

## Changing Demographics and Brand Appeal Put Pressure on Casual Dining

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By Robert Hadley

9990 Linn Station Road in Louisville, Kentucky, seemed like an ideal location for a T.G.I Friday's restaurant, and for some 30 years, it was.

Linn Station Road boasts proximity to Hurstbourne Parkway, a 50,000-car-per-day road dissecting one of Louisville's most affluent suburbs and home to a thriving retail corridor populated with a Wal-Mart, large auto dealership, Staples, Office Depot, and other retail regulars.

All of these traffic generators lay within a five-mile radius of two of the state's largest shopping malls, themselves thriving within a mile or so of each other. There was growing competition, but the market seemed able to support it.

But the economic decline that began in 2008, plus the advent of more restaurants in the area, made the once desirable location increasingly less profitable. On March 1, the T.G.I. Friday's operator, The Bistro Group, the nation's third-largest T.G.I. Friday's franchisee, closed the store, which was the chain's oldest continually operating location in the U.S.

### A Complex Dynamic

It would be easy to blame the store's failure on the sagging economy and leave it at that, but analysts say the closure is the symptom of a complex dynamic affecting chains across the country.

Jason Baker, co-founder and principal broker for Baker Katz, a commercial real estate firm based in Houston, Texas, explains that consumer behavior patterns, market forces and increased competition are all to blame for the demise of this store, as well as some stores operated by other casual chains. Baker Katz's restaurant clients have included Outback Steakhouse, Carrabba's, and Domino's Pizza.

"During a recession, you have two types of restaurant

customers," Baker says. "Those who are going to eat out often no matter what the economy does, and those who will eat out less often. Frequent diners are more likely to choose something more upscale, like Carrabba's, while occasional diners have traded down [in price], more towards a Jason's Deli."

University of Louisville marketing professor Wayne Jones says this theory about consumer behavior, which he calls "traditional wisdom" in the restaurant industry, still seems to be the case today. Jones' restaurant experience began in 1969 with KFC Corp. and includes stints in senior management with Arby's, Chi-Chi's, Tumbleweed, the International Pizza Hut Franchise Holders Association, Heinz, and General Mills.

"There's a group with a lot of discretionary income that will eat out no matter what happens [to the economy]," Jones says. "There's a bigger group that still wants to go out but has traded down some. That dynamic is still very much in play".

### Brand Positioning Brings Challenges

For T.G.I Friday's and other casual dining chains, competing for evaporating customers during a recession becomes even more challenging when you factor in brand positioning and customer expectations.

Over the past decade, Friday's, Applebee's, and other casual chains have distanced themselves from the happy-hour atmosphere that emphasized margaritas and other alcoholic beverages, an image they had cultivated in their early days, Baker says. They're now sending a more family-oriented message.

Shifting attitudes towards alcohol consumption, partly a result of lawsuits filed against restaurants for allegedly serving alcohol that may have caused traffic fatalities, may have led to the change in branding among casual

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chains.

“At one point, 30 percent of our corporate volume came from the sale of margaritas,” Jones says, offering a statistic from his days in senior management for Chi-Chi’s. “Today [at many chains], it’s closer to 10 percent total volume from alcohol.

These figures are borne out by the National Restaurant Association, which states that alcoholic beverages account for a median of 9.1 percent total sales at restaurants that have per-person checks under \$15; 22 percent of those with average checks of \$15 to \$24; and 28 percent where checks are \$25 and above.

“Some restaurants may have higher percentages, especially if they highlight signature drinks,” says Annika Stennson, spokeswoman for the NRA.

Shifting a brand that once marketed a happy-hour atmosphere to a more family-oriented one can create marketing problems, said Tony Bombacino, president and chief operating officer for Geomentum, a \$2 billion-a-year advertising agency serving retail and restaurant clients.

### **The things that appeal to families-food, quality, and value-may not resonate with younger crowd.**

“So,” he added, “if a customer wants to go out and relax with friends, but the restaurant is talking to them in a different way, there’s a disconnect there that can lead the customer to chose a different [restaurant] concept.”

And Jones, the marketing professor, cautions that attracting younger customers and families to casual restaurants depends on more than simply cutting the price.

“Price in that segment is not a sensitive as people think,” he points out. “It’s more of a price/quality dynamic. If you’re putting out good food at \$12 a plate, you’ll do

better than if you charge \$9 f plate for mediocre food.”

### **Demographic and geographic factors drive site selection**

Given all these changes, along with the economic and marketing challenges facing the casual dining segment, location planning has become paramount.

W. Kent Taylor, chairman and founder of Texas Roadhouse, which operates 345 restaurants in 46 states, found that the first step to choosing an ideal location was knowing your customer.

When three of the first five Texas Roadhouse restaurants he opened began to under-perform (and were eventually closed), Taylor used customer surveys to find out what was wrong.

“At the two successful restaurants, we found that our primary guest was in the 35 to 55 age bracket,” Taylor says. “At the failed restaurants, the clientele did not visit as often and was in the 65 to 85 age group.”

As a result, Taylor says the chain revamped its menu to appeal to younger customers and chose new restaurant sites located closer to residential area with younger demographics and families. The menu changes included adding salads and more reasonably priced items.

Texas Roadhouse now gives its franchisees guidelines for developing locations that will succeed. According to the company’s annual report, site selection takes into account demographics, household income, and population statistics, with the approval process taking at least three to six months.

“we like to be near high traffic areas, which tend to be in a retail zone,” Taylor says.

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T.G.I Friday's also puts a lot of work into site location.

Lee Sanders, president, U.S. franchising for the chain, says it selects locations based on input from real estate brokers, franchisees and an analytical model developed by Buxton Co., a Fort Worth-based demographic firm.

"A great T.G.I. Friday's is convenient, accessible, and visible to our guests," Sanders says. "We provide a great dining and bar experience during lunch, dinner and late nights, so it is important to be in an area that has high traffic and usage during these three dayparts."

Despite the current state of the economy, good locations are still available for casual chains.

"Small towns often make good locations," Jones adds. "Applebee's and some other chains are pushing to expand there because they could be the only restaurant in a particular town."

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