

Restaurant Industry

2005

Small Business & Technology
Development Center

NC SBTDC Restaurant Industry Study

Americans eat out a lot, and you want to profit from that trend. With diet fads, food costs rising, food safety scares, staffing problems, and stiff competition this is not the business for the faint of heart. Many great chefs have failed; so success will require careful planning, financial savvy, and great managerial skills. The topics included in our study discuss current industry practices and the major trends. A resource section is included to help you tailor the information to your own business.

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National Overview

US Sales Stats

The Restaurant industry's sales equal 4 percent of US gross domestic product

Restaurant industry sales are forecast to reach a record \$476 billion in 2005

On a typical day in 2005, the restaurant industry will post average sales of more than \$1.3 billion

The Mountain region is projected to set the pace with restaurant growth of 6.1 percent in 2004. The South Atlantic and Pacific regions are expected to post restaurant sales gains of 5.1 percent.

2004 will mark the 13th consecutive year of real sales growth for the industry

Commercial cafeterias had a 10.2% decline in sales compound annual growth rate from 2001-2004

Snack and nonalcoholic beverage bars showed a 9.3% increase in sales compound annual growth rate from 2001-2004

Every additional \$1 million in restaurant sales generates an additional 42 jobs for the nation's economy

Every dollar spent by consumers in restaurants generates an additional \$1.98 spent in other industries allied with the restaurant industry

Source: National Restaurant Association

Restaurant dining and takeout food accounted for 41% of food spending in 2003.

Source: Advertising Age 2/7/05

The restaurant industry is divided into 3 segments.

Fullservice-waiter/waitress service is provided, and the order is taken while the patron is seated

Fast Food or Quickservice-Patrons generally order at a cash register or select items from a food bar and pay before they eat.

Managed Service-onsite foodservice and food contractors

Source: National Restaurant Association

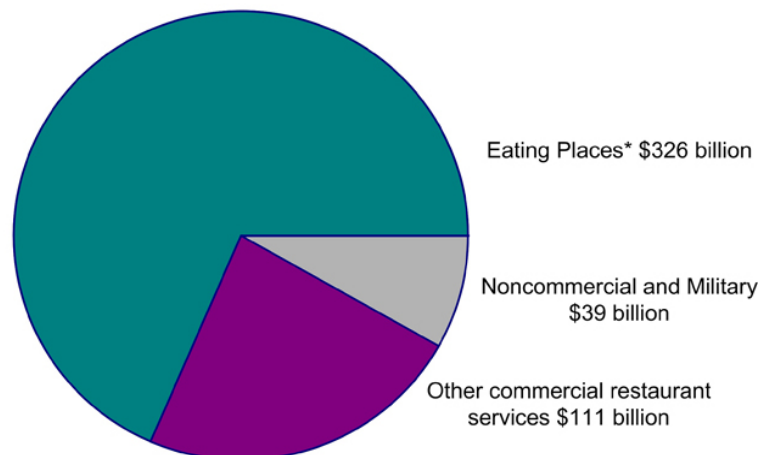
Full Service—Driven by growth in disposable income, a decline in the price difference between dining out and cooking at home, and an increase in the number of dual-income and single parent families, the full service sector's demand has remained strong despite a weak economy. Since 2000, sales have been increasing at a compound annual growth rate of 4.0%. Since the beginning of 2002, companies have accelerated their capital expenditures on new units. This trend bears watching.

Fast Food—Sales gains have lagged those of the full service sector, due in part to competition. Fierce price discounting by McDonald's and Burger King assisted in creating an atmosphere where same-store sales and profitability suffered for the sake of creating traffic.

Source: Standard & Poor's

Restaurant Sales By Segment

Foodservice operations within the Commercial Services group account for approximately \$437 billion of the industry's anticipated \$476 billion in sales



*Eating places include fullservice restaurants, limited service, commercial cafeterias, social caterers, and snack and nonalcoholic beverage bars

Source: National Restaurant Association

National Overview

Four out of 10 adults have worked in the restaurant industry at some time in their lives

With 12 million employees, the restaurant industry is the largest private sector employer in the US

Hispanics compose 11 percent of all employed civilians in the US, but made up 17 percent of eating and drinking employees in 2002

Nine out of 10 salaried employees at tableservice restaurants began their careers in the restaurant industry as hourly employees
Source: National Restaurant Association

Typical Restaurant Employee

Female -55%
Under 30 years old-52 %
High School grad or less-64%
Single-68%
Lives in household with relatives(79%)

Typical 1st line Supervisor

Female-53 %
White-72%
Under age 35-52%

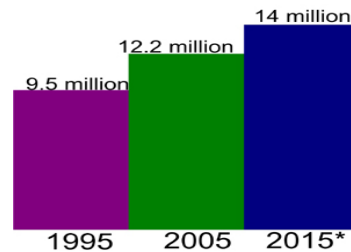
Typical Foodservice Manager

Male-52 %
White-72%
Between 25 and 44 years old-53%
Source: National Restaurant Association

Workforce

A large portion of the restaurant industry workforce is made up of teenagers (one out of five is between 15 and 19). The labor force participation rate for teenagers has sharply declined--71.8 percent in July 1978, 66.6 percent in July 1995, and 53.7 percent in July 2003. As a result, some restaurant operators are looking to nontraditional sources to fill their positions. One source is the older worker. Currently 10 percent of eating and drinking place employees are 55 or older. Restauranters are taking steps to improve employee retention rates and as a result have seen improvements in service.

US Restaurant Employment



Source: National Restaurant Association

Turnover

Median turnover rates for quickservice restaurants in 2002 were 80 percent for all employees, 50 percent for salaried employees and 96 percent for hourly employees.

2003 Quickservice Survey participants considered the optimal turnover rates for salaried employees to be 15 percent and 75 percent for hourly employees.

Median turnover rates for tableservice restaurants in 2002 were 33 to 38 percent for salaried employees and hourly was 53 to 67 percent. Optimal turnover rates for tableservice operators were 8 percent for salaried and 25 percent for hourly.

Benefits

Three-quarters of operators offer paid vacation and seven out of 10 provide bonuses or incentives.

Three out of five operators provide either fully or partially paid health insurance and close to half provide sick leave.

Source: National Restaurant Association

Industry Structure

31 US chains have annual sales greater than \$1 billion

Small operators run 7 out of 10 restaurants
Source: National Restaurant Association

Food services and drinking places rank 77th on the BizMiner's Business Risk Index with 68.9% being profitable
Source: BizStat.com

4 main categories franchisors examine

1. Capital
 2. Attitude
 3. General skills & experience
 4. Specific skills & experience
- Source: entrepreneur.com

Challenges for any restaurant

Competition-Current restauranteurs rated the level of competition on a scale from 1 to 100 as 82 in 2004 compared with 77 in 2003, and 73 in 2002

Casual Diner Profile

65.1 percent went after 4 pm
Average party size 3.7
20.8 percent had dessert on their last visit
Source: Chain Leader

Rankings-More than one in five respondents to the Tableservice Operator survey rank their top 3 challenges as:

1. Economy
 2. Building or maintaining sales
 3. Competition
- Source: National Restaurant Association

Composition

Consolidation is the long term trend in the restaurant industry. As the statistics below show, larger chains represent a significantly greater proportion of the industry's sales. This is due to the popularity of standardized menus, more cost-efficient systems, consumer satisfaction testing, and increased purchasing power. However, the small chains and independents still represent the majority (72 percent) of actual restaurant locations. Weak economic times tend to favor chains.

Source: Standard & Poor's and NPD

Total sales by type in 2002

top 100 companies	51.3%	\$143 billion
2nd 200 companies	5.2%	\$14.5 billion
Small chain/indies	43.5%	\$121.4 billion

Source: Technomic Inc

Independents' and Small Chains' Market Share of Restaurant Foods

Seafood	75%
Pasta	62%
Beef Entrees	67%
Asian Foods	96%

Source: NPD

Franchising

Franchising allows companies to expand quickly without bearing the full cost of acquiring land, buildings, and equipment. The practice involves a business contract between two companies: a franchisor and a franchisee. The franchisee pays a one-time fee, technology assistance fees, and contributes 2 to 5 percent of sales to cover advertising costs, and royalty payments based on gross receipts, often 4 to 5 percent of total receipts. The contract may cover 10 to 20 years. Franchisors enjoy superior returns without the focus on day-to-day management. Franchisees enjoy the benefits of brand-name recognition, training, marketing, and often, cooperative purchasing. Both parties face some loss of control in certain matters.

Source: Standard & Poor's

America's top Foodservice franchises for 2004*

1. Subway
2. Quizno's
3. McDonald's
4. Dunkin Donuts
5. Baskin-Robbins

*top 5 foodservice franchisees of all franchises

Source: entrepreneur.com

Trends in the Industry

Would you like bottled water with that?

US domestic bottled water consumption has increased 7 to 10 percent annually for the last two decades
Source: Restaurants and Institutions

Super Size Me, a documentary about the effects of overeating fast food, grossed approximately \$30 million
<http://www.imdb.com/news/wenn/2005-05-20#celeb1>

As a result of the low-carb dieters, two out of three quickservice operators have added low-carb items to the menu.
Source: National Restaurant Association

One out of three consumers have used curbside takeout from tableservice restaurants

Nearly half of tableservice operators report that takeout represents a larger portion of their total sales than two years ago
Source: National Restaurant Association

The National Restaurant Association lists the following top trends

- 1 Continued expansion
- 2 Heightened interest in health & nutrition
- 3 Intensified government regulation
- 4 Diversity embraced
- 5 Greater productivity through technology
- 6 Importance of tourism
- 7 Energy-cost management
- 8 Focus on service
- 9 Heightened competition
- 10 Bright future

Health

2003 saw the fast food industry hit with lawsuits alleging that specific corporations are responsible for obesity-related health problems faced by consumers—particularly children. Many chains have begun to make significant changes to their menu offerings that include more salads and low-fat and low-carbohydrate options, in response to Atkins and South Beach dieting.

Source: Standard & Poor's

Dieting

In 2004, the current diet words were low carb, Atkins, and South Beach; but next year, who can tell. It is best to offer the latest fads but not build your whole concept on a fad. It is normal for approximately 25 percent of the population to be on a diet. The most followed diet is "my own diet" with nearly seven percent following it and twenty-five percent who have previously tried it. "My own diet" is adapted from different diets to fit one's own lifestyle. In the fourth quarter 2003, 5 percent of Americans were strictly following low-carb diets and 67 percent were "watching their carbs." February 2004 saw the strict followers rise to 9% and June's level was 6 to 7%. Sales growth of low-carb foods has matched the trend of new followers. 1st quarter 2004 sales rose 95% and the 3rd quarter rate was 42%. The true increase in sales comes when non-strict adherers incorporate the diet feature into their eating habits.

Source: NPD, Research Alert and Wall Street Journal

Trends in the Industry

Top Meal Items Ordered by Casual Diners

Steak	17.0%
Chicken	14.9%
Fish/seafood	14.6%
Italian	8.0%
Salad	6.9%
Mexican	6.8%
Burger	6.7%
Ribs	5.4%

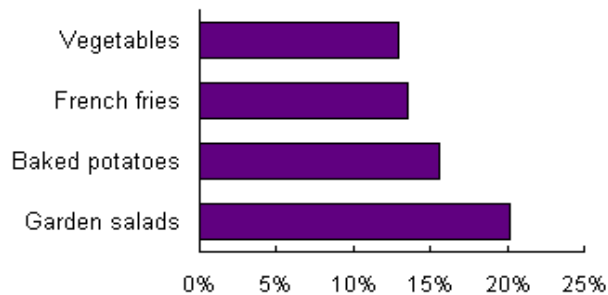
Source: Chain Leader

Takeout

The demand for takeout food is expected to continue growing as consumers continue to have very busy lives. According to Technomic, takeout sales in 2002 accounted for 74 percent of total sales at the top limited service chains. Casual dining operators are now also making strides in the takeout sector. Competition in the takeout field is steep: local food stands, casual restaurants, supermarkets. Full service restaurants must also determine demand, order size, and overcome higher labor costs to succeed in this arena. Technomic reports the 20 largest casual dining restaurants were able to accumulate \$813.4 million in sales in 2002. Thirty-three percent of consumers report using curbside takeout at a table-service restaurant.

Source: Standard & Poor's

2002's Most Popular Casual Sides



Source: Chain Leader

Financial Factors

Failure Percentage

About 80 percent of restaurants will eventually fail, with 30 percent failing in the first year. Undercapitalization and financial mismanagement are major reasons for failure
Source: Black Enterprise 2/03

Product/Cost Statistics

Food Services and drinking places are currently the top rent sensitive business with 34.2 percent of rent to profit

In spite of the high risks, food services rank 17th on the list of most popular small businesses

Restaurants are usually valued at 30-45 percent of their annual sales.
Source: BizStats.com

If you are considering purchasing a restaurant or determining how your restaurant is doing, the following quantitative and qualitative comparisons are valuable measurements of where the restaurant stands.

Quantitative Methods

Same-store sales
Average weekly sales
Operating margin
Return on assets
Cash flow

Qualitative Methods

Management team
Design of business strategy
Execution of business strategy

Source: Standard & Poor's

A nearly universal practice—Accepting credit cards

Credit Card Impact

Visa is the world's largest payment system and its holders spend over \$54 billion in quick and full service restaurants a year

Four Reasons to Accept Credit Cards

1. Customer convenience
2. Low on cash customers still patronize
3. Larger transactions
4. Increased service speed

Source: Nation's Restaurant News 8/04/03

To increase sales many companies use discounts. The most common promotion is the weekly or monthly special. National Restaurant Association's 2000 Quickservice Operator Survey states that 82 percent of the respondents engage in specials and 79 percent engage in bundled meals. Coupons and price discounts are great for increasing traffic and interest for your restaurant. However, it is important that you monitor the effect on your profit margin.

Source: Standard & Poor's

Restaurant Industry's Average Operating Costs 2003

Full Service Limited Service

Cost of Sales	31%	30%
Salaries & wages	30%	28%
Employee benefits	3%	2%
Restaurant occupancy costs	5%	7%
Other	27%	25%
Income before income tax	4%	8%

Source: National Restaurant Association

Don't forget to adequately budget for the less obvious expenses such as: insurance, office supplies, advertising, licenses, permits, remodeling.

Source: Black Enterprise 2/03

Real Estate Selection

The restaurant industry is a customer driven industry. Your location choice can make or break your restaurant. Considerations for restaurant locations include customer traffic levels, convenience, accessibility, potential competition, customer base, and visibility. Buying vs. Renting: There are pluses and minuses to both options. Buying your site requires you to have the cash, or the capability of acquiring a loan to cover the cost. If the real estate value increases, the business can benefit from that appreciation. Leasing requires less capital than purchasing, and the flexibility of closing or relocating when the lease is up. The downside of leasing is that restaurant operators often face rising rents or the loss of a good location if the owner opts not to renew the lease.

Source: Standard & Poor's and Black Enterprise 2/03

Attracting & Keeping Customers

Typical Spending

The typical American household spent an average of \$2,276 on food away from home in 2002. Seventy-six percent of meals are still eaten at home

Income

While households with average incomes of \$70,000 and over comprise 19 percent of the population, they accounted for 41 percent of total spending on food away from home

Age

Households headed by persons under 25 spent 46.8 percent of their total food dollar on food away from home, but their spending on food is well below the nation's average

Household Composition

Households consisting of a husband, wife, and children were 43 percent above the nation's average of food eaten away from home. Households that consist of a husband and wife posted the highest per-capita spending on food away from home (\$1,258)

Occupation

Managers and professionals allocated the highest proportion of their total food dollar to food away from home (48.1 percent)

Internet

Forty-five percent of 25 to 34 year olds have used the Internet to find out information about a restaurant they have not patronized before
Source: National Restaurant Association

When choosing the location, decor, and menu, it is important to consider the customer base of your restaurant. Many of the statistics below are based on the average customer. A customer's age, family status, and income level affect the type of service you would offer. Specific demographic information for your area can be found at www.census.gov.

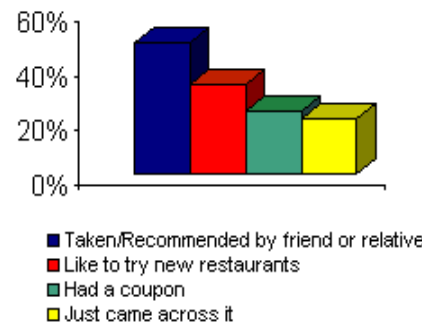
Relationship between household characteristics and expected restaurant expenditures

Characteristic	Full Service	Fast Food
10 percent increase in characteristic causes change in expenditure		
Income	+6.40%	+3.20%
Hours worked by wage earner	+ .53%	+1.44%
Size of household	- 2.25%	- 1.74%
Age of household buyer	+1.05%	- 5.99%
College educated manager	+2.15	+ .24
Single person	+2.92	+2.68
Single parent	- .83	- .83
Multiple adult w/o children	+1.98	+ .89
Asian	+ .81	+ .39
Black	- 2.87	+ .01
Hispanic	- .93	+ .14

Source: Dept of Agriculture

How to attract new customers

(Restaurants & Institutions survey)



Reason for Visiting

Circumstances for last casual dining occasion 2002



Source: Chain Leader 5/03

Attracting & Keeping Customers

Specials

9.6 percent of casual dining users took advantage of a limited time special promotion. Of those who used a deal, 38 percent learned about it at the restaurant.
Source: Chain Leader

Coupons

Surprise! Coupons are more of an incentive for households with higher incomes. Twenty-seven percent of households with incomes of \$75,000 or more cited coupons as reason for visiting a new restaurant compared to sixteen percent of those earning less than \$20,000
Source: Restaurants and Institutions

Menus

When a new product is introduced, three key elements determine its success:

1. Must meet consumer expectations and generate incremental sales
 2. Day-to-day preparation must be compatible with company standards and operations
 3. Deliver financial benefits
- Source: Standard & Poor's

Seafood & Salads

64 percent of fine dining operators say more guests are ordering seafood entrees than two years ago, 38 percent say more guests are ordering salads than two years ago.
Source: National Restaurant Association

Promoting Customer Loyalty

The main reasons customers stop visiting a restaurant are unresolved problems. The top three unresolved problems are *slow service, inconsistent food quality and service* and *food safety issues*. But customers will return for a "good value for the price" with 30 percent citing this as a reason for returning to an establishment. Other factors for returning are consistent food quality, the menu, and convenient locations. Fewer than one percent selected the following as the most important reason for returning: frequent diner program, attentive service, cleanliness, accurate orders, and convenient parking.

Source: Restaurants & Institutions 2/15/03

In an NFO Worldgroup survey of 600 restaurant patrons the 5 most important features of a quickservice restaurant were:

1. Friendly and polite service staff
2. Service staff that is knowledgeable and able to answer questions
3. Service staff that shows pride in the restaurant
4. Restaurant that is in touch with customer's special needs
5. Enjoyable overall atmosphere

Source: Restaurant Business 3/1/04

The following illustrates how important it is to build customer loyalty:

Percentage of operators who believe customer loyalty is harder to maintain than 2 years ago

Family dining 49%
Casual dining 52%
Fine dining 63%

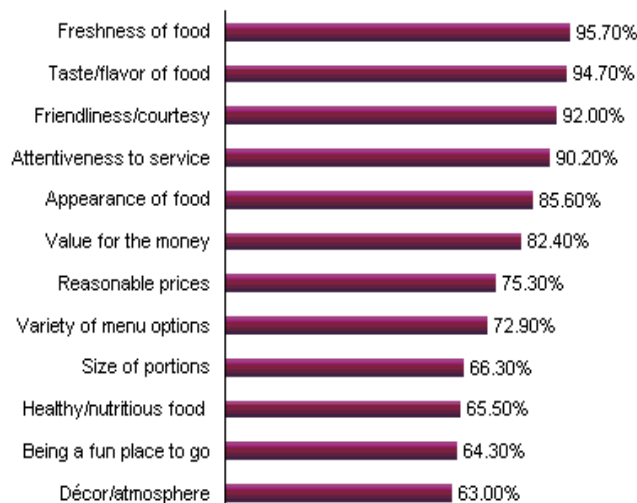
Full-service sales that come from repeat customers

Family dining 75%
Casual dining 70%
Fine dining 60%

Source: Restaurant Hospitality 2/04

Customer Ratings of Attributes

Percent rated as important or extremely important 2002



Technology

A 2001 survey of 600 unit managers and owners in the restaurant industry by the National Restaurant Association found out the following about technology usage in the restaurant industry:

More than seven out of ten survey respondents with average checks of \$25 or more report using the internet for business related purposes, compared with 47 percent of those with average checks of less than \$8

Three out of ten respondents report having a customer response email.

50 percent of survey respondents reported that they have a Website.
Source: National Restaurant Association, Restaurants USA 10/01

Some restaurants are starting to accept online reservations. OpenTable, a leader in the emerging online reservation business, has done research showing 38% of people prefer online reservations to the phone and 52% of the reservations made by their website brought diners to restaurants for the first time.
Source: Restaurant News

In the restaurant industry, competition for sales, profits, and employees is so intense, survival is not enough. In order to succeed, you not only have to keep up with your competitors, you need to stay ahead of them. Restaurants are finding that technology can provide the tools needed to advance over the competition.

Computer POS Systems

Immediate returns on upgrading to a computerized point of sale system (POS) can often be realized by businesses producing revenues of \$700,000 to \$900,000. Otherwise, an electronic cash register can probably meet your needs for less money. Sometimes owners invest in a system beforehand, to start their business in an efficient manner or for the reporting features. A POS system can help save money by optimizing inventory controls, pricing accuracy, reducing theft, and identifying low performing items. POS systems quickly provide a wealth of information such as inventory reports, customer lists, and sales reports. Lastly, they can assist in increasing productivity by decreasing paperwork and streamlining the ordering process.

Source: BusinessWeek

Management Tools

Specialized management software can quickly assemble reports that were previously available only with customized programming. Simulations can be run to see the effect of changing one item on various aspects of your business. Software can integrate sales, payroll, human resources and inventory functions. Large chains often use in-house IT staff or outside vendors to create customized applications for their business. To facilitate communication between multiple locations, web based systems may be developed to report information or send alerts to a supervisor's pager. Video surveillance is a tool that managers use to improve customer service, and reduce theft and injury fraud. Off-the-shelf systems start at \$1500. Customized systems can range from \$2,500 to \$6000 per terminal, but include hardware, software, and support.

Source: FSTEC and BusinessWeek.com

Employee training

All employee training does not have to be face-to-face. Compact discs, interactive websites, and multimedia presentations can be used to train new and existing employees. One out of ten survey participants report using CD-ROMs, and one out of three report using videos for training.

Source: Restaurant News

Communication

Computers can improve communication between employees and customers. A 2003 Imagine Cup (Microsoft competition) system allows waiters to enter orders on a PDA (personal digital assistant) and translate the order (to the chef's language). Technology can allow customers to place their own orders with touch screens.

North Carolina Focus

North Carolina's population
8,146,508 as of 2003
Source: census.gov

Total Restaurants 17,114 in NC
Source: Reference USA

2005 projected restaurant
sales in NC \$10.4 billion
Source: National Restaurant
Association

Average number of North Carolinians
employed by the Food Sector as of
2nd Qtr 2005-298,240
Source: Employment Security
Commission

From 2005-2015 restaurant jobs are
expected to increase 20.4%
Source: National Restaurant
Association

Every \$1 spent in restaurants in NC
generates an additional \$1.10 in
sales for other industries in the state
Source: National Restaurant
Association

Each additional \$1 million spent in
eating and drinking places in NC
generates an additional 37.1 jobs in
the state.
Source: National Restaurant
Association

Average NC weekly wage in the food
industry was \$214.08 as of 1st Qtr
2004
Source: Employment Security
Commission

NC average household size 2.49
people
Source: www.census.gov

Median NC household income is
\$39,184
Source: www.census.gov

As North Carolina's population grows, opportunities for restaurateurs grow. North Carolina is **7th** out of the 50 states for restaurant sales growth with a 5.3% projected increase for 2004

Source: National Restaurant Association 2004 Restaurant Industry Forecast

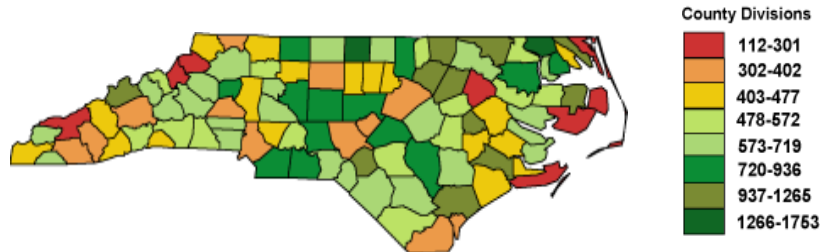
Top NC metro area's rank on the US Restaurant Growth Index

Wilmington	23
Jacksonville	25
Greenville	42
Burlington	48
Asheville	99

Source: Restaurant Business 10/15/04

NC Concentrations of People per Restaurant

*NAICS code 722 used to gather data



US Metro Area Ranking by Overall Sales

NC Metro Area	Sales	Rank
Charlotte-Gastonia-Concord	\$2.211 trillion	35
Raleigh Cary	\$1.409 trillion	49
Durham	\$6.266 billion	98
Winston-Salem	\$5.821 billion	109
Wilmington	\$5.179 billion	121

US Metro Area Ranking by Per Capita Sales

NC Metro Area	Sales	Rank
Wilmington	\$1,753	19
Raleigh Cary	\$1,568	49
Greensboro-High Point	\$1,567	50
Burlington	\$1,499	73
Greenville	\$1,482	80

Source: Restaurant Business 10/15/04

Restaurant Resources

Government

American Factfinder
www.census.gov
301.763.4636

Department of Agriculture
www.usda.gov
1400 Independence Ave., S.W.
Washington, DC 20250

SBA
Small Business Management
Publications
www.sba.gov/library/pubs

Magazines

BusinessWeek
PO Box 53235
Boulder, CO 80322
www.businessweek.com
888.878.5151

Nation's Restaurant News
www.nrn.com
800.944.4676
212.756.5129

Restaurant Business
www.restaurantbiz.com
646.654.5528

Restaurants and Institutions
www.rimag.com
Reed Business Information
2000 Clearwater Dr.
Oak Brook, IL 60523
603.288.8242

Restaurant Hospitality
Penton Publishing
1100 Superior Ave.
Cleveland, OH 44114
216.696.7000

Restaurant Report
www.restaurantreport.com
1833 SW 21st Terrace
Miami, FL 33145
305-761-4542

Associations

National Restaurant Association
www.restaurant.org
1200 17th St., NW
Washington, DC 20036

North Carolina Restaurant
Association
www.ncra.org
204 W Millbrook Rd
Raleigh, NC 27609
919.844.0098

International Franchise Association
www.franchise.org
1350 New York Avenue, NW
Suite 900
Washington, D.C. 20005-4709
Phone: (202) 628-8000

National Association for the
Speciality Food Trade
120 Wall St., 27th Fl.
New York, NY 10005

Research Firms

NPD Foodworld
The NPD Group Inc.
www.npd.com
900 W Shore Rd.
Port Washington, NY 11050
516.625.0700

Technomic Inc.
www.technomic.com
300 S. Riverside Plaza
Chicago, IL 60606
312.876.0004

Restaurant Resources

Magazines cont.

Cooking for Profit
CP Publishing, Inc.
Box 267
Fond Du Lac, WI 54936
414.923.3700

Food & Beverage Journal
835 Piner Road, Ste. A
Santa Rosa, CA 95402
800.799.2385

Food Arts
M. Shanken
Communitations, Inc.
387 Park Ave. So., 8th Fl.
New York, NY 10016
212.684.4224

Online

www.BizStats.com
316 Pennsylvania Ave SE
Washington, DC 20003

Standard & Poor's Industry
Surveys
www.standardandpoors.com
800.523.4534

www.restaurantowner.com
281-545-9230

Books

*The Restaurant Planning Guide:
Starting and Managing a Successful
Restaurant*
155 North Wacker Dr.
Chicago, IL 60606

Restaurant Business Guide
Entrepreneur, Inc.
2932 Morse Ave.
PO Box 19787
Irvine, CA 92713-9787