience the customer is seeking. In general, the physical setting is of less importance at midscale or family type restaurants where customers spend less time and are usually interested in just getting something to eat quickly. At the other end of the spectrum, upscale dining places where diners are most likely to linger and make
their meal more of an occasion – the setting is a very important part of the dining experience.

A recent survey contains several indications that restaurateurs are placing increased emphasis on design and décor. Restaurateurs seem particularly determined to keep their settings from becoming dated or tired.

**Labor Trends**

While the restaurant industry has reaped the benefits of the strong economy in recent years, it also has faced its less pleasant consequences. The unemployment rate continues to hover at a 30 year low, which bodes well for restaurants’ sales but not for the labor pool.

Respondents to a recent survey identified recruiting and retaining employees as the biggest challenge their businesses are likely to face in 2001, continuing a long term trend. Today, operators face the challenge of not only finding employees but also retaining them.

In a market place faced with decreasing numbers of qualified workers and rising turnover rates, training has become an important tool for restaurant operators. More than half of the respondents said that they had expanded employee training in 2000, and a similar proportion planned to increase training in 2001. In addition, more than half of the quickservice respondents indicated that they would allocate a larger proportion of their budgets for training in 2001.

*Source: National Restaurant Association*