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The New Recipe for the

Restaurant Industry

By Tom Kuczmariski and Rishu Mandolia

The restaurant industry is at a crossroads: Consumers are changing in ways that are forcing restaurateurs to make important decisions about the food and service they provide. The direction restaurants take may very well decide their fate in the coming years.

Over the past five years we have conducted primary research with thousands of consumers using ethnographic research, focus groups and interviews. Our research has revealed the ways in which consumers' expectations – and definitions – have changed. These are not trends or fads, but long-lasting perceptual and behavior shifts that will shape how consumers are making decisions.

To succeed in today's marketplace, restaurateurs must understand and serve the new consumer. Here are five key factors our research shows will separate the winners from the losers.

1. Satisfy the new definition of health.

Health has always been important to consumers, but their definition of "healthy" has expanded. Consumers are looking beyond concerns about calories, fat and preservatives toward a home-quality food experience. They now define a healthy meal as being balanced, wholesome, near homemade, fresh and real.

Also, consumers want help in selecting "better-for-me" foods. Some popular chains have promoted the benefits of natural ingredients in their products and positioned their brands as good lifestyle decisions. Portion control is yet another way to meet consumer needs: Some restaurants have benefited from introducing smaller portions. In fact, many restaurants are witnessing higher per-table spending as consumers mix and match the smaller plates.

2. Create more value for consumers.

The biggest impact of the recession has been on the perception of value. Consumers are demanding even more for even less. But there are a number of benefits that make up value beyond just price. We call this concept Paramount Value. It is based on six variables:

A. "Real" food indicators – These include recognizable ingredients that retain their fresh colors. Additionally, non-uniform pieces suggest the food was prepared by human hands.

B. Fresh and sustainable ingredients – Particular interest is on locally grown produce and meat from naturally raised animals.

C. Exciting tastes and textures – These provide an interesting overall flavor to the meal, but still maintain the original essence of the ingredients.

D. Appropriate portion size – This is delivered by balancing the amount of food and price.

E. Unique items and flavors – Consumers look for what is new or what they cannot prepare easily.

F. Good service and experience – This makes the whole meal more satisfying and memorable.

If value is described as a relationship between benefits and price, then Paramount Value is:

$$\text{Paramount Value} = \frac{A + B + C + D + E + F}{\text{Price}}$$

This formula can be a useful tool in evaluating a restaurant's value proposition and comparing it to competitive offerings by assigning a 1-5 score for each variable (5 being high). For example, a typical high-end restaurant gets a Paramount Value score of 5.8, while a fast food restaurant is at 4.5.

	Real food indicators	Fresh and sustainable ingredients	Exciting tastes and textures	Appropriate portion size	Uniqueness	Good Service and Experience	Price	Paramount Value
High End Restaurant	5	5	5	4	5	5	5	5.8
Casual Restaurant	4	3	3	4	2	3	3	6.3
Fast Food Restaurant	1	1	1	4	1	1	2	4.5

Notice that some of these characteristics overlap the new definition of health, which is not a coincidence as consumers associate greater value with healthier food. Balancing and leveraging both is a great way to meet consumer needs.

3. Offer new consumer experiences.

In the highly competitive restaurant industry, new dining experiences are critical. For example, some restaurants allow consumers to assemble their own stir-fry meals as a way to differentiate in the competitive Asian restaurant industry.

What used to be new is now boring. Many consumers, for instance, now consider Mexican flavors a part of American cuisine and are looking for new ones, like Indian. Of course, restaurateurs need to constantly innovate with menu items that offer new visuals, flavors, textures and overall experience to really stand out. Top Chef winner Stephanie Izard did that successfully at the Girl and the Goat, and recently bagged Food & Wine Magazine's Best New Chef award.

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4. Utilize social media.

The rapid growth of social media and smart phones has given restaurants a way to get their messages to consumers through easier, faster and relatively low-cost channels. Many restaurants successfully use Facebook and Twitter to communicate with customers and even get feedback on new items. Social deal services like Groupon offer consumers a new reason to check out a restaurant.

By using mobile apps consumers can easily find the closest restaurants, read peer reviews on Yelp and even check out menu items and nutritional information. Location-based networks such as Four Square and Facebook Places allow restaurants to pass messages and deals to consumers when they need it. Of course, the social media revolution is still just getting started with lots of room for restaurants to jump on board.

5. Build and reward consumer loyalty.

Building customer loyalty is fundamental to every business – but restaurants must first reward consumers in order to win their continued loyalty.

One proven strategy is the use of rewards cards. These programs provide an easy way to offer promotions and deals to customers, increasing the value proposition of the restaurant without compromising on the brand equity. Chicago's Bistro 110 Préféré membership program gives consumers redeemable points, free

menu previews, preferential seating and exclusive prizes from cooking classes to a dinner with the chef – all great ways to make consumers feel valued. In addition, loyalty programs and social media are a natural pairing.

Innovating for the new consumer

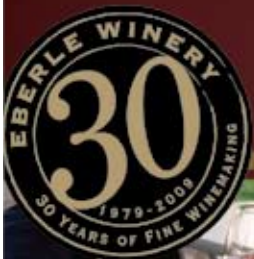
Innovation is no longer as simple as price cuts or reduced calories. Our recommendation to those in the industry is to take a close look at their restaurants' innovation plans to see if they are still relevant. It is only through a deep understanding of consumer preferences that restaurants can develop successful new products and services that will grow their businesses and attract this new customer.

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