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New Depression Mentality?

By Bob Goldin

All signs point to new attitudes and priorities that are altering consumer spending, changes that will bring significant and lasting effects. We recently completed a major study for our January Foodservice Planning Program and the results reflect some serious re-prioritizing. In our survey, 75% of respondents indicated that the financial crisis has been a real eye-opener. It has brought some painful lessons. Gone are the days when many lived beyond their means and relied on credit to fuel a desired type of lifestyle; no longer is "conspicuous consumption" in vogue. Just the opposite: consumers are putting the brakes on their free-spending ways– a vast majority tells us that they need to save more and spend less money. Wealth destruction and fears about job security have been a shock to the system, creating a new sense of frugality even among upper-income groups.

"One cannot discount the psychological effect of these traumatic times; they fundamentally change our mindset."

Every business that relies on consumer spending is feeling the negative effects of the pullback. Almost all consumers now find themselves facing some different and sobering realities. As a result, foodservice is now serving a "new consumer," one more mindful about desires versus necessities, more vigilant about spending (including restaurant check averages), and more prone to make trade-offs to save money.

CHANGING BEHAVIORS PART OF A PROCESS TO "SELF-CORRECT"

Consumers will now look to re-build economic security one dollar at a time, weighing non-essential purchases more carefully. The good news is that, based on our research, consumers still want to eat out, even if they do plan to make some fundamental changes. They are prioritizing their foodservice purchases, making trade-offs for things that are less central to their quality of life while striving to maintain activities that are important to them.

This is being expressed in several different ways with foodservice usage, including scaling back frequency, seeking out more money-saving options and special deals, trading down, and skipping or reducing orders of extras like alcohol, dessert and appetizers. In our research, high percentages indicated that they planned to eat at upscale and casual-dining restaurants less often and cut back on visits to coffeeshops. That said, small percentages planned to cut these things out altogether. Other shifts reflect additional ways consumers are looking to cut costs, with many saying they will bring food from home more often and order takeout from full-service restaurants (thus avoiding the tip).

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THE SKY ISN'T FALLING BUT THE IMPACT WILL BE LASTING

As the economy continues to weigh on our minds, the question all of us in the industry are asking is: how much will this hurt and for how long? One cannot discount the psychological effect of these traumatic times; they fundamentally change our mindset. Consider the generation that grew up during the Great Depression. Many never forgot the struggles from that period, which created a certain thriftiness throughout their lives. In many ways, the current situation may well have a similar lasting influence.

As in other retail sectors, foodservice is also seeing heavy discounting throughout the different segments, from the value menus at limited-service chains to the unprecedented deals emerging in fine-dining. All of this is also working to change the value equation for foodservice. More than ever, it will be defined by price. Consumers in all income brackets will become accustomed to, say, sweaters for $30 versus $100 and, by the same token, great meals out for $25-$50 versus $75 and above. That very well may emerge as a lasting shift for price sensitivity as consumers spend more cautiously. An important consolation is that, unlike many other retail sectors, the foodservice industry enjoys some degree of insulation because consumers find it enjoyable and can make adjustments to utilize it more affordably (e.g., splitting entrees, stretching restaurant purchases into two meals by saving leftovers).

DEVELOPING A GAME PLAN AND MODIFYING EXPECTATIONS

In every segment, smart operators will need to make adjustments, ensuring that service is stellar and value is easily apparent. Consumers will see some benefits as foodservice more actively "courts" them. A recent feature in *The New York Times* drove that point home with the title "Restaurants Stop Playing Hard to Get." Under a half-page photograph of the city's top chefs posing with sandwich boards touting available tables, friendly service and unbelievable deals, the accompanying article outlined the myriad ways restaurants are becoming more solicitous and accessible to would-be diners.

We need to bear in mind that foodservice is in a good position to adapt to this "new consumer"; the industry offers a wealth of options to accommodate shifting behaviors. Tapas concepts, for example, will likely do well because they can offer customers a low price point and a fun, unique experience. Many limited-service operators are well-positioned to deliver the value consumers increasingly demand. The emergence of several new snack offerings and bar menus have also created flexibility in terms of price point, while bringing a dose of innovation to the menu in many instances.

Our industry will contract as (over) supply adjusts to reduced consumer demand. This will require all industry participants to make major modifications to their business model. It will be hard work and taxing times as we all adapt.