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# NATION'S Restaurant News

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## To deal or not to deal: Chains reconsider discounting

BY LISA JENNINGS

When Brinker International announced plans to end the popular "three for \$20" dining deal at its flagship Chili's Grill



& Bar last month, some industry observers wondered if it was the beginning of the end for the era of discounting.

After more than a year of trying to get consumers in seats with deals, coupons, fixed-price menus and how-low-can-you-go pricing, many operators are eager to say enough is enough.

Yet, while some operators see glimmers of light through the long, dark tunnel of recovery ahead, others contend that it's too soon to expect consumers not to think with their wallets.

At press time, many of Chili's competitors were still offering deals aimed at catching the eye of cash-strapped customers. T.G.I. Friday's, for example, was

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## To deal or not to deal

Chains reconsider discounting, but guests still demand more value for their dollars

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promoting its three-course meal for \$12.99 at participating restaurants. In addition, Applebee's is offering two courses for \$20, and Red Lobster in January debuted a three-course menu for two for \$29.99.

"Consumers remain extremely cautious with their expenditures," said Hudson Riehle, the National Restaurant Association's senior vice president of research and knowledge. "One would be incorrect to assume the focus on value will disappear anytime within the next two years."

In its 2010 Restaurant Industry Forecast, released in January, the NRA predicted that America's 945,000 restaurants would see traffic resume this year as a result of pent-up demand. However, the association

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— Hudson Riehle  
National Restaurant Association



also maintained that consumers would continue to seek out value.

The challenge for the industry, Riehle said, is communicating a "perception of value," something that may involve a lot more than price.

Consumers haven't completely eliminated higher-priced experiences, he said, but they have developed higher expectations. Restaurant operators need to adjust by offering customers experiences that will be perceived as worth the cost.

Last year, many operators were able to battle for transactions with price in part because the industry benefited from a more favorable commodity climate. In 2009, wholesale food prices dropped by almost 4 percent, Riehle noted, the strongest decline in four decades.

For 2010, however, the NRA is projecting wholesale food price inflation of about 2.4 percent, putting even more pressure on restaurant margins.

Some suspect food prices may have been the reason behind Brinker's decision to end its "three for \$20" promotion — which included an appetizer, two entrées and a dessert for two.

The deal was first introduced last summer, retooled during an early fall hiatus and brought back in October with better protections for margins. At the end of its first quarter in September, Brinker officials declared the deal a success, saying it drove traffic and boosted profits.

Last month, however, Brinker ended the promotion and debuted an overhauled, pared-down menu.

Yet some analysts saw the move away from the deal as premature, noting that it accounted for about 20 percent of Chili's sales mix, and questioned whether Chili's could back away from discounting without losing traffic.

Others in casual dining have hinted that discount-free days may be near.

When releasing his company's latest quarterly earnings last month, Sandy Beall, Ruby Tuesday's founder and chief executive, told analysts that "this is not the time to take pricing."

Still, he noted that the high-income "Saks customers" are reappearing at Ruby Tuesday. Eventually, those in lower income categories will follow, and Beall predicted that the ag-



AMY FELLOWS

Tracy Borkum, below left, with chef Joe Magnanelli, closed her San Diego fine-dining restaurant Laurel and reopened it as Cucina Urbana, selling more moderately priced Italian food.



PAUL BOWERS

gressive use of coupons and discounts throughout the industry would ease up within the next three to nine months.

Companies like Starbucks Corp. have demonstrated that consumers may be willing to pay more for some things.

Last May, Starbucks announced a new "price architecture" that included higher prices on more complex drink orders and lower prices on more popular items like brewed coffee.

The pricing changes rolled out market by market over the next few months and recently hit New York City, where the price of a grande skim latte, for example, jumped from \$4.08 to \$4.30.

Officials at the 16,706-unit chain, however, said new pricing not only helped lift first-quarter same-store sales by 4 percent at domestic units by boosting check averages, it also helped improve Starbucks' value perceptions.

"Customers are saying that Starbucks is a better value today than they were a year ago," said Howard Schultz, Starbucks' chairman and chief executive. ■

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### The price point of no return

In the world of fine dining, \$20 has become the magic number.

Many restaurant operators say that's the line of pricing for entrées at full-service restaurants that consumers will no longer cross — similar to the \$5 meal deals consumers have begun to expect at quick-service places.

Across the country, fine-dining restaurateurs are giving up higher-ticket menus altogether and reconcepting to bring prices below that magic \$20 point — a sign, perhaps, that the frugality mind-set is not going away anytime soon.

San Diego chef-restaurateur Tracy Borkum, for example, closed her French-inspired white-tablecloth venue Laurel last year and redeveloped it into the new Cucina Urbana, where no plate is more expensive than \$20.

At Laurel, which had an average ticket of about \$55 to \$60 per person, sales were tanking, Borkum said.

Borkum sees \$20 as the magic cut-off point for higher-end dining these days. "Everyone's jumping on that bandwagon," she said.

For operators like Richard Malia, owner of the 20-year-old seafood restaurant Ponti in Seattle, the line is closer to \$25, or so he hopes. Malia recently dropped his prices by about 20 percent by taking a hard look at operational costs and reducing staff.

In other markets, like Asheville, N.C., operators like Eric Sheffer say the sweet spot is under \$15 for entrées.

Sheffer owns what was Savoy, one of Asheville's most upscale restaurants, which served its last meal — at \$19 to \$30 per entrée — on Jan. 31. On Feb. 15, Sheffer is scheduled to reopen the restaurant as Vinnie's Neighborhood Italian, with entrées in the \$9 to \$15 range.

"It's about comfort, no sticker shock and bringing your friends close," he said. "But people still want to enjoy their lives."

— Lisa Jennings