



Helping Our Customers Fight Back

July 2008



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The Inflationary Environment



What's happening today?

- Margins – and customers – are being squeezed from all sides.
- Food inflation is at its highest rate in almost 17 years.
- Oil has eclipsed \$140 a barrel. The gallon cost of fuel is up over 45% from 2007.
- Consumer confidence is at its lowest point in almost 30 years.
- April's Consumer Price Index for urban consumers was up 3.9 percent over April 2007.
- The housing market crisis has greatly reduced the equity in our homes.
- Consumers are taking greater advantage of deals, coupons, and value offerings.
- Restaurant customers are spending less, trading down, and cooking at home more in an effort to save money.

How long will these conditions last?

Typically, food price swings go through cycles and can last a few years. The forces are usually fairly elastic, and prices contract. This new swing is different. Based on the world's increasing demand for a higher protein diet and use of grains for fuel and, added to more typical trends like soaring energy costs, food prices will rise beyond inflation for the next few years.



The Inflationary Environment



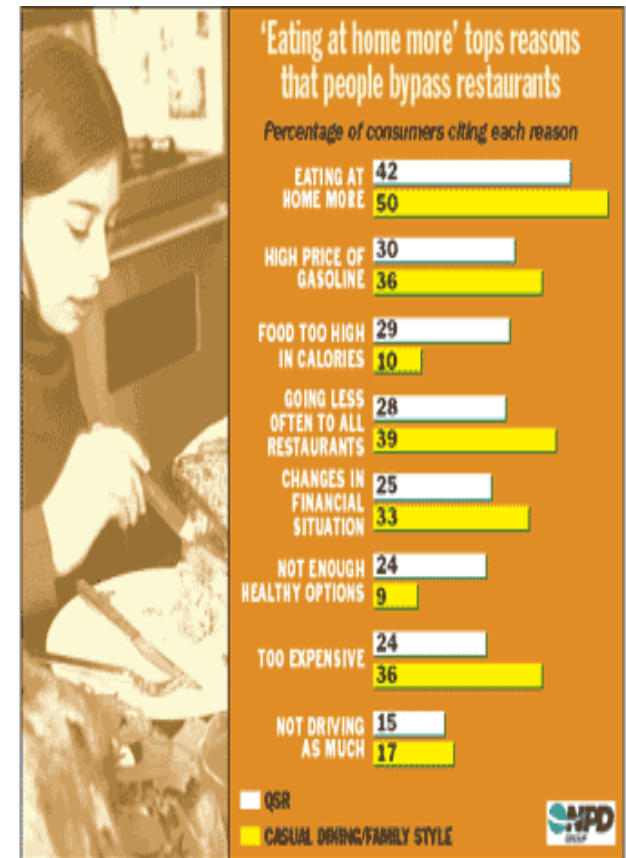
What does this mean for the foodservice industry?

Consumer purchasing patterns are changing as a result of the economic situation. Customers are stating that they are **eating at home more** in times of financial strain.

Even when preserving frequency of foodservice visits, they are aggressively managing their spending and reducing check size, i.e. ordering less or fewer “extras.”

Regardless, the foodservice industry is expected to experience modest growth in 2008 in spite of the sub prime meltdown, a volatile stock market and increasing energy prices.

To win with consumers and offset the decline in restaurant visits, it will be important to **promote value and better manage the menu and costs.**





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Update your menu

- Identify the velocity and profitability of all items on your menu. It's essential you know what to keep, where to take a price increase, and where to cut items. Your menu is valuable real estate. Each item has to exceed your customer's expectation.
- Add more profitable menu items such as coffees, smoothies, and non alcoholic beverages.
- Reduce portion size and pricing as necessary. Smaller portions can offer added variety and increased customer satisfaction. Miniaturization and half portions are also very popular today.
- Offer daily specials that enhance profitability. Your daily specials should be a proving ground for items that can migrate onto your everyday menu.
- Reprint menus quarterly, or as needed, to keep pace with rising food costs.
- Raise prices if necessary.
- Work with your marketing associate to find value added and further processed items that reduce cost, save labor, and increase customer satisfaction.

SYSCO can provide foodservice operators tactics and strategies to employ in these tough times.



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Adding More Profitable Menu Items - Beverages

The non-alcoholic beverage category represents one of the most diverse menu parts in the restaurant industry.

Coffee has evolved from its position as America's favorite morning drink to a favorite anytime drink.

- Made-to-order gourmet coffee beverages have long since emerged from the sole provenance of specialty shops. Mainstream chain operators continue to innovate in this sector.

“Mock-tails” are adding allure to restaurant menus.

- Mock-tails are positioned well for restaurant patrons who are looking for an experience while dining out and are willing to try a new drink. Mock-tails offer guests the option to purchase a premium, non alcoholic drink that is comparable in composition to its alcohol-based counterpart. **These tasty mock-tails appeal to adventurous health-conscious consumers.**

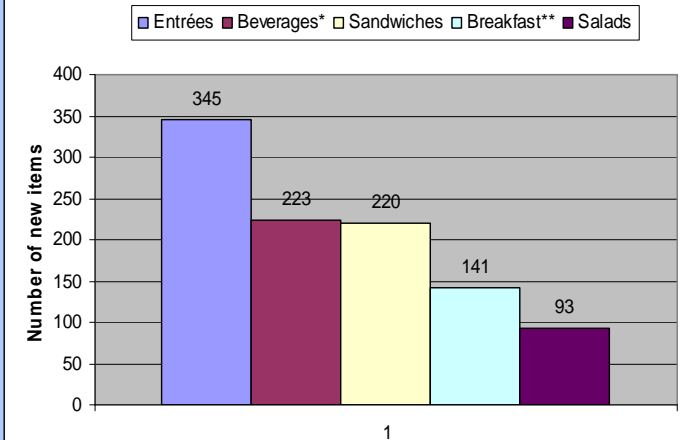
Super fruits are the rage in smoothies and other functional beverages.

- They are appearing on a rapidly increasing number of menus. Super fruits like pomegranates, cranberries, and blueberries are considered “super” based on their nutrient density and array of antioxidants. They're turning up in beverages of all varieties, including juices, smoothies, enhanced waters, sports drinks, and energy drinks.

More and more coffee drinks are thought of as dessert, especially among younger consumers. These specialty coffee drinks are served with toppings typical of desserts, such as whipped cream, sprinkles, nuts and chocolate chips.¹ - Technomic



Number of New Items added to top 200 Menus



¹Source: [Beverages Are Hot](#) Rita Negrete, Senior Editor



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Snacking, Bundling and Miniaturization of Menu Items

Snacking and bundling in particular represent prime new-product opportunities. Many restaurants have also looked to making miniaturized versions of their popular items in order to increase sales.

Snacking and other “mini meal” occasions are another opportunity to build day-part business (and also offer more options for portion size).

- Limited service restaurants have effectively targeted snack occasions with mini sandwiches (e.g., Quiznos’ Sammies line), appetizers and dessert-oriented treats.

“Full Service Restaurant chains are trying to boost bar sales with improved adult beverages and accompanying snacks to allow for new occasions during “happy hour” and late-night as well as up-selling during dinner.”

Bundling menu items together can create a better perceived value and increase sales.

- Many restaurateurs have chosen to combine popular menu items in order to increase the value of an entrée as well as gain exposure to some high profit items.

“Applebee’s same-store sales rise on the successful promotion of Applebee’s Ultimate Trios...” - Applebee’s same-store sales rise, Kansas City Business Journal April, 11, 2008

Fast Food Restaurants	Snack Attack? ¹
McDonalds	Snack Wrap [®]
Taco Bell	Fourth Meal [®]
KFC	KFC Snacker [®]

Full Service Restaurants	Trends ¹
Chili’s	Chili’s Sweet Shots [®]
Applebee’s	Ultimate Trios [®]
P.F. Changs	Mini Desserts [®]



Applebee's Ultimate Trios[®]

Chili's Sweet Shots[®]

KFC Snacker[®]



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Examples of miniaturization

Long John Silvers	Buttered Lobster Bites - They're back! The ultimate indulgence of Buttered Lobster Bites is back and just in time for the holiday season. Our customers love the taste of REAL Langostino Lobster Tail, dipped in a buttery breading and fried to a golden brown.
Arby's	Southwest Mini Egg Rolls - Filled with a zesty combination of 100% natural chicken, bell peppers, corn, black beans and jalapeno peppers flavored by a spicy Southwestern seasoning. Served with a creamy Monterey Jack and Cheddar Cheese blend.
Tony Roma's	Tony's Tenderloin Sliders - Thick cut and juicy beef tenderloin seasoned with TR's special blend of spices on three hand made rolls. Served with a tangy, stone-ground mustard sauce and crisp lettuce.
Applebee's	Mini Bacon Cheeseburgers - Two juicy 100% Angus beef burgers topped with melted cheddar cheese and hearty Applewood smoked bacon.
Bennigan's	Chicken Mini's - Mini chicken sandwiches, fried golden brown and served with lettuce and Smoky Dijon dressing.
Wiener-schnitzel	Chipotle Ranch Pupsters - A pair of spicy mini sandwiches made with Wienerschnitzel's Original Hot Dog on a King's Hawaiian Sweet Roll and topped with Tabasco brand Chipotle Pepper Sauce, onion straws, Ranch dressing and pickle chips.
Damon's	Angus Kobe Mini Burgers - Seasoned premium Angus-Kobe beef, kosher pickles and tomatoes on lightly buttered and toasted buns. Accompanied by giant house-made crunchy potato chips.
Pizza Hut	Cheesy Bites Pizza - A one-topping pizza with 28 cheese-filled, bite-size pieces replacing the traditional crust.
Sonic	Cheesecake Bites - It's cheesecake, only served up in tasty little bite-sized morsels. So you can treat yourself when you're on the go.
TGI Friday's	Mini Dessert Shots - Choose two: Rocky Road, Chocolate Raspberry, Peanut Butter Cup, Chocolate Chip Mint, Orange Cream



Helping Our Customers Fight Back



iCare Solutions - Menu Development & Feedback- www.syscoicare.com

Leverage iCare partners' expertise to fight back.
Address **critical decisions** related to the menu and customer service.



Operators need to view their menu as valuable real estate. Items that aren't earning their keep (contributing toward the bottom line) need to be very carefully considered. Focus Marketing consults restaurateurs on hard decisions like taking items off the menu and raising menu prices to re-engineer the menu toward profitability.



Obtain valuable customer feedback on menu items and the dining experience. A successful comment card program, or any other guest communication methodology, must enable operators to:

- Analyze** performance in key areas;
- Respond** to guests when appropriate;
- Increase** repeat business.



Lack of suggestive selling leaves between \$5 and \$15 on the table with every customer visit. National research shows that this impacts the overall customer experience and related loyalty. Mercantile Systems delivers 65 points of actionable detail from parking lot to plating, service to suggestive selling.



WE WELCOME YOUR COMMENTS

We strive to give you the best service and quality possible. Comments and suggestions are appreciated. Please place your card in the comment card box. Thank you.

O'MALLEY'S PUB

YOUR NAME _____
 ADDRESS _____
 CITY _____
 STATE _____ ZIP _____
 PHONE # _____
 EMAIL _____

This information is held in the strictest confidence and will not be given away or sold to anyone.

DATE _____ TIME _____ am/pm
 SERVER _____
 FOOD ORDERED _____

Please grade our performance

	A	B	C	D	F
Hostess friendliness & efficiency					
Food server friendliness & efficiency					
Speed of service					
Quality of food					
Overall value					
Restaurant appearance					
Willingness to recommend					

Is this your first visit? Yes No

What made you think about O'Malley's today?
 ___ Word of Mouth ___ Yellow Pages ___ Signage
 ___ Advertisement ___ Repeat Customer ___ Other

COMMENTS: _____

Thank you

Includes your own "look and feel"

Used for follow-up customer communication and marketing

Distinguishes performance by shift and server

Quantifies service, quality of food, perception of overall value, restaurant appearance and willingness to recommend

Identifies first-time customers

Measures how well your marketing dollars are being spent

Helps determine what kind of response letter is needed



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Connect with your customers

- Every operator needs to collect and maintain current customer contact information.
- It's crucial that operators understand their customers' demographics and what motivates them to buy. This can be done through surveying, comment cards, secret shoppers and open communication.
- Once you define who your customers are and what motivates them you need to communicate your value proposition to them. Successfully communicating your establishment's value proposition is key to driving customer traffic.
- E-mail, direct mail, print, web-based marketing and mobile messaging are all effective mediums of communication. By varying the type and frequency of each campaign you can identify what communicates your message best to your customers.
- Special offers, theme nights and a robust calendar of events gives your customers a reason to frequent your business.
- Effective marketing adds value to your relationship with your customer and gives them a reason to return.
- SYSCO iCare has the industry's premier partners that can help you connect effectively with your customers.

SYSCO can provide foodservice operators tactics and strategies to employ in these tough times.



Helping Our Customers Fight Back



iCare Solutions - Innovative Marketing – www.syscoicare.com

As operators better understand their customers and target markets the need for innovative, turn key marketing partners become apparent. iCare partners help provide these solutions.



Increase traffic through email marketing and mobile messaging

- Empty tables = lost profit. Email marketing and mobile messaging is one of the most effective ways to get customers in your door and fill tables.
- **Fishbowl** equips restaurant and chain operators with tools to increase guest frequency and drive restaurant traffic.



Understand your customers with better communication

- **INSIGHT's** guest feedback management service gathers valuable information from your guest's perspective.
- Average restaurants receive 75% of sales from repeat customers; knowing what they think, responding to their commentary, and communicating upcoming events or promotions is an effective way to grow your business.



Identify and attract new customers in your target market

- "On Target" direct mail from **Marathon Press** helps you identify your ideal customer and make it easy for you to send them a professionally produced color postcard.
- Direct mail including a gift is also an effective method to reward your regulars on birthdays, anniversaries, and special occasions.



Compel hungry patrons to dine at your restaurant with online dining certificates

- Improve web reach with **restaurant.com's** profit improvement system and web tools (photos, mapping, online reservations, general info, wine list and more).
- Dining certificates are an effective tool to improve profits and fill tables during slow day parts.



Advertise to increase brand awareness in the community

- The restaurant heading is the #1 referenced heading in the yellow pages directory.
- An advertising campaign can help you gain exposure over competitors and increase take-out sales with menu placements.





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Operate More Efficiently

- Operators must maximize all areas that drive profit. This means reducing errors and overcoming operational challenges in your bar and kitchen areas.
- Consider consolidating your sources of supply. It will help reduce the hours used to receive and put away orders while adding back additional resources to run your operations. It will also reduce the number and amount of overall fuel surcharges paid.
- Manage the yields on the products prepared and enforce stringent recipe adherence and portion control standards.
- Train, re-train and continue training your staff to maximize their efficiency.
- Spend as much time with your staff as possible in a mentoring, hands on role.

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Go Green!

- Reduce your energy consumption by monitoring energy usage and work with your team to lower it.
- Recycling services exist for many waste products such as glass, plastic, metal, cardboard, mixed paper, grease, ink and toner cartridges. Food waste can be diverted from landfills and made into nutrient-rich soil through the use of a composting service or an on-site system.
- Replace outdated light bulbs with more energy efficient models.
- Save water and eliminate bottle waste by considering a filtered water system.
- Benefit from community goodwill and increased brand equity as a Certified Green Restaurant.

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Helping Our Customers Fight Back



iCare Solutions - Operational Efficiency- www.syscoicare.com

Leverage iCare partners' expertise to fight back.

Address **operational efficiencies** in both back and front of house

BEINCO

Increased Profits

- Bars give up about 20% of annual sales to over pouring, illicit freebies and theft.
- Eliminate lost profit and add it back to your bottom line.
- Guaranteed to increase profits by 10% of alcohol sales and reduce shrinkage to 5% or less.



Go Green!

Benefit from goodwill, controlled costs, increased consumer demand and improved employee morale. The Green Restaurant Association (GRA) www.gra.org drives traffic through:

- Public relations events
- In-restaurant green marketing (i.e. certification credentials)
- Inclusion in the Certified Green Restaurant™ Guide
- Media exposure, i.e. CNN, *Wall Street Journal*, City Publications
- Recycling, composting and trash reduction programs.





Helping Our Customers Fight Back



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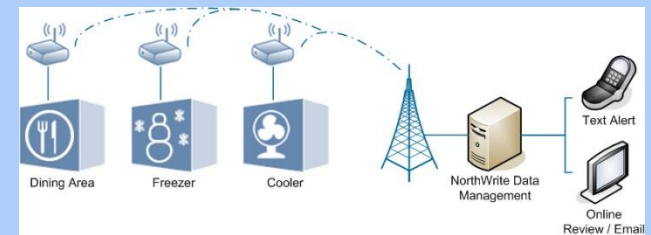
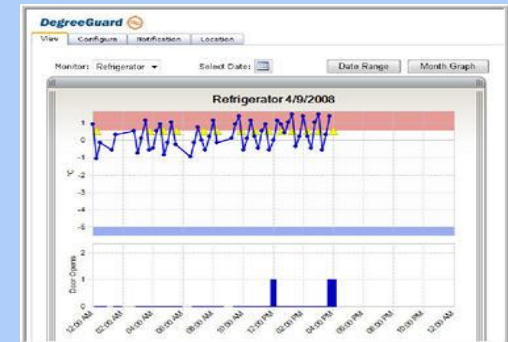
Leverage iCare partners' expertise to fight back.
Address **operational efficiencies** in both back and front of house



Financial success also means controlling rising costs, including one of the most volatile - *energy*. Tradition Energy, a full-service energy management advisor and one of the nation's largest energy procurement firms, advises food and beverage customers on how to purchase, use and manage energy to achieve greater efficiency and effectiveness in their operations. It requires very little time and no cost obligation.



DegreeGuard™ monitors temperatures of coolers and freezers, ensuring equipment is operating correctly, doors are properly closed and energy is not wasted. DegreeGuard's dining area temperature monitoring can guarantee that you're not over-heating or cooling your restaurant. EnergyGuard™ helps you benchmark your energy use to see if you have significant opportunities for savings compared to your peers.





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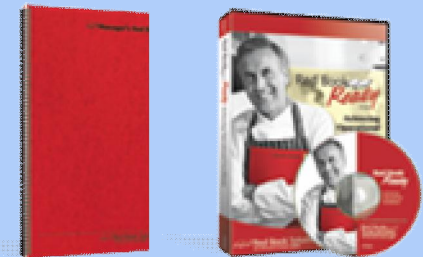
Practical, customized management solutions, to help improve decision making and increase operational efficiencies, customer satisfaction, profits and revenue. Products include:

- The Managers Red Book
- Service That Sells! training
- Hands-on workshops
- Daily Inspector/Food Safety/Line Check book
- Requested Days Off and Shift XChange books



Sullivision's books, DVDs and posters are designed to help owners and managers train teams effectively in areas that matter most, including:

- Building sales
- Energizing service
- Controlling costs
- Driving more customer traffic
- Hiring and retaining high performers
- Leadership skills for managers





Helping Our Customers Fight Back



Conclusion-

Operators need to be aware of the current economic climate and make changes to weather the “perfect storm.”

Operators need to view their menu as valuable real estate. Each item offered has to exceed their customers’ value expectation and the operation’s profit needs.

Operators need to understand who their customers are and what motivates them to purchase. Once you know who your customers are, you need to effectively market your value proposition to them to increase traffic and enhance customer loyalty.

Operators have to train, and retrain, their employees to insure they are producing at peak performance. They need to spend as much time as possible with their staff in a mentoring, hands on role.

SYSCO can provide foodservice operators tactics and strategies to employ in these tough times.



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Conclusion-

Operators need to maximize the areas in their operations that generate profit through error reduction and improved efficiencies. They also need to reduce energy and waste, and move towards more “green friendly” operations.

SYSCO Associates and programs, such as Business Review and iCare, are positioned to support our customers through these difficult times. SYSCO customers should leverage these people and programs to help them run successful operations.

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