

2004 RESTAURANT INDUSTRY

FORECAST

Agenda

- Overview
- Industry Segments
- Operational Trends
- Wrap-Up

2004

STATE OF THE RESTAURANT INDUSTRY

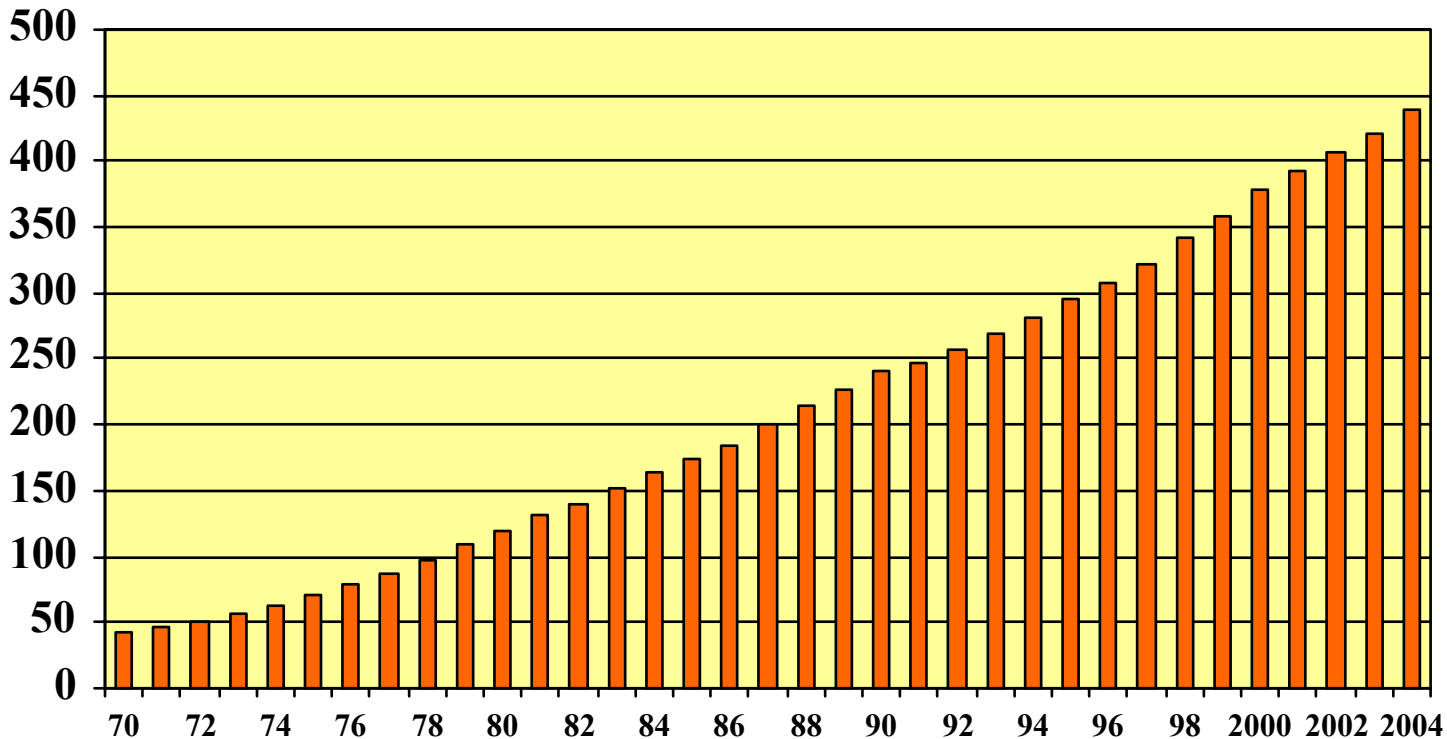
An Overview

2004 Industry Snapshot

Annual sales	\$440 billion
Employees	12 million
Locations	878,000

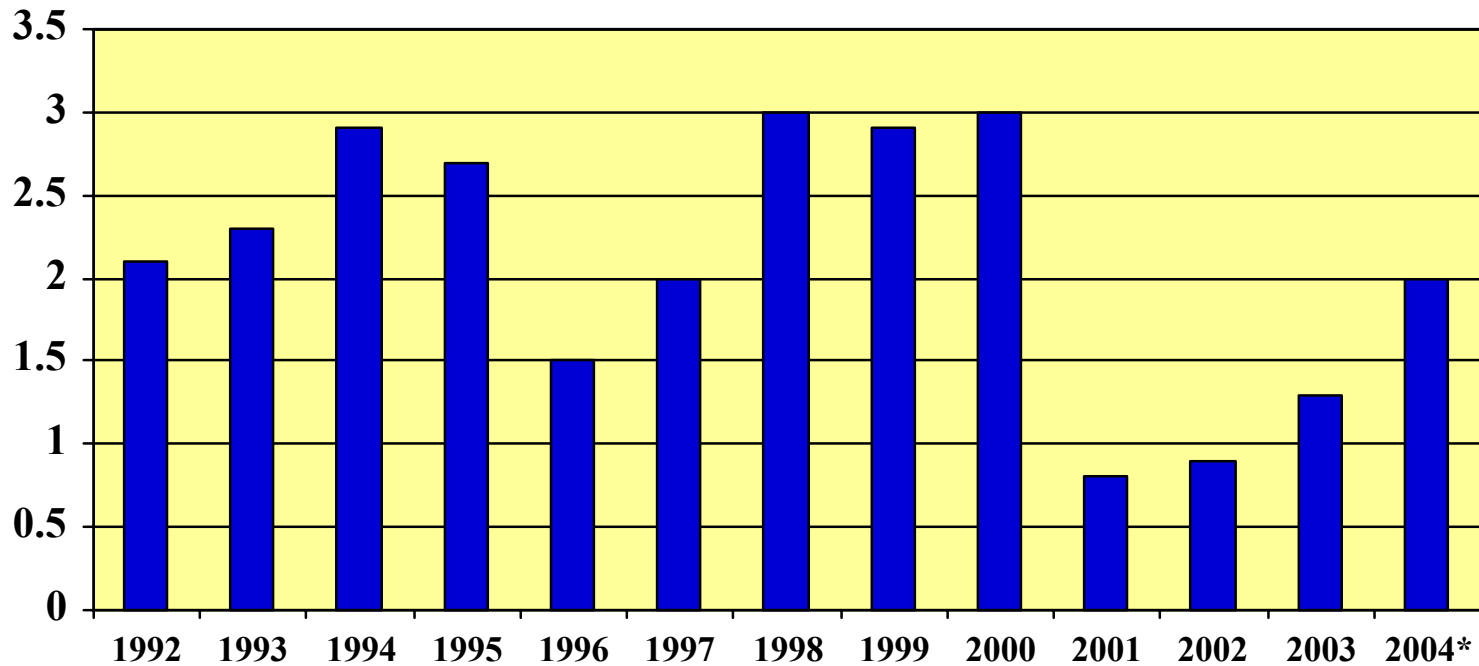
Restaurant Industry Sales

**Total restaurant industry sales (1970–2004)
(in billions of dollars)**



Source: National Restaurant Association

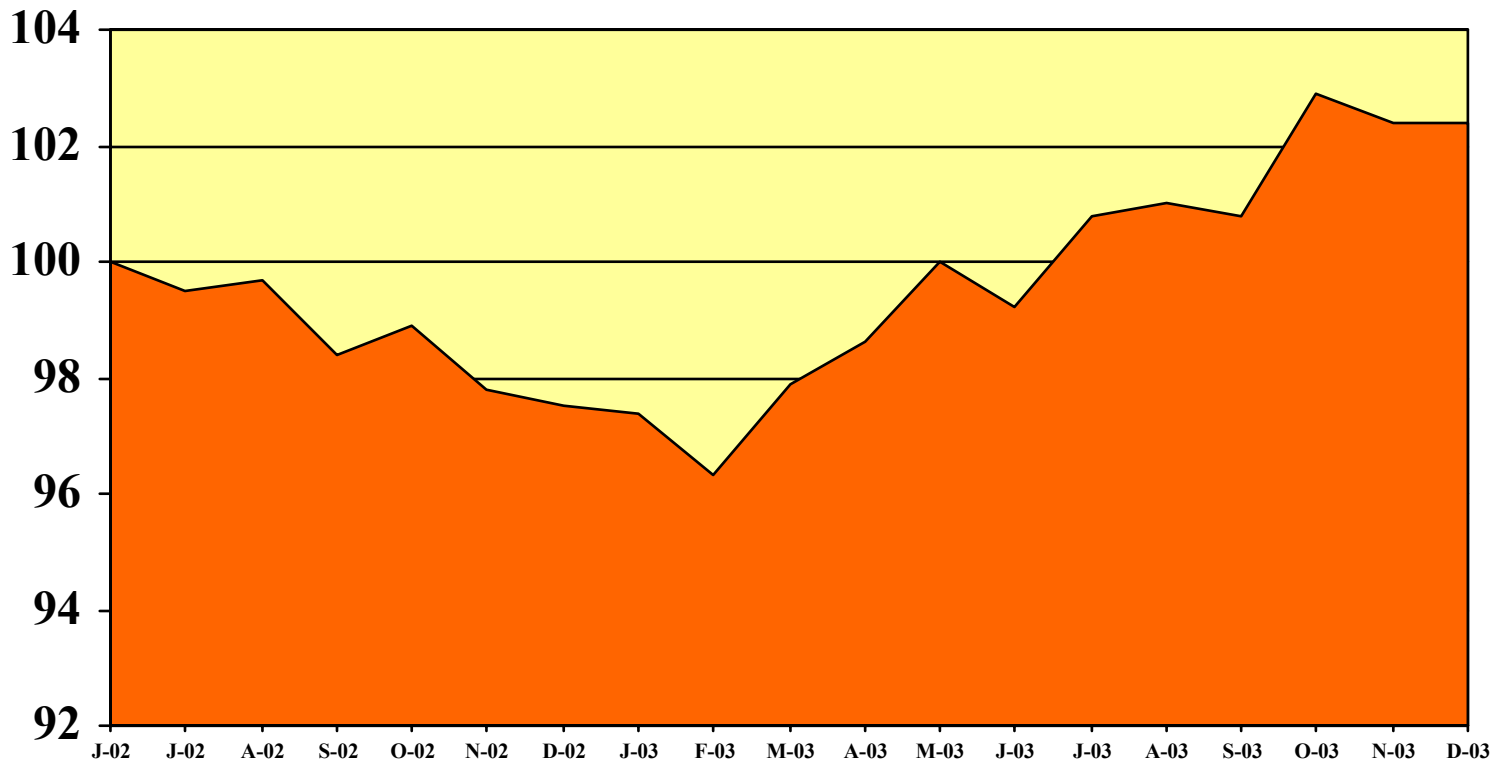
13th Consecutive Year of Real Growth (%)



* projected

Source: National Restaurant Association

Restaurant Performance Index Up in 2003



Source: National Restaurant Association; June 2002 = 100

Industry is Complex and Fragmented

Examples of Restaurant Industry Diversity

- Fullservice
- Quickservice
- Cafeterias
- Caterers
- Snack and nonalcoholic beverage bars
- Managed services/contractors at
 - Industrial plants
 - Hospitals/nursing homes
 - Schools and universities
 - Airlines
 - Recreation and sports centers
- Lodging places
- Retail hosts
 - Book stores
 - Service stations
 - Convenience stores
- Self-operated restaurant services
- Military restaurant services

Source: Bureau of the Census; National Restaurant Association

Restaurants Are Mainly Small Businesses

- Average unit sales in 2001 were \$676,000 at fullservice restaurants and \$599,000 at quickservice restaurants
- More than seven out of ten eating-and-drinking places are single unit/independent operations

Source: Bureau of the Census; Bureau of Labor Statistics; National Restaurant Association

Extremely Competitive Industry

**You have a larger selection of
restaurants available to you than you
did two years ago**

4 out of 5 adults agree

Source: National Restaurant Association, 2003

Restaurants Are Extremely Labor Intensive

Industry	Annual Sales per Full-time Equivalent Employee
Eating-and-drinking places	\$62,000
Grocery stores	\$218,000
Gasoline service stations	\$356,000
Auto dealers	\$712,000

Source: Bureau of Labor Statistics; National Restaurant Association

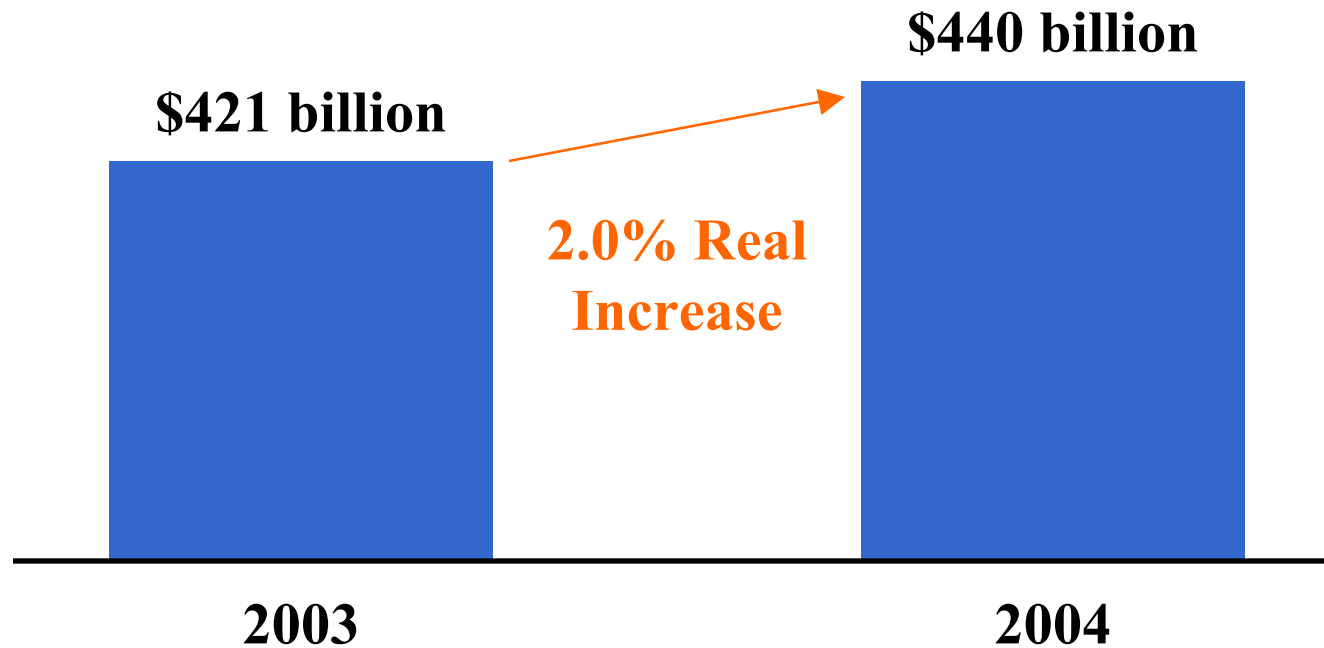
2004

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Industry Segments

Total Restaurant Industry Sales

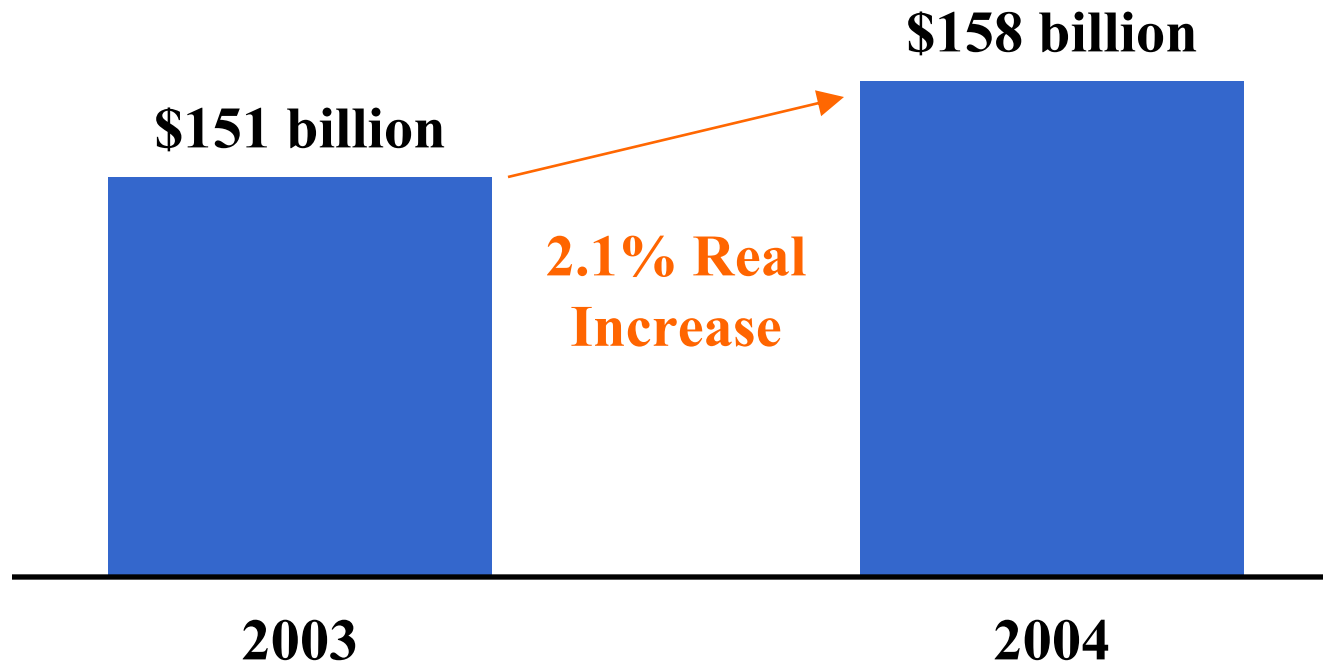
2004 Forecast



Source: National Restaurant Association

Full-service Restaurant Sales

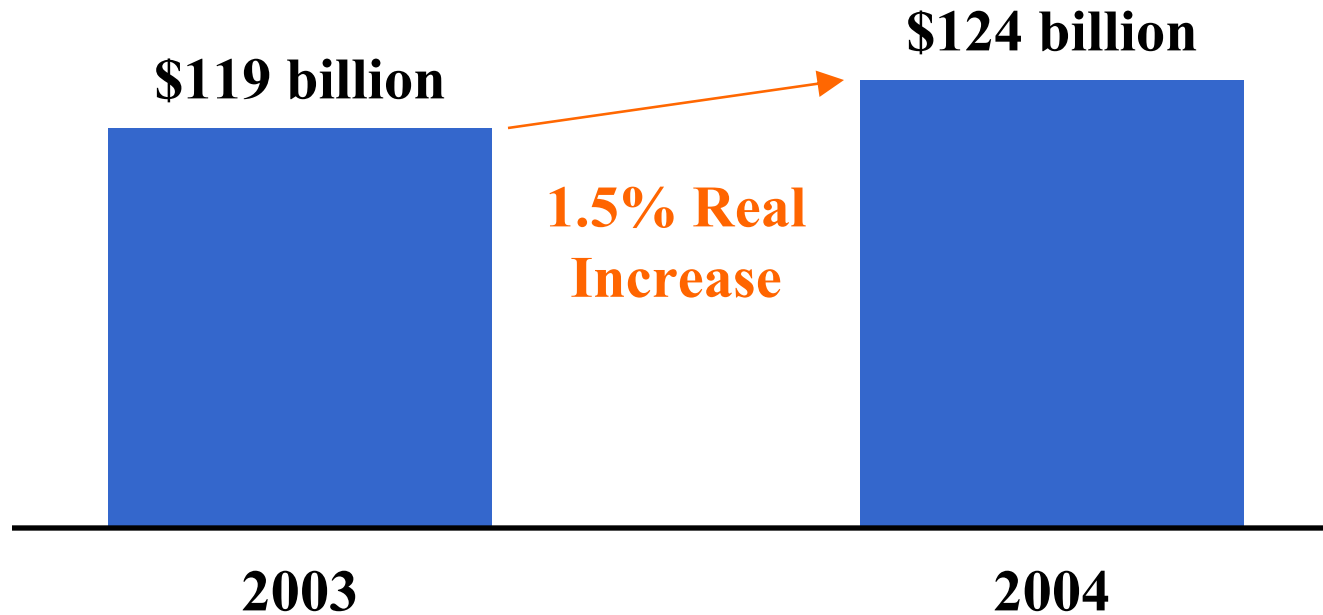
2004 Forecast



Source: National Restaurant Association

Limited-service Restaurant Sales

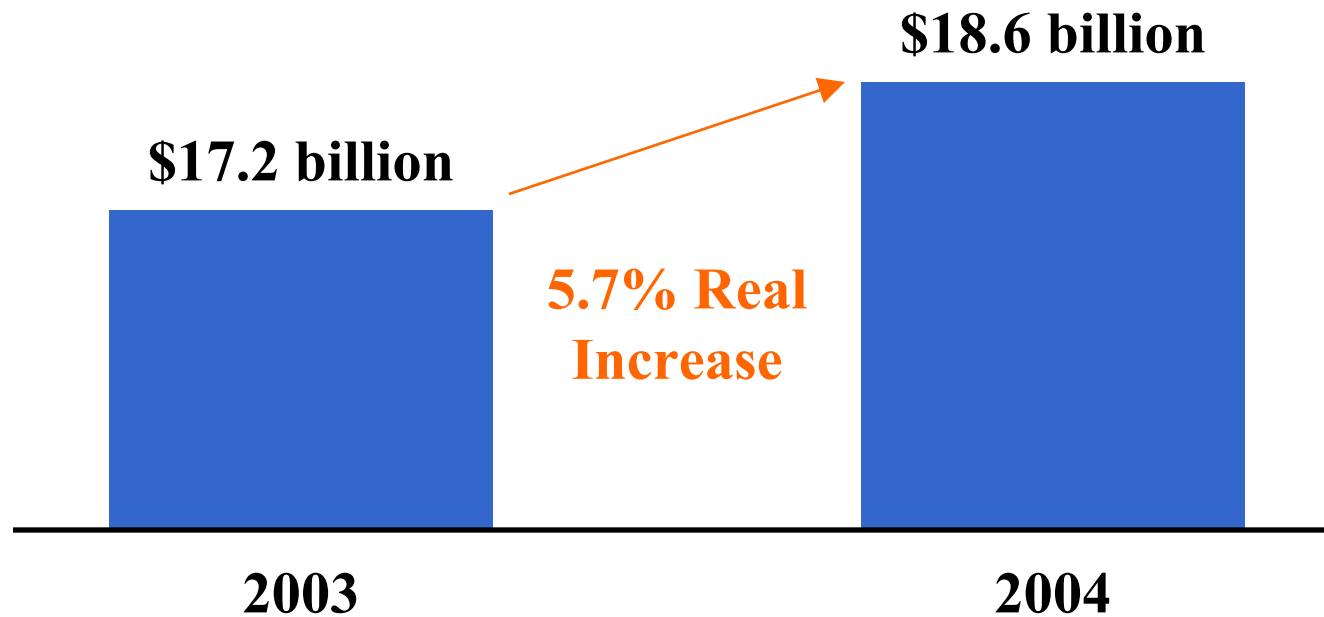
2004 Forecast



Source: National Restaurant Association

Snack and Nonalcoholic Beverage Bar Sales

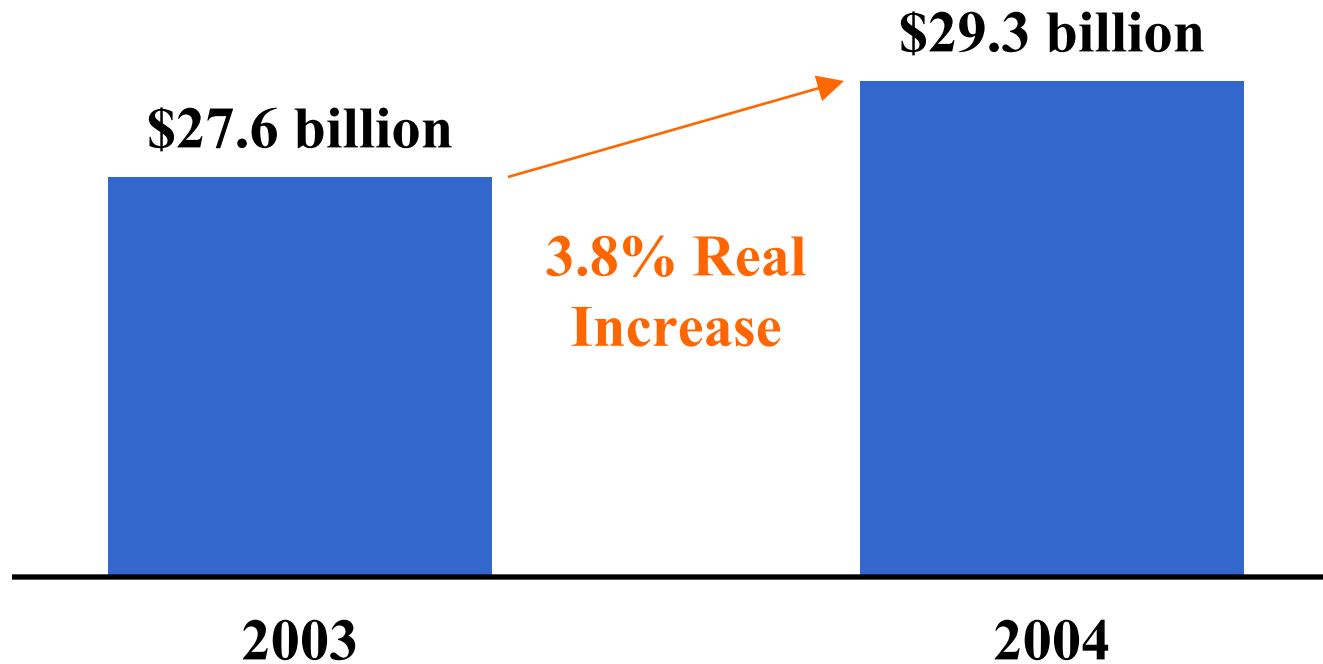
2004 Forecast



Source: National Restaurant Association

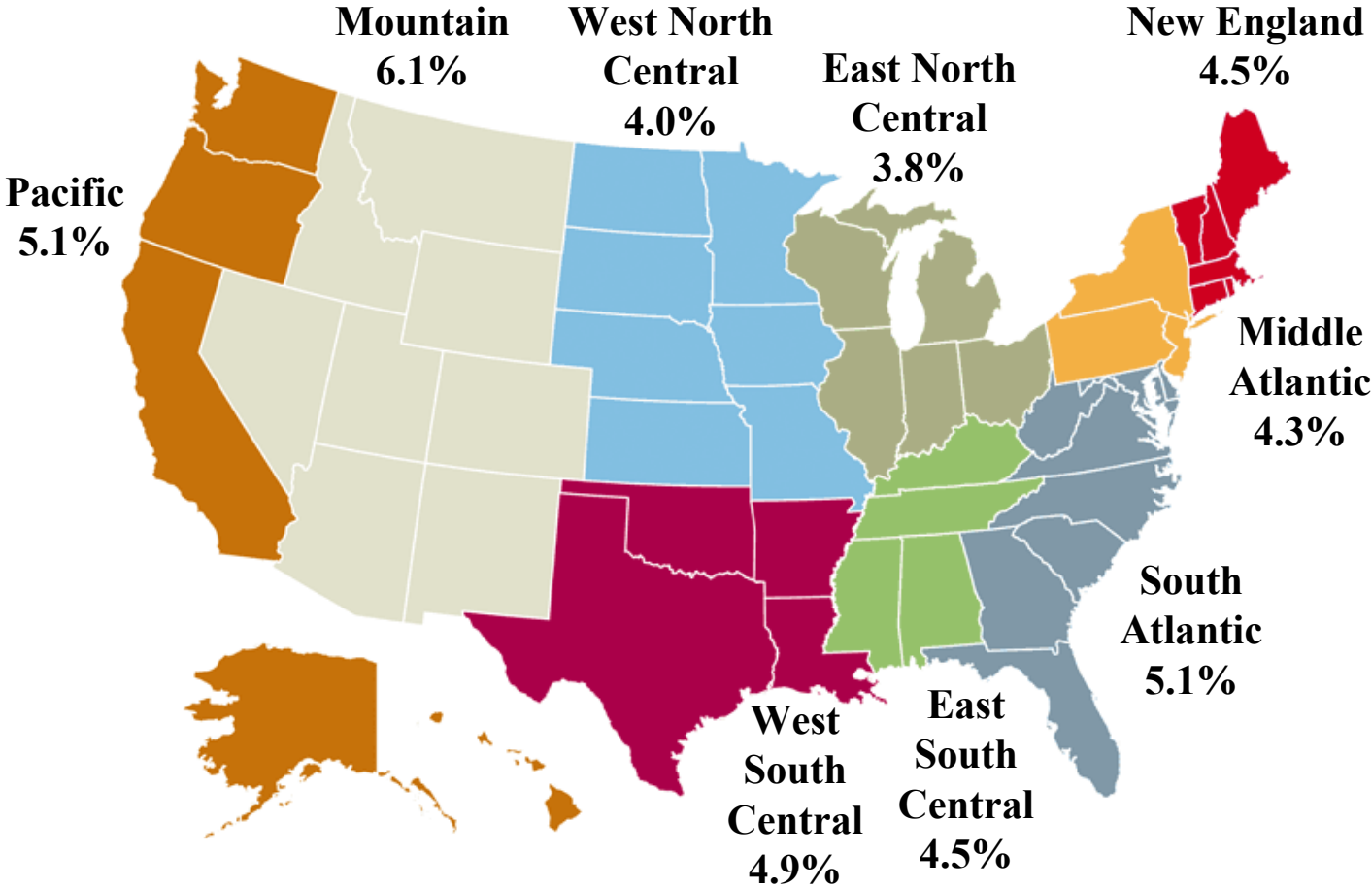
Managed Services Sales

2004 Forecast



Source: National Restaurant Association

2004 Regional Restaurant Sales Outlook



Source: National Restaurant Association

2004

STATE OF THE RESTAURANT INDUSTRY

Consumers

Demographics is Destiny

An Aging Population

Age	1980	2010	Percentage Point change
Under 18	28 %	24 %	-4
18 to 34	29	23	-6
35 to 49	16	21	+5
50 and over	27	32	+5

Source: U.S. Census Bureau; National Restaurant Association

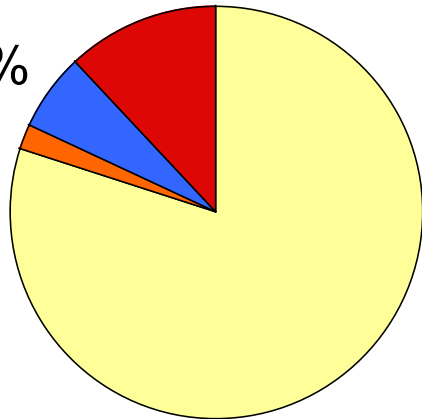
Growing Diversity

1980

African-American^{**}: 12%

Hispanic: 6%

Other: 2%



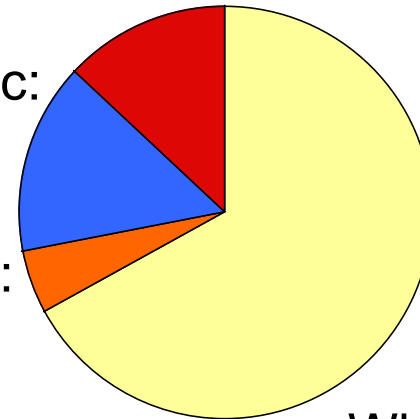
White^{**}:
80%

2010*

African-American^{**}: 13%

Hispanic:
15%

Other:
5%



White^{**}:
67%

* projected

** non-Hispanic

Source: U.S. Census Bureau; National Restaurant Association

Household Income

Consumer Income

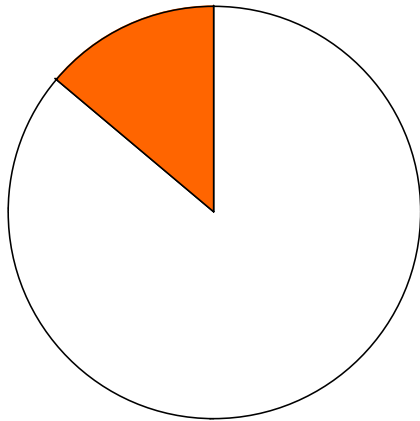
Restaurant patronage is strongly correlated with increases in household income

Real Disposable Income

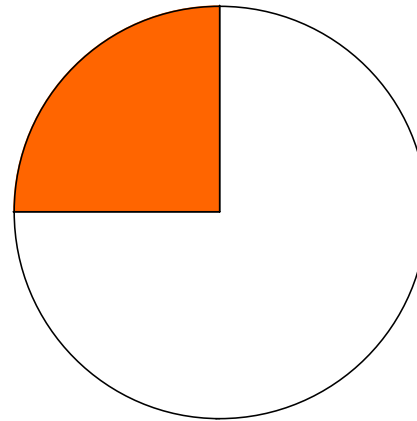
2000	4.8 %
2001	1.8
2002	4.2
2003	2.6
2004	3.0

Source: Bureau of Economic Analysis; National Restaurant Association

More Higher-income Households \$75,000+ (real \$)



14% in 1982



25% in 2002

Source: U.S. Census Bureau; National Restaurant Association

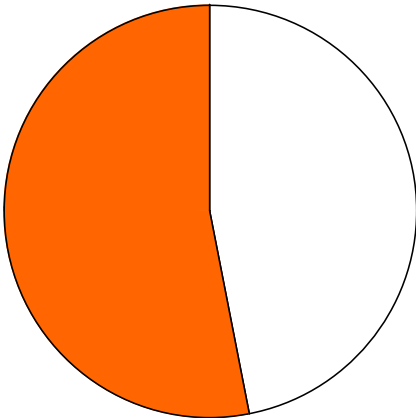
Entertainment / Stress Reduction

Eating at restaurants is usually fun

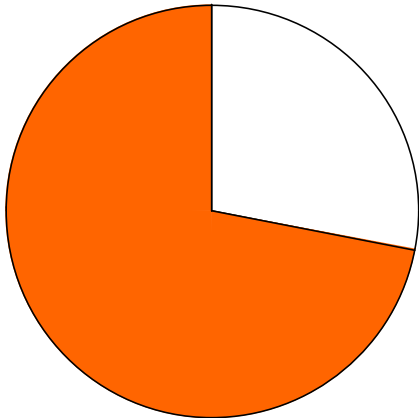
92 percent of adults agree

Source: National Restaurant Association, 2003

Percent of Adults Feeling the Need to Reduce Stress



53% in 2001



72% in 2002

Source: National Restaurant Association

Going out to a restaurant with family and/or friends gives you an opportunity to socialize and is a better use of your leisure time than cooking and cleaning up.

79 percent of adults agree

Source: National Restaurant Association, 2003

Control

**Preparing daily meals at home takes
up more time than you want to spend
on that activity**

47 percent of adults agree

58 percent of 25–34 year olds agree

Source: National Restaurant Association, 2003

**Having carry-out or delivery meals
means you have more time to spend
on other activities**

72 percent of adults agree

83 percent of 18–34 year olds agree

Source: National Restaurant Association, 2003

Increased Emphasis on Self-service

- Food bars
- Self-serve beverage kiosks
- Make reservations over Internet

Customization

Unimaginable Combinations

**A sandwich with five food items
equals 120 possible
combinations**

Unimaginable Combinations

**A sandwich with fifteen food
items equals 1.3 trillion
combinations**

**You have lots of choices on
restaurant menus, so you can decide
exactly what you want to eat.**

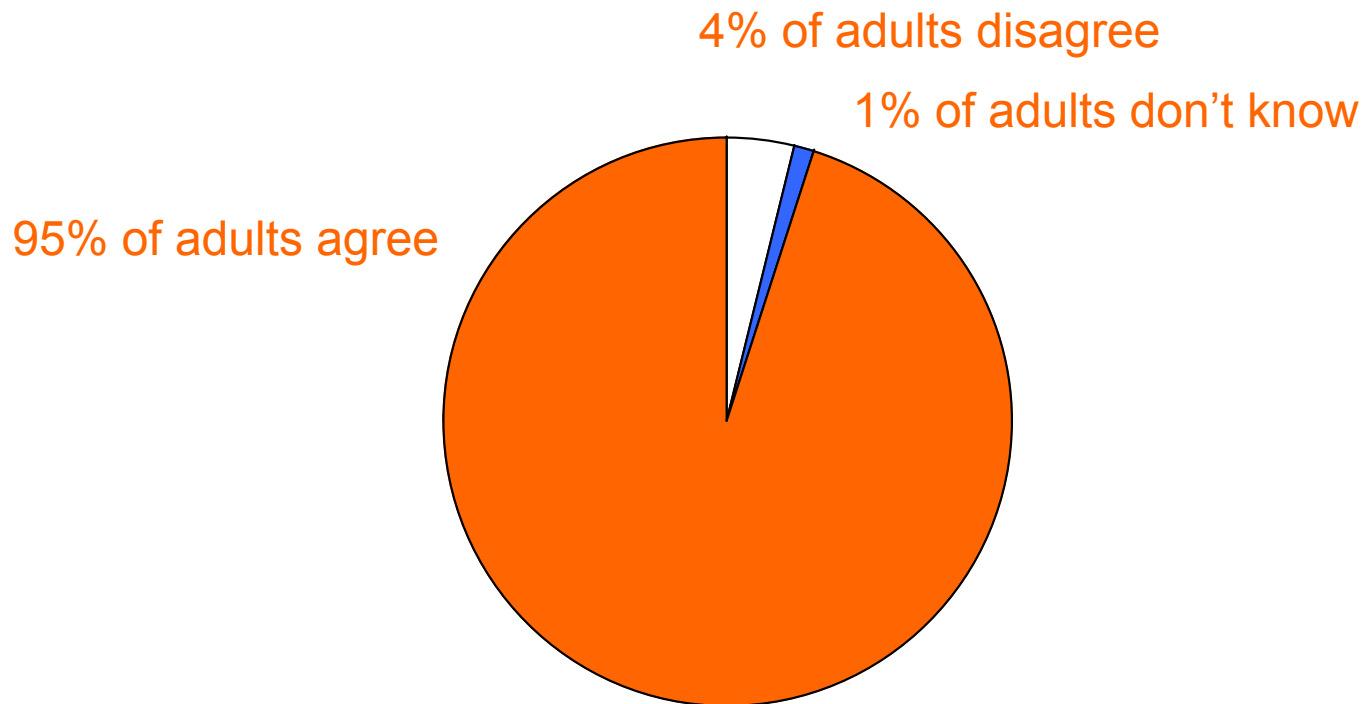
88 percent of adults agree

Source: National Restaurant Association, 2003

71 percent of adults report there are more nutritious foods available to them in restaurants compared to five years ago.

Source: National Restaurant Association, 2003

Restaurants are usually responsive to your special food preparation requests such as “hold the mayonnaise” and “serve the salad dressing on the side”



Source: National Restaurant Association, 2003

- Almost two out of three (64 percent) of fine dining operators report customers ordering more seafood entrees than two years ago.
- More than half of family dining and casual dining operators report customers ordering more salad entrees than two years ago.

Source: National Restaurant Association

Restaurant patrons are satisfied.

**Over eight out of ten adults
(81 percent) are satisfied
with their restaurant
experiences**

Source: National Restaurant Association, 2002

At Home Meals Still Dominate

76 percent of meals are prepared at home

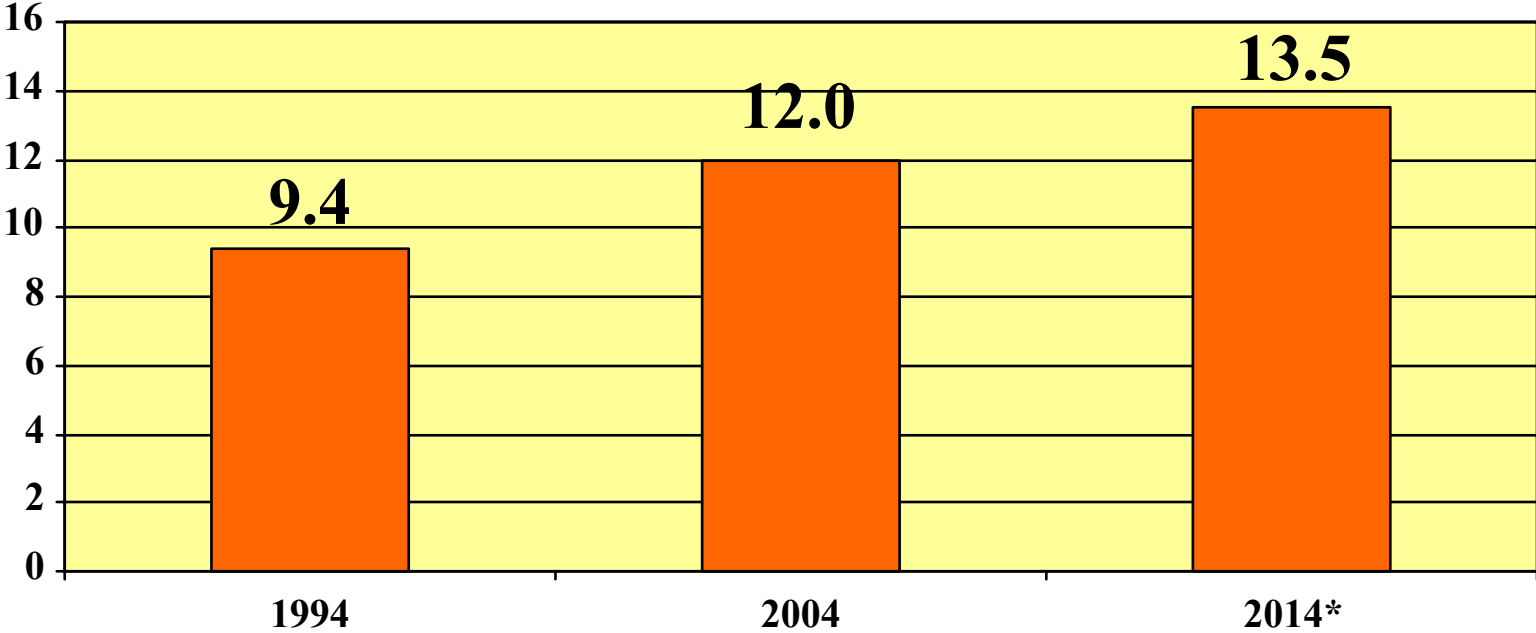
Source: National Restaurant Association, 2002

2004

STATE OF THE RESTAURANT INDUSTRY

Operational Trends

Total Restaurant-industry Employment (in millions)



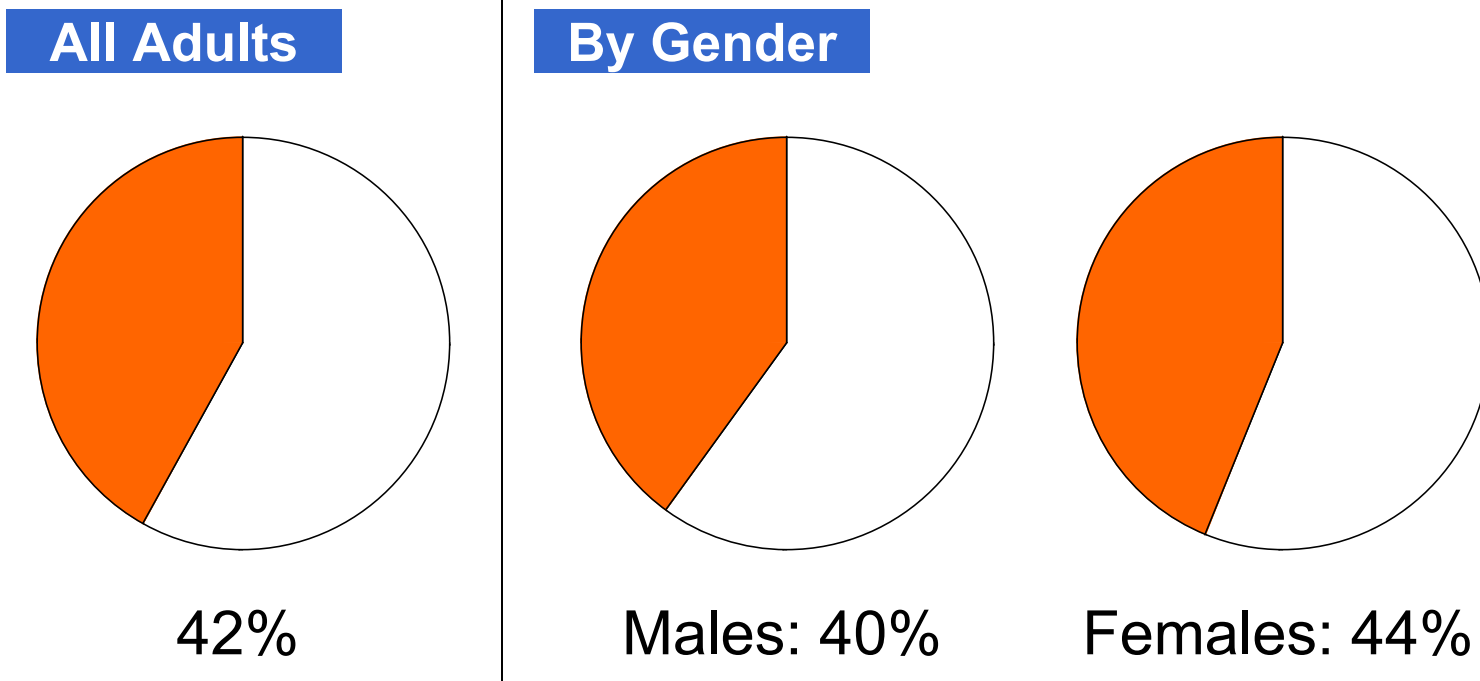
* projected

Source: National Restaurant Association

Restaurants: Training Ground for Millions

More than 40 percent of American adults have worked in a restaurant

Percent of adults who have worked in the restaurant industry

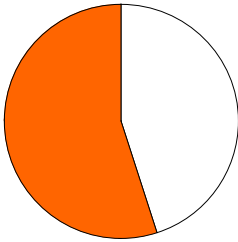


Source: National Restaurant Association, 2003

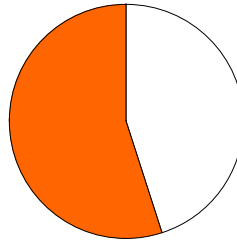
Restaurants: Training Ground for Millions

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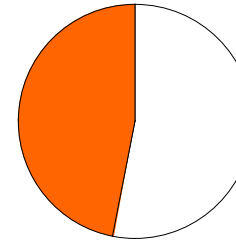
Percent of adults who have worked in the restaurant industry



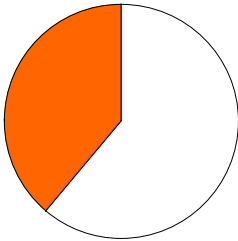
18 to 24: 55%



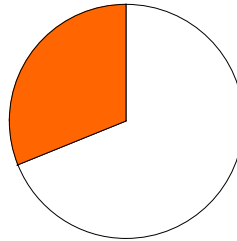
25 to 34: 55%



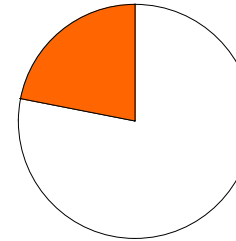
35 to 44: 47%



45 to 54: 39%



55 to 64: 31%



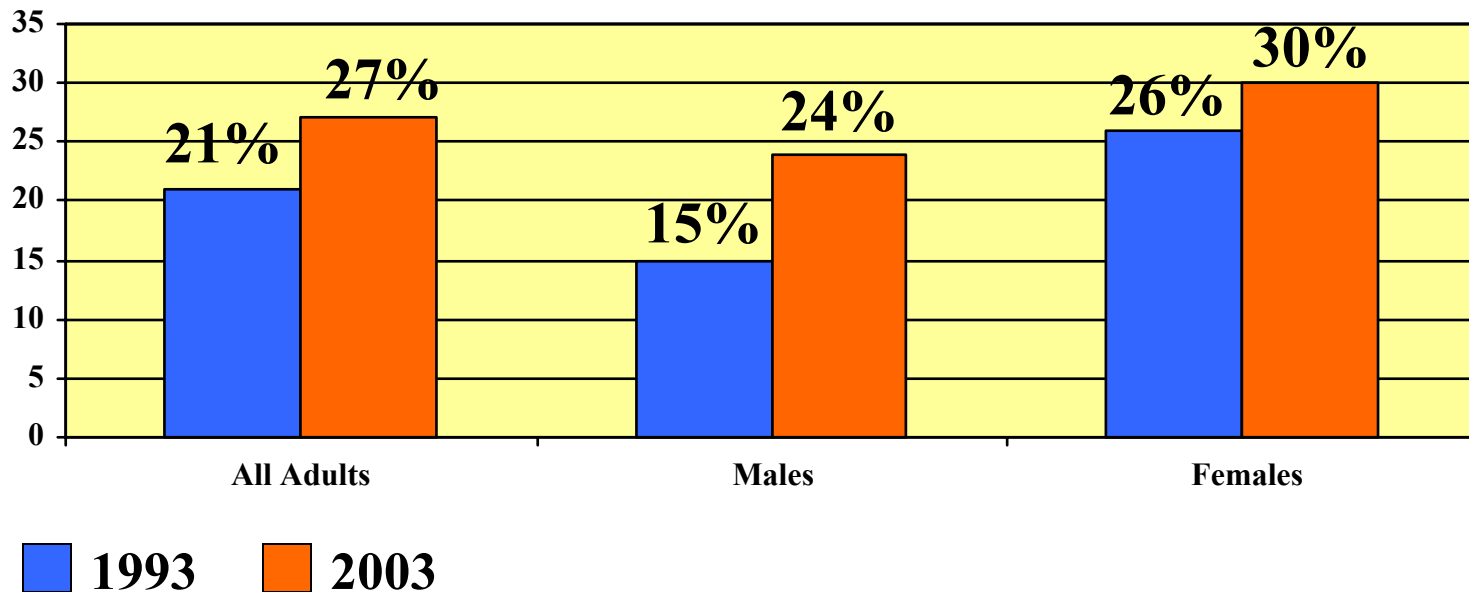
65 and older: 22%

Source: National Restaurant Association, 2003

Valuable First-time Experience

Twenty-seven percent of adults say their first job was in a restaurant

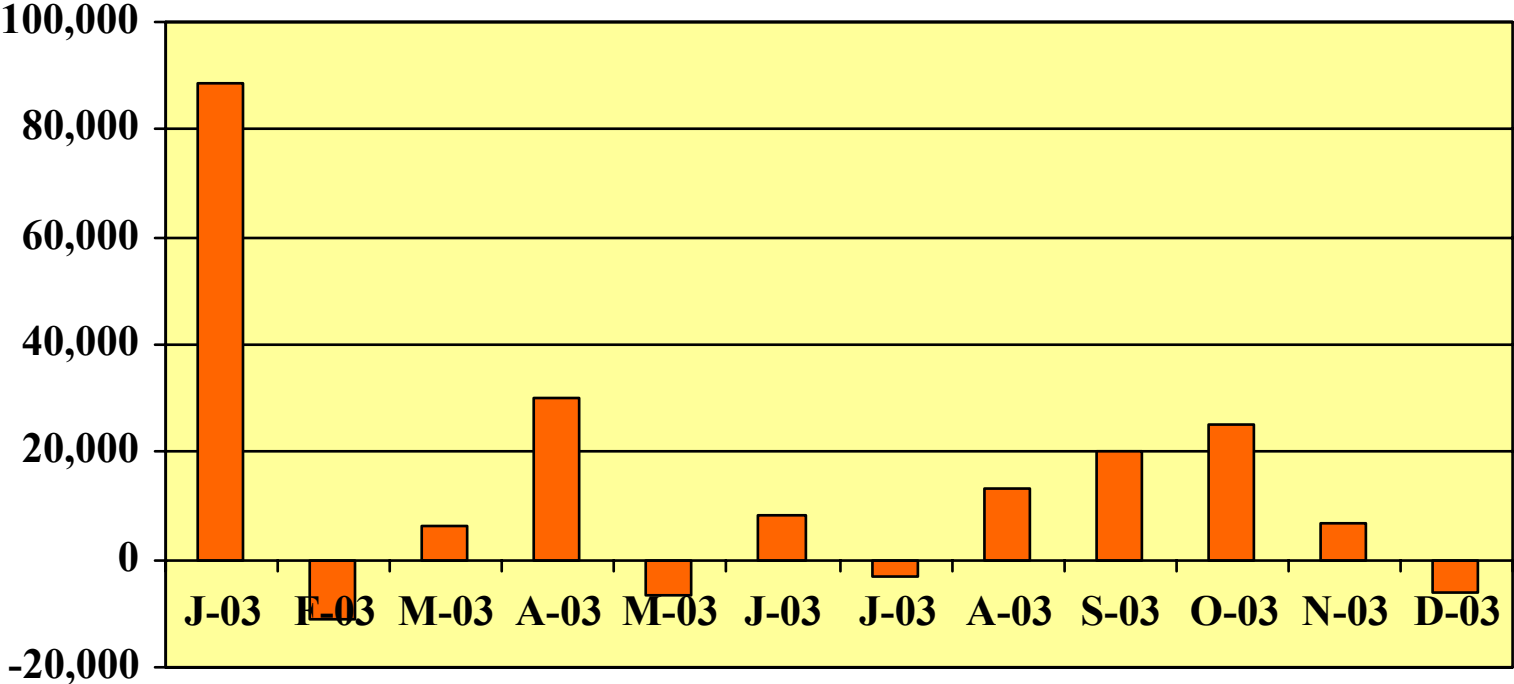
Percent of adults whose first job was in the restaurant industry



Source: National Restaurant Association

Restaurants Added 164,000 Jobs in 2003

Monthly Growth in Restaurant/Bar Employment



Source: Bureau of Labor Statistics; figures are seasonally-adjusted

Top Challenges for Full-service Operators

What is the top challenge you expect to face in 2004?

Percent of full-service restaurant operators, by type of operation, who mention:

	Fullservice Segment		
	Family dining	Casual dining	Fine dining
The economy/recession	16%	16%	35%
Building/maintaining sales volume	14%	14%	23%
Competition	14%	13%	7%
Recruiting and retaining employees	11%	11%	5%
Government	10%	13%	3%

Source: National Restaurant Association, 2003

Top Challenges for Quickservice Operators

What is the top challenge you expect to face in 2004?

Percent of quickservice operators who mention:

Recruiting and retaining employees	20%
Building/maintaining sales volume	20%
Health-insurance costs	12%
Operational costs	11%
Competition	10%

Source: National Restaurant Association, 2003

2004 Spending Priorities

Remodeling and food safety will be higher priorities for table-service operators in 2004

	Average Check Size*			
	Less than \$8	\$8 to \$14.99	\$15 to \$24.99	\$25 or more
TABLESERVICE				
Remodeling	39%	36%	38%	38%
Food safety	39%	43%	34%	34%
Advertising/promotion	27%	33%	36%	35%
Training	24%	27%	31%	35%
New products	29%	34%	27%	26%

* Percentage of restaurant operators, by average check size, planning to allocate a larger proportion of their budget to selected items in 2004

Source: National Restaurant Association, 2003

2004 Spending Priorities

Remodeling and food safety will be higher priorities for quick-service operators in 2004

	Average Check Size*	
	Less than \$5	\$5 or more
QUICKSERVICE		
Remodeling	60%	51%
Unit expansion	30%	47%
Local store marketing	40%	41%
Technology	42%	41%
Training	35%	31%

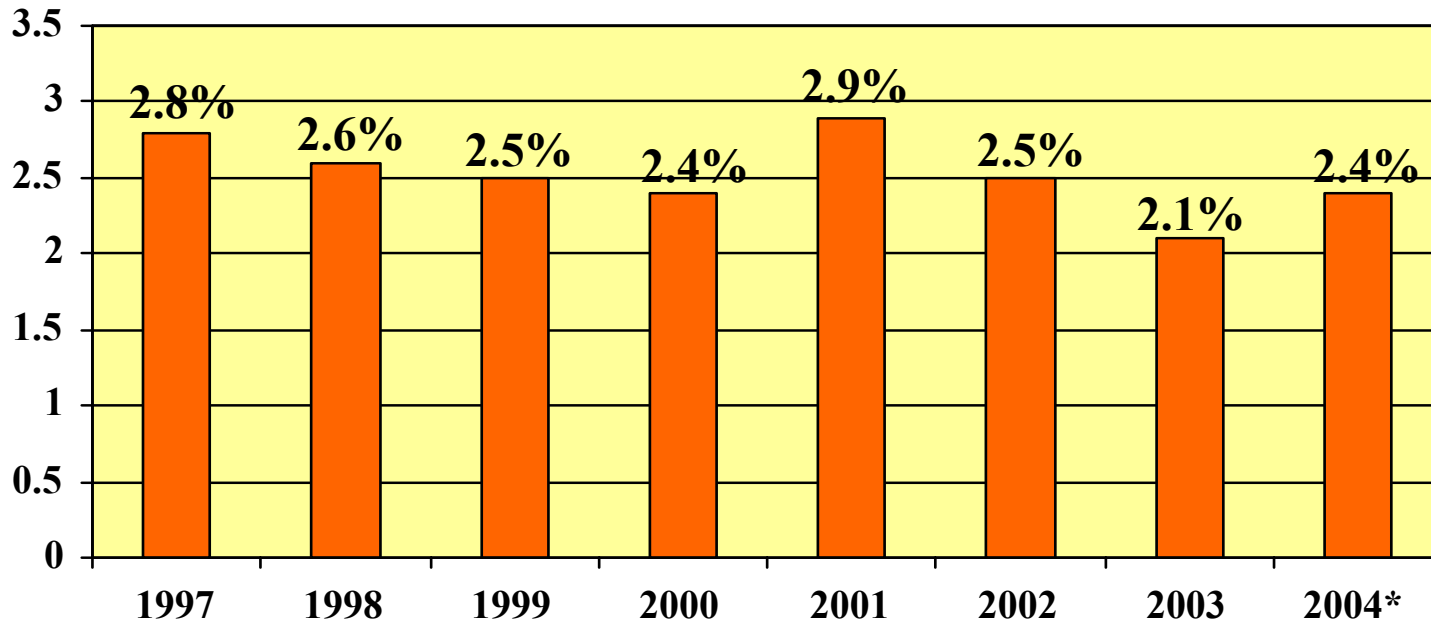
* Percentage of restaurant operators, by average check size, planning to allocate a larger proportion of their budget to selected items in 2004

Source: National Restaurant Association, 2003

Menu Prices

Growth will continue to be moderate in 2004

Annual growth in menu prices

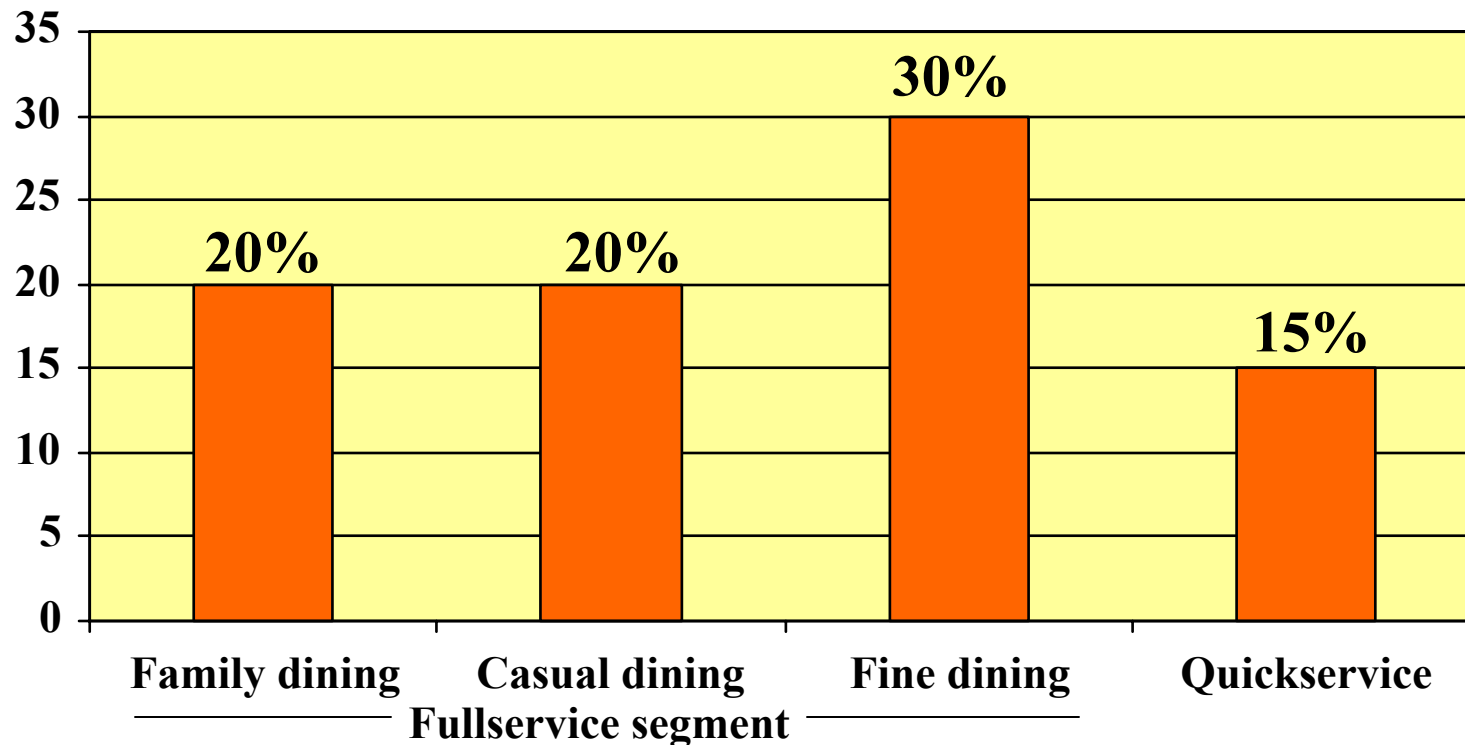


* projected

Source: Bureau of Labor Statistics, National Restaurant Association

Tourism is Important

Median proportion of restaurant sales represented by travelers and visitors



Source: National Restaurant Association, 2003

2004

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Wrap-up

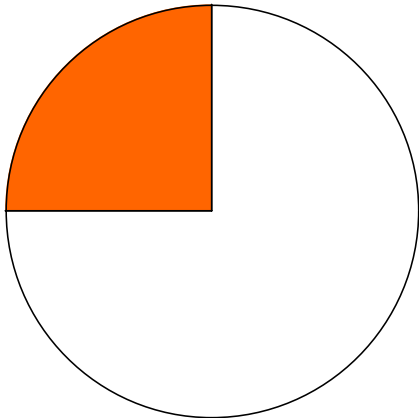
Wrap-up

- Restaurant industry characteristics
 - Consumer driven
 - Large and diverse
 - Fragmented
 - Small business dominated
 - Extremely competitive
 - Labor intensive

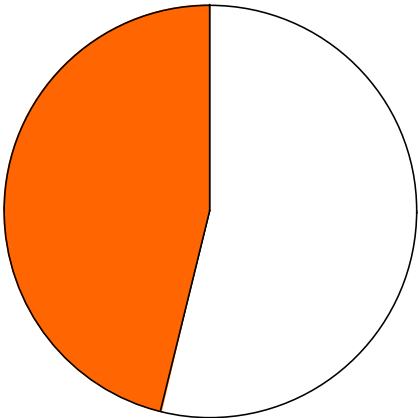
Wrap-up

- Consumer drivers
 - Entertainment
 - Convenience
 - Socialization
 - Control
 - Health/nutrition
 - Household income
- Consumer satisfaction levels high
- Industry expansion to continue
- A bright future

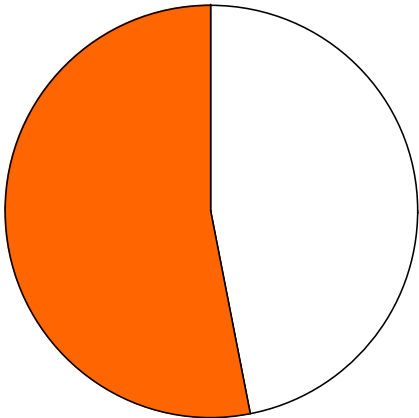
Restaurant Industry's Share of the Food Dollar



25% in 1955



46.4% at present



53% in 2010*

* projected

Source: National Restaurant Association

2004 RESTAURANT INDUSTRY

FORECAST