

Every Move Matters:

**A GAME PLAN
FOR SUCCESS
IN 2009**

Every move operators make in today's economy has to matter.

As customers tighten belts and pinch pennies, restaurateurs are responding with cost-conscious creativity. Here are battle-tested ideas a sharp operator can use to survive short-term and thrive long-term.

>>>

[MENU]

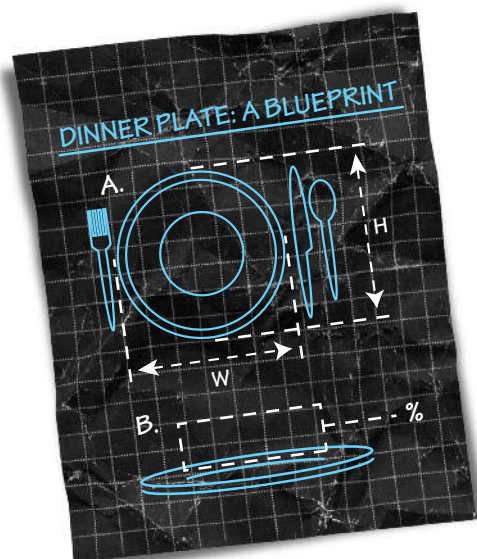
Get Creative in the Kitchen

Experiment with different ingredients, clamp down on waste and make sure you continue to deliver value to customers.

1 Consider new cuts of meat. According to the National Restaurant Association's "What's Hot" survey of American Culinary Federation chefs, new/fabricated cuts of meat rank as the No. 5 trend for 2009. Cuts such as Denver steak and pork flat-iron steak are growing in popularity because they are less expensive and appeal to customers looking for lean proteins. These new cuts incorporate under-used parts of the animal and allow chefs to stretch their creativity as well as trim fat content.

2 Strategically add variety to the plate, recommends Marilyn Chapman, Delectables Fine Catering, Palm Harbor, Fla. Say a traditional plate features an 8-ounce protein, a 4-ounce vegetable and a 4-ounce starch. Consider serving instead a 6-ounce protein with a 3-ounce starch, a 3-ounce hot vegetable and a 3-ounce legume. The result: A full plate with lower food cost and more variety that will appeal to many diners who leave main-dish food on the plate.

3 Re-engineer some recipes. Peter Herrero tweaked the lobster-salad recipe at his White Plains, N.Y., restaurant, Sam's of Gedney Way. The new recipe calls for 7 ounces of lobster instead of 8, and Herrero replaced asparagus with green beans, which provided a savings. He also changed the plating by flattening the dome of lobster so it spreads more. Question the amount needed of any ingredient, Herrero says. For example, does your salad really require a full ounce of dressing?



4 Stock your kitchen with high-quality ounce scales and ladles sized to your portions to make your re-engineered menu items more precise.

5 Adjust portions without reductions.

McCormick & Schmick's, an 85-unit seafood chain based in Portland, Ore., offers 5- and 8-ounce pours of wine by the glass. Most guests trade up to the larger serving, which has pushed wine-by-the-glass sales above the prior year's tally, according to co-founder and Chairman Douglas Schmick.

6 At group dinners and catered events, serve more courses with smaller portions,

Chapman recommends. You lower food costs with smaller portions, particularly on indulgences such as dessert.

[PRICING]

Adjust Menu Prices

Keep your menu prices nimble to stay in step with food costs — and customer expectations.

7 Consider keeping center-of-plate items consistently priced,

suggests Michael Gibbons, president and CEO, Mainstreet Ventures, Ann Arbor, Mich. Instead of spiking entrée prices and drawing attention away from the meal's overall value and experience, use all menu-price levers: perhaps increasing the price of coffee 25 cents or taking an appetizer to \$5.95 from \$4.95. That helps offset increased costs without hiking prices on customers' favorite entrées.

8 Make special food buys to keep your food costs in line

and give guests a reason to return. When lobster prices dipped, Mainstreet Ventures locked in prices for 60 days so its restaurants could offer large lobster portions for \$19.95. The company also worked with a supplier to lock in pricing on two tons of prime rib. Cooks trimmed and served the meat as Delmonico steaks, and Main Street charged \$18.95. The result: Guests saw good value on a high-end dish.

9 Update menus often to match prices with costs

instead of adjusting prices once a year. In a period of rising food costs, your margins and cash flow decline all year while you wait for an annual menu update, says restaurant consultant Brandon O'Dell of Wichita, Kansas. McCormick & Schmick's reprints its menu twice a day to keep the price of its 20 to 30 fresh seafood selections in line with cost. That tactic has proven "a tremendous advantage," co-founder Chairman Douglas Schmick recently told stockholders.

[MARKETING]

Promote Value

Keep your restaurant fresh without alienating your regulars.

10 Consider the marketing side of any menu changes. “It’s important to change the terminology away from terms such as ‘budget’ or ‘light fare,’” because those terms may have negative connotations even to value-conscious customers, says caterer Marilyn Chapman. For example, when Chili’s introduced mini-hamburgers, it called them “Big Mouth Bites,” a name that alludes to the chain’s popular “Big Mouth Burgers.”

11 Target discounts to those who normally don’t dine with you. Chef/owner Jay Solomon of Jay’s Patio Café in Denver has become more aggressive with e-mail and newspaper coupons. In his market, “people who are on the fence” about eating out redeem such coupons, but his regulars don’t. “We have to be a lot more aggressive and give people a reason to come in,” Solomon says. “With coupons, you have the option of stopping them if things get better.”

12 Rather than cutting prices, use menu changes to differentiate your establishment. Chef/owner Solomon launched a new line of lunch wraps at a slightly higher price point to differentiate his menu from nearby chains that advertised large sandwiches for \$5 or less. He made his wraps stand out by including pesto, goat cheese and other “upscale” ingredients. The Carl’s Jr. quickservice chain has refused to follow many of its competitors in slicing the price of premium menu choices. Instead, the company touts products like its Charbroiled Steak Sandwich — at the high end of the chain’s range — as lower-priced alternatives to casual-dining staples.

13 Look for creative marketing opportunities. Jasper’s, a Beltsville, Md.-based fullservice chain, recently started marketing its Dallas restaurant to jet crews and on-the-ground personnel serving small airports around the city. Chef/owner Ken Rathbun reports Jasper’s is starting to see more business from private, chartered and company jets. Or invent your own event for empty function space. Tom Colicchio, chef/owner of the celebrated Craft restaurant in New York City, quickly sells out the 32 seats in one of his private rooms for an every-other-Tuesday promotion. The draw for “Tom: Tuesday Dinner” is Colicchio himself, a five-time James Beard Award winner.



14 Partner with other restaurants and businesses to encourage dining out. Annapolis, Md., restaurants are borrowing an idea that large cities have used for years to attract diners during traditionally slow months. They’re helping to organize a Restaurant Week in February. During the promotion, diners receive discounted three-course lunches and dinners for the same fixed price at all participating restaurants. With sponsorship from a local business association, Annapolis restaurateurs are working together on promotions. “We’re all going to get people to come to Annapolis,” says Reynolds Tavern proprietor Marilyn Burge.

15 Use e-mail to build business. Use low-cost e-mail marketing to build a customer database. Qdoba Mexican Grill, a 456-unit fast-casual chain, offers customers a coupon for a free order of chips and salsa in return for signing up for its e-mail list—a modest cost to build a database, says Qdoba’s Doug Thielen. Stardust Restaurant & Lounge, a tableservice restaurant in Alexandria, Va., takes sign-up sheets to charity events it sponsors to gather more names. But Thielen cautions to watch how frequently you send e-mails. “We found less is more,” he says. The company sends six to eight messages systemwide annually, and individual franchisees have the option to send up to six more per year. Keep messages short and specific. Stardust Restaurant promotes events such as a four-course wine dinner or “martinis and manicures” night. Get help from experts if you need it: Stardust hired NRA partner Fishbowl Marketing to manage the database, design templates and track results.

16 Use new media for fresh exposure. Growing numbers of restaurants use social-networking services, such as Facebook, MySpace and Twitter, to create a presence reachable by tens of millions of users. Keith Langdon of Full City Café in Kalamazoo, Mich.,

uses his restaurant's Web site, Facebook page and Twitter posts to focus on repeat customers. A sample Twitter posting might simply say "Gift certificates on sale today." Be sure you understand the protocols and implications of posting on these sites; you want to reach out to new customers, but you don't want to do anything that would put your restaurant's image or word-of-mouth buzz completely out of your control.

[INTERNAL PROMOTIONS]

Hold Server Contests

Remember to involve your biggest asset — your staff team — for a winning game plan.

17 Focus on side dishes. With check averages under pressure because of the economy, Russ and Nancy Adams of The Strongbow Inn in Valparaiso, Ind., started running contests to get servers to sell side dishes by accumulating points to win gift certificates, bakery items, meals and hotel stays. Owner Russ Adams says, "Some are selling 30 or more sides a day," or three times the usual amount.

18 Match an aggressive gift certificate program to your slow season. Mainstreet Ventures operates nine restaurant concepts in five states, many in cold-weather areas, so it helps keep seats full in traditionally slow months by marketing gift certificates in the months just before the annual dip. It uses two aggressive tools to stimulate sales: volume discounts for large purchasers — a customer who spends \$1,000 up front on gift certificates receives an extra \$200 worth of gift certificates — and a competition among unit managers. The gift-certificate contest between unit managers features a big payoff for the winner: a trip anywhere in the world. This unleashes a torrent of creativity among managers, who generate creative strategies to sell loads of gift certificates: e-mail marketing, banners on restaurant walls, drive-thru pickup zones for gift certificates, etc.

[FINANCIAL]

Scrutinize Your Finances and the Financial Climate

Budget wisely and spend smart.

19 Steel yourself for a weak restaurant-finance backdrop. As if soft sales weren't enough of a headwind, there's also a poor outlook for restaurant financing. Howard Black, owner of BrightStar Drive-In Grill in Charlotte, N.C., recently secured bank

financing for a capital-spending project to remodel and expand a unit. Black describes the current restaurant-finance environment as "scary," but he leveraged his company's decades-long history and track record of timely bill-paying to secure bank funds. Even a business with stellar credit "should expect to be rejected three times at the bank" before getting the alterations to terms that might lead to loan approval, says Black. "It's all in the details of the business plan." Black has slowed his expansion project's pace while focusing on his existing customers. "What the customer sees is what you should focus on" — food, service and delivery of value to patrons, he says.

20 Use negotiating smarts. When restaurateurs face large, once-a-year expenses in seasonally slow periods, creativity can help. December can be tough for restaurateur Ray Hartlaub because he pays workers' comp and business insurance that month for his Dallas Famous Chicken 'N Biscuits restaurant in Apex, N.C. He crafted an arrangement with his landlord to help him match his cash in and cash out. "When I negotiated my rent, I talked the landlord into letting me pay my 12 months of rent over 11 months, with no rent payment in January," says Hartlaub. (The total amount is the same.) "Not having to make a payment in January really helps soften the blow that winter issues can throw at you." He says the arrangement was a lifesaver in 2004, when the Apex, N.C., area suffered four powerful winter storms that crimped business.

21 Scour your operation for cost savings. "We're tracking every part of the dining transaction and squeezing out waste," says Bob Ansara, president of Ricardo's of Las Vegas. Example: Ricardo's will save \$4,200 a year by placing complimentary dinner mints by the exit instead of bringing them to the table with the check.

22 Compare yourself to your peers. Find out how your numbers stack up by checking the *Restaurant Industry Operations Report* prepared by the National Restaurant Association and Deloitte. Researchers compiled and analyzed data from hundreds of restaurant companies to create the report, which provides financial data on cost of sales, gross profit, direct operating expenses and other performance measurements for fullservice and limited-service restaurants. Certified Public Accountant Timothy Nicola of Glastonbury, Conn., takes his restaurant clients' financial data and benchmarks them against peer information in the Operations Reports. "Instead of just comparing a restaurant to how it did last year, restaurateurs want to know how they're doing against everyone else," he says. Restaurateurs can use the information to attack operational challenges. "It helps them focus on problem areas," says Nicola. "Is labor too high? Are gross profits adequate? It's a great resource." Learn more at www.restaurant.org/store.

23 Make a three-month cash plan

Operators should immediately prepare weekly cash projections, looking three months ahead, recommends Jim Laube, president of restaurantowner.com. Start by making a simple cash-inflow/outflow worksheet for each of the next 12 weeks. Cash-inflow items are weekly restaurant sales plus banquet/catering deposits and payments. Cash-outflow items are all cash expenses (not depreciation or accruals) that are due in the period, including irregular items such as annual insurance payments or property taxes. "If you don't forecast, you don't realize you have a cash-flow crisis until it's upon you," he notes. For example, if your property taxes, insurance and largest vendor payments fall the same week as payroll, you could run out of cash even if the P&L looks positive. If a shortfall looks likely on a particular upcoming week, call vendors ahead of time to ask for a change in payment terms. "The key is to be honest and call ahead, and they'll work with you," says Laube. "Don't wait and then tell them the check's in the mail."

- **Make a separate daily bank deposit for taxes due.** A tip Laube recommends for cash management is to make daily deposits to a separate bank account that you use only for the sales taxes and liquor taxes you collect — money you must pass through to the taxing authorities. Putting the money into the bank daily ensures you avoid late fees.
- **Get cash upfront for catering.** For catering and banquet jobs, Laube recommends asking for the full amount up front rather than just a deposit. This will help cash flow, discourage cancellations, and guarantee you receive the negotiated amount (even if there are fewer guests than expected).

[TAXES]

Take Advantage of Tax Savings

Make sure a good accountant is part of your team. The economy may be bad news — but there's some good news in the tax code.

24 Capitalize on tax credits. Even restaurateurs subject to the Alternative Minimum Tax (AMT) can now claim the extremely valuable federal income-tax credit for the FICA payroll taxes they pay on a portion of employee tips. This can slice thousands of dollars from federal tax bills, says hospitality-industry CPA Timothy Nicola of Glastonbury, Conn. He cited the example of a fine-dining restaurateur who takes in \$1.4 million in sales and saved \$19,000 in taxes last year. If you haven't discussed the issue recently with your accountant — or if he or she doesn't follow restaurant-industry issues — ask about the 45(B) tax credit, a reference to its place in the federal tax code. Restaurateurs who pay under the AMT can now also claim the Work Opportunity Tax Credit. More information about general tax benefits for restaurants is available from the National Restaurant Association at www.restaurant.org/legal.

25 Depreciate your way to tax savings.

Check with your accountant to be sure you're taking advantage of changes in two key tax laws. One is restaurant-specific, the result of a hard-fought Capitol Hill effort by the National Restaurant Association: Congress renewed the allowance for a 15-year depreciation life for restaurant improvements implemented in 2008 and 2009. The law also allows you — for the first time — to

depreciate new restaurant construction over 15-year schedules (if implemented in 2009). Get details at www.restaurant.org/legal. Separately, 2008 equipment purchases are eligible for "bonus" depreciation of 50 percent for 2008. The equipment must be new.

[SUPPLIERS]

Revisit Your Supplier Relationships

Vendors are facing the same issues as operators and could be valuable partners in your restaurant's success.

26 Order efficiently. Make sure your chefs plan orders so there won't be callbacks that hike up the distributor's fuel use on your account. This will eliminate "nuisance deliveries" and push your restaurant up in the pecking order of their accounts, says Steve Stoddard, CEO of Restaurants Unlimited, a Seattle company that operates 58 restaurants in 13 states. "Fuel is one of a distributor's biggest expenses," he says.

27 Buy smartly — but don't shop by price alone. To eliminate waste due to spoilage, redouble your efforts to buy the right food in the right quantities. Establish specifications for your purchase categories. Include detailed descriptions of how product should look, taste, smell, weigh and feel. For certain produce, specify the ripeness desired and buy the appropriate grade and no higher.

28 Guard against food waste. Become known to distributors as an account that has high stan-

dards for order correctness and quality. At your back-door receiving station, establish protocols for checking each invoice against the order log for quantity and price. Protect yourself from sloppy deliveries with accurate scales at the receiving area.

29 Buy liquor and other expensive items by the week. That's what Russ Adams of the Strongbow Inn started doing when the economy weakened so he doesn't tie up precious dollars in excess inventory that sits on the shelf or in the cooler. "Running down inventory levels is a great way to increase cash flow," says consultant Brandon O'Dell. "Restaurant dollars sitting on shelves don't help anyone."

[STAFF TEAMS]

Share Information With Your Team

A new business reality calls for a new way of working with your team members.

30 Explain the big picture. Consultant O'Dell notes that "some employees see a restaurant that does \$1 million a year in sales, and they just assume that the owner's rich. Make your employees understand your restaurant's financial situation. Share goals and share your budget."

31 Adopt an open tone in pre-shift meetings, manager meetings and staff meetings. "It's a time to share information with the team," says Bob Ansara of Ricardo's of Las Vegas. The more details he shares with team members, the healthier the company, he says. Ansara wants his employees to understand the importance of small decisions on restaurant profitability. "The more we can emphasize that a dish of sour cream is a 25-cent expense instead of just a dish of sour cream, the better off we are ... We want team members to run the place like they run their own homes, in terms of cost cuts, habits and behaviors," he says. Sharing information about the restaurant's expenses drives his points home. Ansara posts P&L reports in the restaurant's office.

32 Reexamine shift procedures. Take a look at how many employees clock in before their shifts start and clock out later than their shifts end. A daily 15-minute error on all those employees adds up to big money, says Denise Marie Fugo, chairman and CEO of the Cleveland catering firm Sammy's, which has more than 400 employees. Fugo is launching a technology solution to the problem of imprecise clock-in, using a system from her payroll processor. The system reconciles hours scheduled and those clocked in, preventing workers from clocking in for hours they aren't scheduled to work.

Because Sammy's produces hundreds of catered events a year at a variety of venues, managers will use hand-held devices to wirelessly communicate information from the event site about each server and bartender.

33 Look for more efficient ways to train your employees, says John Isbell, director of training and development for Glendale, Calif.-based International House of Pancakes (IHOP). "Look to cut costs without cutting quality," he says. "In difficult economic times, the role of training is even more critical. There are not as many customers, so the ones that are there better be treated right, or they're not coming back." IHOP's training department cut costs by replacing its print manual with online training — with the option of printing out information as needed.

34 Give your employees the financial knowledge they need for personal success. Oak Brook, Ill.-based McDonald's USA and Visa Inc. have created the country's largest employer-based financial-literacy program. Through the "McDonald's Practical Money Skills" program, employees will get a printed Wealth Watchers budgeting guide to track personal expenses and access to an instructional video and Web resource center with additional tools and information. The materials, which are based on Visa's "Practical Money Skills for Life" financial-education program, are being made available in both English and Spanish. According to Steve Russell, chief people officer for McDonald's USA, "Providing information and educating our employees about the importance of financial responsibility has become increasingly important — now more than ever."

35 Reinforce your commitment to the guest experience. The dining experience and your company's culture are the two areas too sacred to be cut in this time of cost cutting, says Steve Stoddard of Restaurants Unlimited. Because in the current economy some guests may eat out less, "they're not willing to put that night out at risk" of a poor restaurant experience, he says. Stoddard considers a key part of his job right now to be communicating to managers that his firm is committed to not lessening the guest experience. "If we can keep our restaurants full, robust and have great experiences," says Stoddard, "then when the economy gets better, these people will keep coming back to the place where they had the great experience."

ABOUT THE NATIONAL RESTAURANT ASSOCIATION 2009 RESTAURANT INDUSTRY FORECAST

The National Restaurant Association's *2009 Restaurant Industry Forecast* projects nominal and real growth rates for all sectors of the restaurant industry. Real growth is calculated separately for each market segment.

To calculate real sales growth at eating-and-drinking places, the projected increase in menu prices (including projected price increases for alcoholic beverages served) is subtracted from the percent increase in sales.

For other industry sectors where food costs are the biggest determinant of expenses—such as colleges and universities—a modification of the Producer Price Index for food (which measures changes in wholesale food prices) is used to calculate the sector's real growth. Modifications to the PPI for food are based on historical patterns for each industry sector. The food-cost component constitutes the base percent increase, which is adjusted to reflect population changes and other pertinent factors, such as labor and overhead costs.

To arrive at 2009 real sales figures for the total restaurant industry, as well as for the Commercial and Non-commercial Restaurant Services groups, revised 2008 sales were multiplied by the respective 2008 real growth factors. The real sales figures for each of the industry sectors were added and compared with 2008 sales to obtain real growth for the industry overall and the industry's two major segments.

A word of caution

The National Restaurant Association's projections for 2009 industry sales are based on the best data available in mid-December 2008. If the outlook for general conditions or the food situation changes significantly in 2009, those projections will require adjustment. The latest developments are posted at www.restaurant.org/research. In addition, the performance of individual companies or sales in local market areas may differ substantially from the U.S. outlook.

Sales data for previous years

Getting final estimates for restaurant-industry sales in previous years is an ongoing process. The National Restaurant Association's Restaurant TrendMapper offers updated sales estimates as they become available. Visit www.restaurant.org/trendmapper to subscribe to this service.

ABOUT THE STATE AND REGIONAL FORECAST

State restaurant-sales data is arranged according to the nine U.S. Census Bureau regions. Included for each state are revised eating-place-sales data for 2008, projected 2009 eating-place-sales figures, and percent-change calculations for population, employment and disposable personal income. Much of the historical economic data in this report are based on information obtained from such sources as the Bureau of Economic Analysis, which is part of the U.S. Department of Commerce, and the Bureau of Labor Statistics, which is part of the U.S. Department of Labor.

A few reminders

- Sales projections for 2009 are based on the best available data in mid-December 2008. If the outlook for general economic conditions or the food situation changes significantly in 2009, those projections will require adjustments.
- Adjustments were made to arrive at a predetermined U.S. total.
- Sales figures for each state are subject to a larger margin of error than the national projections.
- Actual sales figures represent an overall allocation of total sales in the United States. Although percent changes are subject to more variation, they have been shown here as a convenience to 2009 Forecast readers.
- "Restaurant sales" includes sales in foodservice operations with payrolls that fall under the North American Industry Classification System definition of Food Services and Drinking Places (NAICS Code 722) excluding 7224, which covers establishments primarily engaged in preparing and serving alcoholic beverages for immediate consumption). Sales totals also cover managed services (contract foodservice).

The information in this report was prepared in consultation with the research firm Malcolm M. Knapp, Inc.

National Restaurant Association, 1200 Seventeenth Street NW, Washington, DC 20036
(202) 331-5900 • www.restaurant.org

Health care

Workforce challenges

Energy costs

Economic downturn

Immigration

Sodium regulation

Food costs

Food safety

Unprecedented challenges.

Indispensable champion.



Your National Association membership is more important now than ever.

With unprecedented global economic challenges, the restaurant industry faces new and specific threats. Rising food and energy costs, health care, taxation, sodium regulation, and immigration policies—all will confront our industry in the next year, at the national, state and local levels.

Through tough times, growth times, and especially now of all times... count on us.



ADVOCACY AND REPRESENTATION • TOOLS AND SOLUTIONS • RESPONSIBLE STEWARDSHIP • RESEARCH • EDUCATION AND NETWORKING

For membership information in the National Restaurant Association and your state restaurant association, go to www.restaurant.org or call (800) 424-5156.