

Creating Value Is Key to Surviving Economic Downturn: Strategies and Suggestions for Foodservice Operators

Progressive Gourmet

Though economists hesitated to use the word recession to describe the current state of the U.S. economy until late last year, many foodservice operators across the country have been feeling the effects of the economic downturn for quite some time. However, all hope is not lost, foodservice operators can take steps to ensure their business survives the recession, or downturn, or whatever you want to call it. There is still business to be had out there; you'll just have to work a bit harder to get it.

The optimists out there will tell you that the economy is slowly turning around. However, the facts don't lie – unemployment continues to rise and businesses continue to file for bankruptcy. But this doesn't mean you should give up all hope and adopt a gloom and doom outlook. People are still dining out and throwing parties – they're just doing it on a smaller scale than they were a few years ago. They are looking for the most value for their dollar and if your establishment doesn't offer it, no matter how hard you try, you aren't going to win the business.

The current downward trend isn't expected to be a permanent one for the foodservice industry. In fact, restaurant industry sales are forecasted to increase by 2.5% for 2009, which indicates that things will turn around in a significant way by the end of the year. And, there is a growth trend predicted for the future, as well. According to the National Restaurant Association (NRA), there will be 1.8 million more restaurant and hospitality jobs over the next decade. The NRA's 2009 Industry Forecast shows that people are dining out at a considerable rate, as is evidenced by the 48% share of the food dollar that goes to restaurants. In 1955, the restaurant industry received 25% of the food dollar. They're just being more selective as to where they are spending their hard earned money. According to the NRA's recent survey, 27% of adults say they are paying more attention to coupons and value specials than they were two years ago.

So, how do foodservice establishments make sure they are offering their guests the most value for their money and ensure they will be able to weather the economic storm? Read on to find out.

Value vs. Lower Prices

When business slows down, the knee-jerk reaction is to think that prices must be too high and to immediately cut them. However, this is the wrong message to send to your customers. When you react to business being down by dramatically cutting prices, you're sending the message that your food isn't worth what you were originally charging or that you were just trying to make as much profit as possible. Instead of reducing your prices, highlight the value that your food provides to your customers.

In the last few years, we have become increasingly health conscious as a society. Trans-fats are being banned in cities across the country and people are looking for healthier options when they eat out. For years, eating out was seen as a splurge, when people could cheat on diets, but with our busy lifestyles, more and more people want healthy options when they eat out, since they're eating out more than once a week. Take advantage of this by introducing smaller portions of the most popular items on your menu at a lower cost. This way, you aren't increasing your food costs and your profit margin may actually increase. You don't have to offer half the size for half the price. And, if your smaller portion items are seen as "luxury" items, your guests will see an even greater value in the smaller size and slightly reduced price. They can indulge without having to part with too much of their hard earned money.

The reduced portion/reduced price strategy is working for some chain restaurants such as TGI Fridays, Chili's and the Cheesecake Factory, so why not apply it to your operation and see what results you get. Getting the word out about your specials is the key and you may not have the advertising budget of these large chains, but take advantage of social media, like Facebook and Twitter, or use your existing customer lists to spread the word.

Another way to offer value over lower prices is to increase the number of complimentary items that come with each meal. For example, if you include one side item, consider offering two of a slightly smaller portion. People will see the value in receiving two items in addition to their entrée and perceive it as a savings, even if your menu prices don't change. Or consider including dessert as part of your prix fixe menu, it doesn't have to be an extravagant dessert, just a small end of the meal treat will send guests home satisfied and wanting to come back again.

For banquet operations, it is just as important for your guests to see your menu as having value. Consider your package offerings and determine if your guests are getting the most for their money. Any of the previous ideas can be applied to create more value for your guests. Even though the economy is down, there are still people throwing parties, you'll just have to stand out from the competition if you want to book the business.

Creating Customer Loyalty

Once you've convinced your customers that your food offers the best value for their money, the next issue you face is how to hold on to them. Creating a loyalty program can help you retain business and even gain new customers through word of mouth advertising. Loyalty programs, such as email newsletters, are also advantageous because they don't require a lot of spending for a big return.

The key to creating an effective customer loyalty program is to put together a plan and stick to it. If you're starting a newsletter, think about how often you want to send it, stick to the schedule and communicate the schedule to your customers when they sign up for your club. Nothing is worse for customer loyalty than not delivering on a promise you make. So, whether you tell them you're sending once a month or once a week – keep it consistent. Another important thing to remember is to not just send out a discount or a

coupon. Let your customers know what special events are going on at your location – maybe a “members only” wine dinner or holiday-themed menu. Let the discount or coupon act as a bonus for the lucky customers that open your email.

Another key to creating customer loyalty is finding out what your customers want. Include surveys in your email communications and keep track of which events get the biggest response. This way you aren't reinventing the wheel every time you need to create a promotion or send out your monthly newsletters. If you take the time to find out what your customers want and then give it to them, you're creating a value that many other establishments probably aren't offering. Setting your establishment apart from the competition in anyway possible is the key to getting the business in the current economy.

Diversify Your Offerings

Another way to really set yourself apart from the competition is to diversity your offerings. History tells us, that no matter how bad the economy gets, the world around us won't stop functioning. Even during the Great Depression, 75% of people still had jobs. The U.S. unemployment rate is expected to top 10% by the end of the year. Granted, this is a large number of people who will be out of work, but it also means that 90% of the population will still be employed and making money. Now, they may not want to part with their money as easily as in the past, but being able to see the value in the services they're paying for will make them more willing to spend. This is the time for you to abandon things that may not be working and seek out new ideas that will keep your business afloat.

In order to diversify your business, you need to be aware of what there is a demand for in your area. If you're a restaurant, think about moving into catering with some of your most popular items. If you run a banquet operation, see what banquet items might work on your location's restaurant menu. The more options you offer your guests, the better the chance is that you'll scoop up the business that's out there. And you'll benefit from having crossover items on each menu, which saves you money when it comes time to order from your suppliers.

Now is the time to stop doing the things that aren't working and be open to adjusting the way your business operates. Read magazines, books and blogs to see if there are any new needs that your restaurant or banquet operation can meet. During the Great Depression, the movie industry got its start because people were looking for a way to escape reality. You may not create an entire new industry, but if you open your mind to the possibilities, you may find a lucrative new outlet for your business.

Create Partnerships with Your Vendors

Just as you want to create loyalty with your customers, you should consider becoming loyal to your vendors. They are facing hard times, just as you are and may be able to offer you some solutions when it comes to dealing with the economic climate. Your suppliers are also focusing on customer service and can be one of your best resources.

More than likely, your vendors understand that the big ticket items aren't selling right now. They know you need items that carry value for you and your guests. So, ask them to help you create menus full of value at all different price levels. They can tell you what's working for their other customers and how it can benefit you and your business. If your vendors continue to try to sell you the most expensive items, find new vendors who want to form a partnership that is beneficial to both of you.

Another benefit you should look for in a relationship with your vendors is that they communicate with you when they are running product specials. Find out if your vendors have an e-newsletter and join their list. You should be looking for the same type of service from your vendors that you are striving to create for your customers. If you work with a vendor that provides the highest level of service, you are setting the best example for your staff. They will see that you are dedicated to providing the best for your customers from your vendor partnerships. This will help enforce that customer service is the key to retaining business in these uncertain times.

Conclusion

Though it seems that you should be in a panic about the economy and that it's not going to be getting any better, with a little strategy and planning, you can come out of this recession even better than you went into it. The key is to stay positive and be pro-active, instead of reactive. Instead of slashing your prices, which devalues your product, figure out ways to add value. Keep your customers loyal with email clubs that offer discounts and remind them of the great value your products carry. Diversify your offerings, whether by branching out into catering or finding new outlets for your products. And, create mutually beneficial partnerships with your vendors.

If you'd like more information on how Progressive Gourmet can help you survive the economic downturn, contact us at 800-224-7630 or online at www.progressivegourmet.com. Let us help you create a strategy that keeps you on top of the competition in these trying times.

Research Links:

<http://www.restaurant.org/pdfs/research/2009Factbook.pdf>