2018 FOOD INDUSTRY REPORT

ABOUT THIS STUDY:

We decided to focus our 2018 Food Industry Report entirely on casual dining chains. Once the crown jewel of the US restaurant landscape, casual dining chains have felt pressure from independent urban establishments as well as fast casual restaurants such as Chipotle and Panera.

First, let's establish what we mean by casual dining chains. The restaurants in this report all have a large regional if not national presence, are affordable for the typical American family, and offer middle-of-the road fare. Though we may all be pressed to provide a precise definition for these restaurants, we all know them when we see them (see page 4).

Uncovering what customers love and loathe the most about these chains, as well as what drives them to one chain in particular over the other is a central goal of this report. Accounting for demographics and advanced cluster analysis, we offer, then, a portrait of the typical US casual dining chain consumer, offering invaluable data and key recommendations along the way. We surveyed 1,248 people who had eaten at one or more casual dining chains between 3/16/18 and 3/31/18, asking about their dining habits, experiences, and perceptions.

Let's dig in.

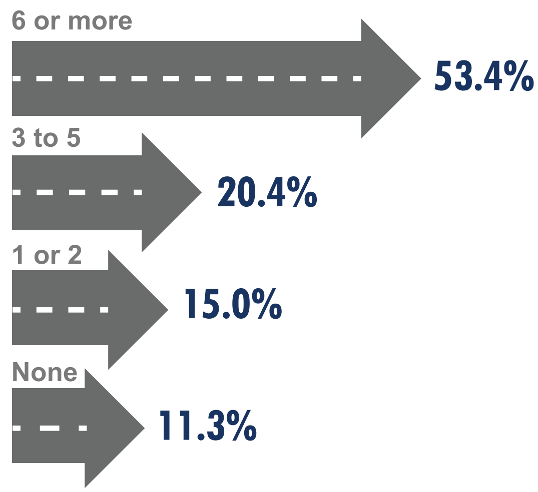
ABOUT TRENDSOURCE

TrendSource is a full-service market research and strategic consulting firm based in San Diego, California. We work with some of the top retail and food service brands in the world to help grow their business, offer support for entering new markets, integrate new marketing materials, work to improve customer service standards, and validate promotions and previous work. Contact us about developing a custom plan for your restaurant.

AN OCEAN OF CHOICES OR A SEA OF SAMENESS?

HOW MANY CASUAL DINING CHAIN RESTAURANTS ARE WITHIN A 20-MINUTE WALK OR DRIVE OF YOUR HOME?

OVERALL



And the thing about casual dining chains is, well, there's a lot of them.

Only 11% of respondents do not live within a 20-minute walk or drive from at least one casual dining chain; for the vast majority (53%) there are 6 or more within that distance. Over half of our respondents live within a 20-minute walk or drive from at least six casual dining chains. Another 20% have 3-5 options within that distance.

Those numbers are enormous. Think of another industry boasting such numbers. Convenience Stores, sure. Fast Food? Maybe. But few industries and fewer restaurant segments represent that level of ubiquity for that many people.

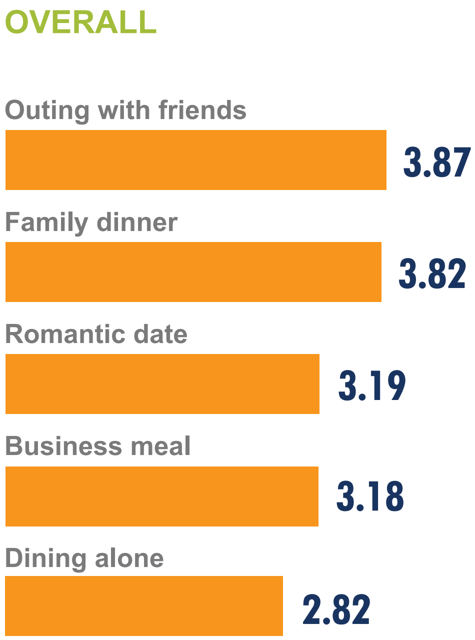
While this seems like good news for the segment—they seem to have coverage across the country—it also speaks to the density and competition within it. Indeed, saying nothing of the competition from fast food, fast casual, and independent dining (more to come on those later), our aggregate respondent has an embarrassment of choices when they decide to head out for a quick casual dining bite.

This density has led chains to find differentiators, often based on price, often leading to mutual-assurance-of-self-destruction discount wars within the segment (particularly Applebee's v. Friday's). Price aside, casual dining chains must find ways to differentiate themselves in this "sea of sameness" and we have a few ideas how.

YOU KNOW, MY DARLING, I CAN'T STAND TO EAT ALONE

Consumers have plenty of nearby options once they decide to hit up a casual dining chain, but what occasions drive them there in the first place? What sorts of dining parties can be found in these restaurants?

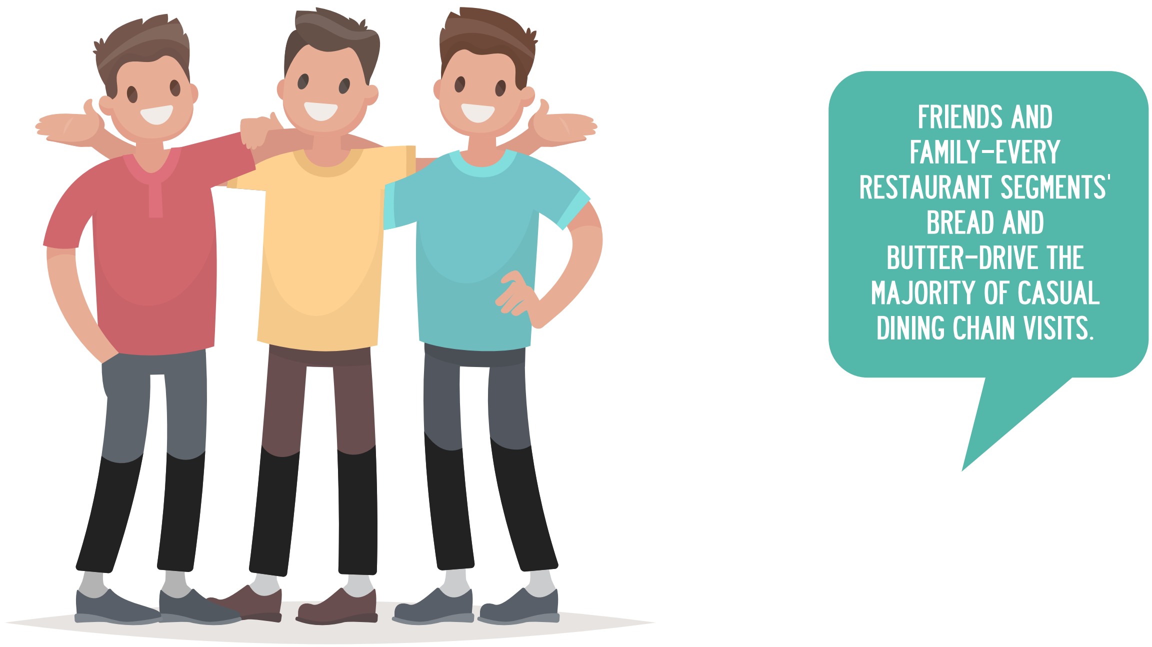
HOW LIKELY, ON A SCALE OF 1-5, ARE YOU TO CHOOSE CASUAL DINING Chains IN EACH OF THESE SITUATIONS?



1 = not at all likely 2 = slightly likely 3 = somewhat likely 4 = very likely 5 = extremely likely

Friends and family—every restaurant segments' bread and butter—drive the majority of casual dining chain visits. Lagging distantly behind, romantic dates and business meals. Look, we are going to say this as gingerly as possible: these are not the types of places most Americans go to, well, show off. Taking a date or a business prospect to a casual dining restaurant, no matter how awesome the blossom, may not necessarily strike the most impressive note. But a quick bite with your brother and a college buddy? Go for it! Those guys are stuck with you already.

This speaks to comfort and familiarity—once you don't have to shine anybody on, you can go for what feels safe, basic, and no-hassle. That's where this segment makes its money, and we will return to this topic soon and repeatedly.



HOW LIKELY ARE YOU TO CHOOSE CASUAL DINING CHAINS IN EACH OF THESE SITUATIONS?

BY GENERATION

A couple side notes must be mentioned, however. First, let's pour a discount soft drink out for the silent generation, which is far likelier than any other generation to be found at a casual dining chain eating alone. Whether they are widowed, single for life, or simply tired of their partner (hey, sometimes you just run out of stuff to talk about), smile at the next senior you see going one-on-one with a crossword puzzle in the Denny's booth.

Second, and far more relevant to restaurants' bottom lines, Generation X really likes this segment. They are likelier than any other generation to hit it up for an outing with friends, a family dinner, a romantic date, and a business meal. There are a couple of explanations behind this, we believe.

Generation X came of age with this segment, and probably even had their own first legal adult beverage at a Friday's or somewhere similar. Second, they are the grown-ups now. They are the ones who have adult responsibilities like managing family dinner, taking the kids to little league, and getting the old squad (Flossy Posse!) together for a quick drink. They are busy, have disposable income, and came of age in a moment where Friday's was fun and full of flare. They are the segment's biggest fans and its most loyal supporters. If only they'd sit with their grandma at Cracker Barrel.

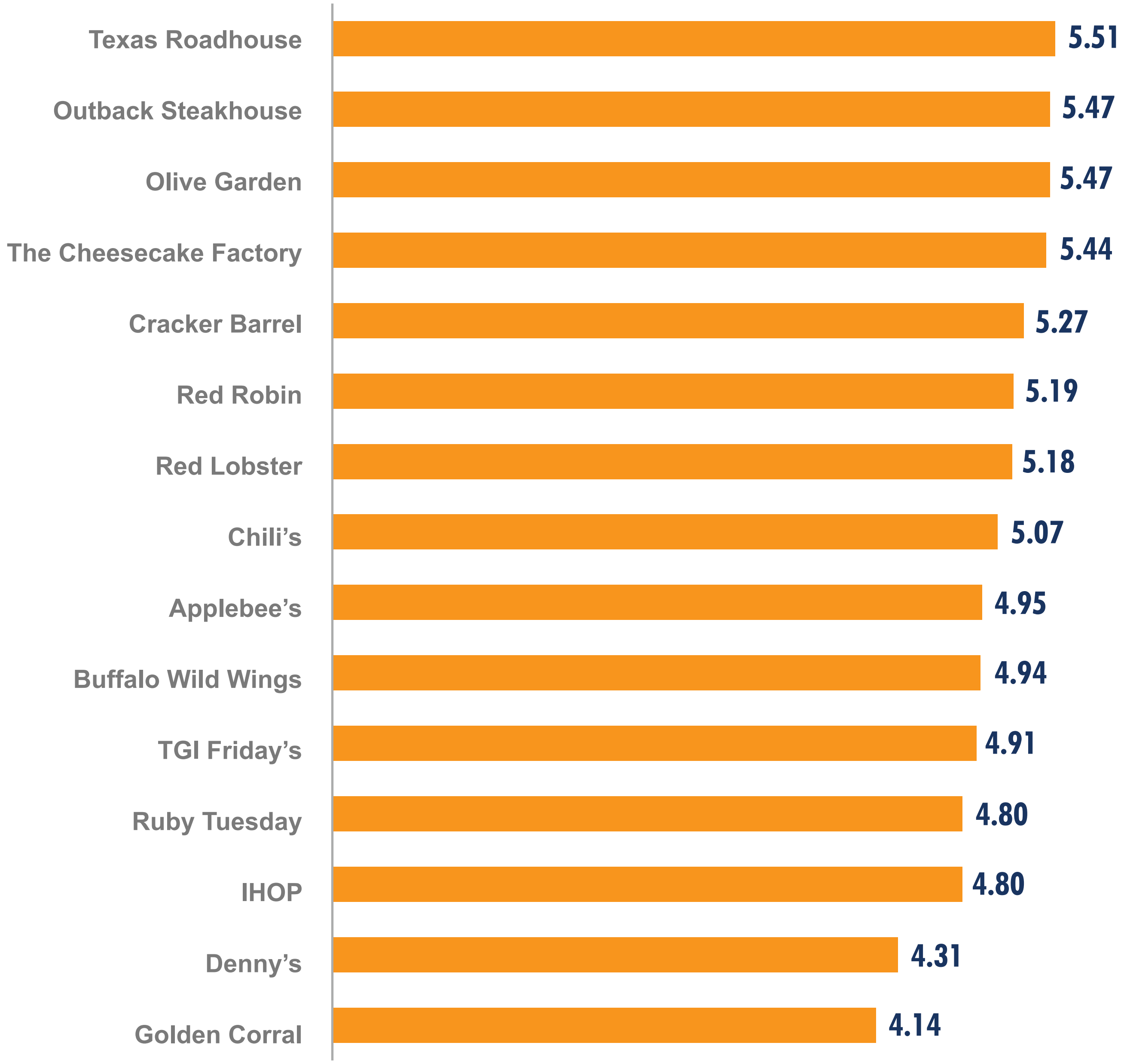
BUT WHO DO THEY LOVE THE MOST?!

Ok, here's what you came for.

We asked our respondents to rate the 15 largest (by volume) casual dining chains in the nation.

OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS

1 = extremely negative 2 = moderately negative 3 = slightly negative 4 = neutral
5 = slightly positive 6 = moderately positive 7 = extremely positive



There are clear winners and losers, but it is important to remember that although they are spread across the country, restaurants operate uniquely in different spaces and among different people. So while the overall data is fascinating (and must have Texas Roadhouse doing donuts in the parking lot) it is far more instructive to break it down into segmentations.

For example, a lot of these chains get a significant rural bump, meaning they are disproportionately more popular among rural communities than they are in urban sectors. This is particularly true for Cracker Barrel, Applebee's, Denny's, and Golden Corral, but also visible in nearly half of the chains evaluated.

Only more tonier locations with a distinctly urban ambiance (looking at you, Cheesecake Factory) do not enjoy this rural bump. This likely has to do with the relative lack of competing segments within these communities, and also with the "everyday American" posture with which many rural dwellers identify.

Yet the largest variance we see doesn't come from community segmentations, but rather generational.

OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS

Rural Suburban Urban

BY COMMUNITY

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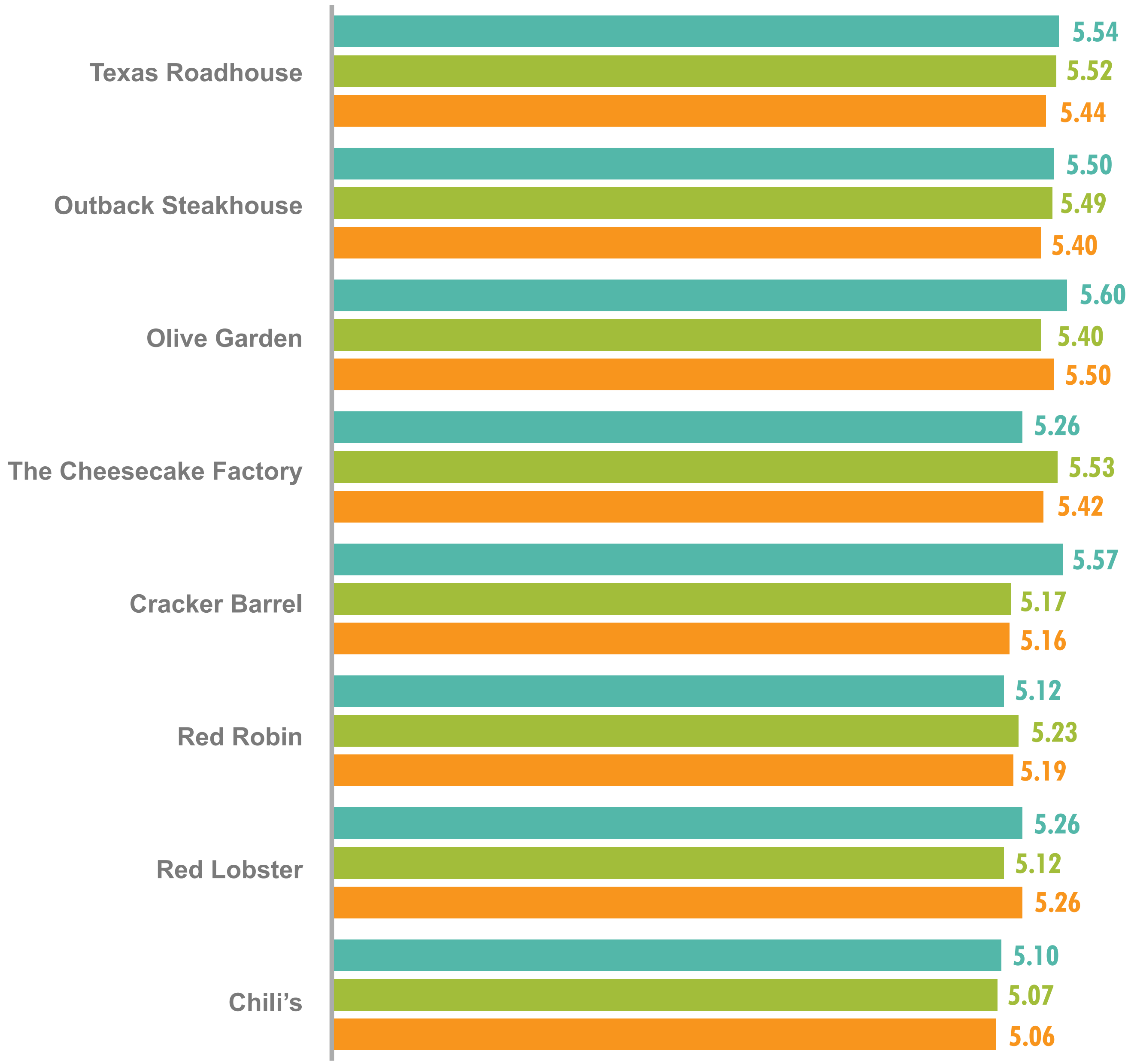
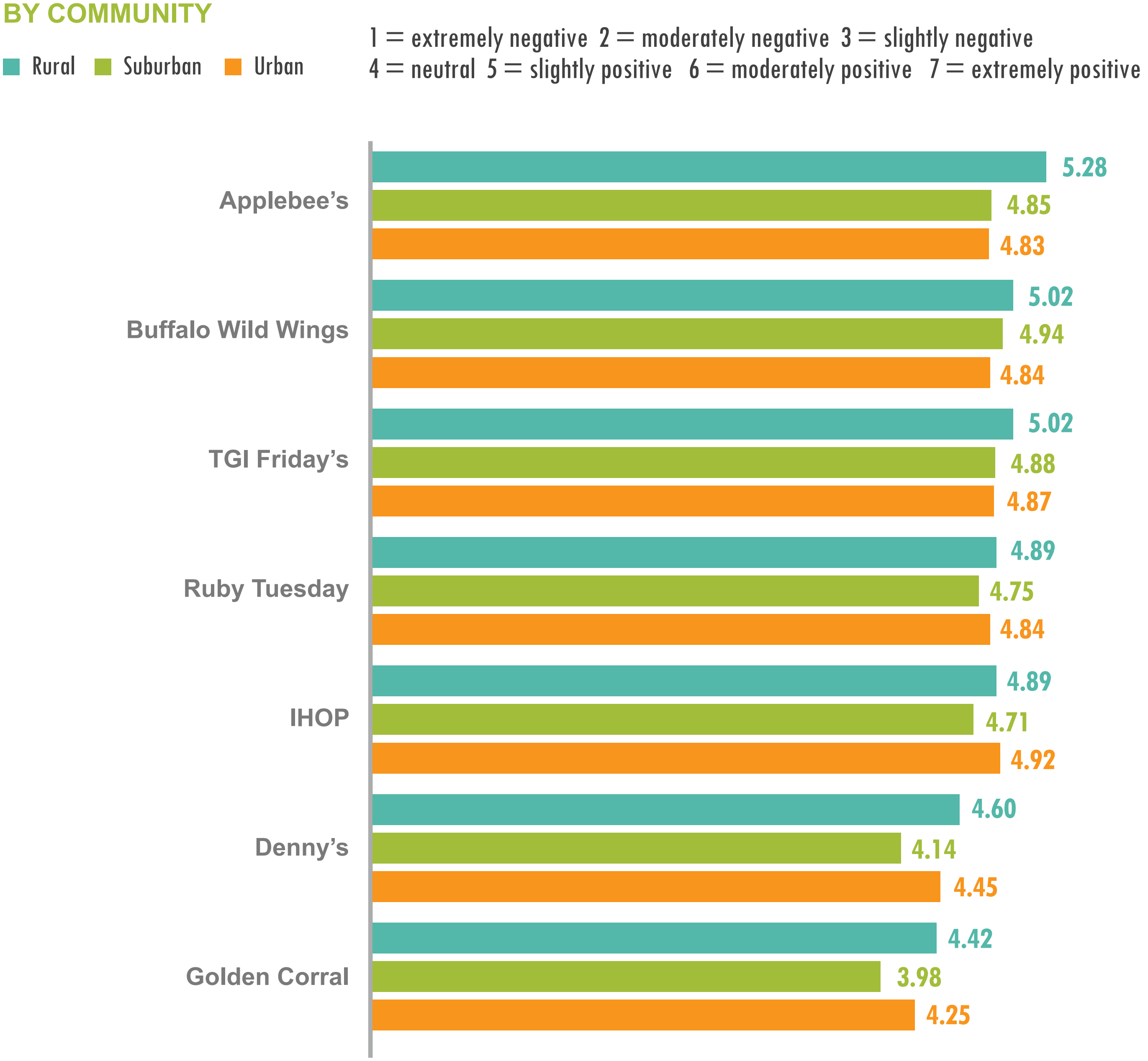


OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS CONTINUED

BY COMMUNITY

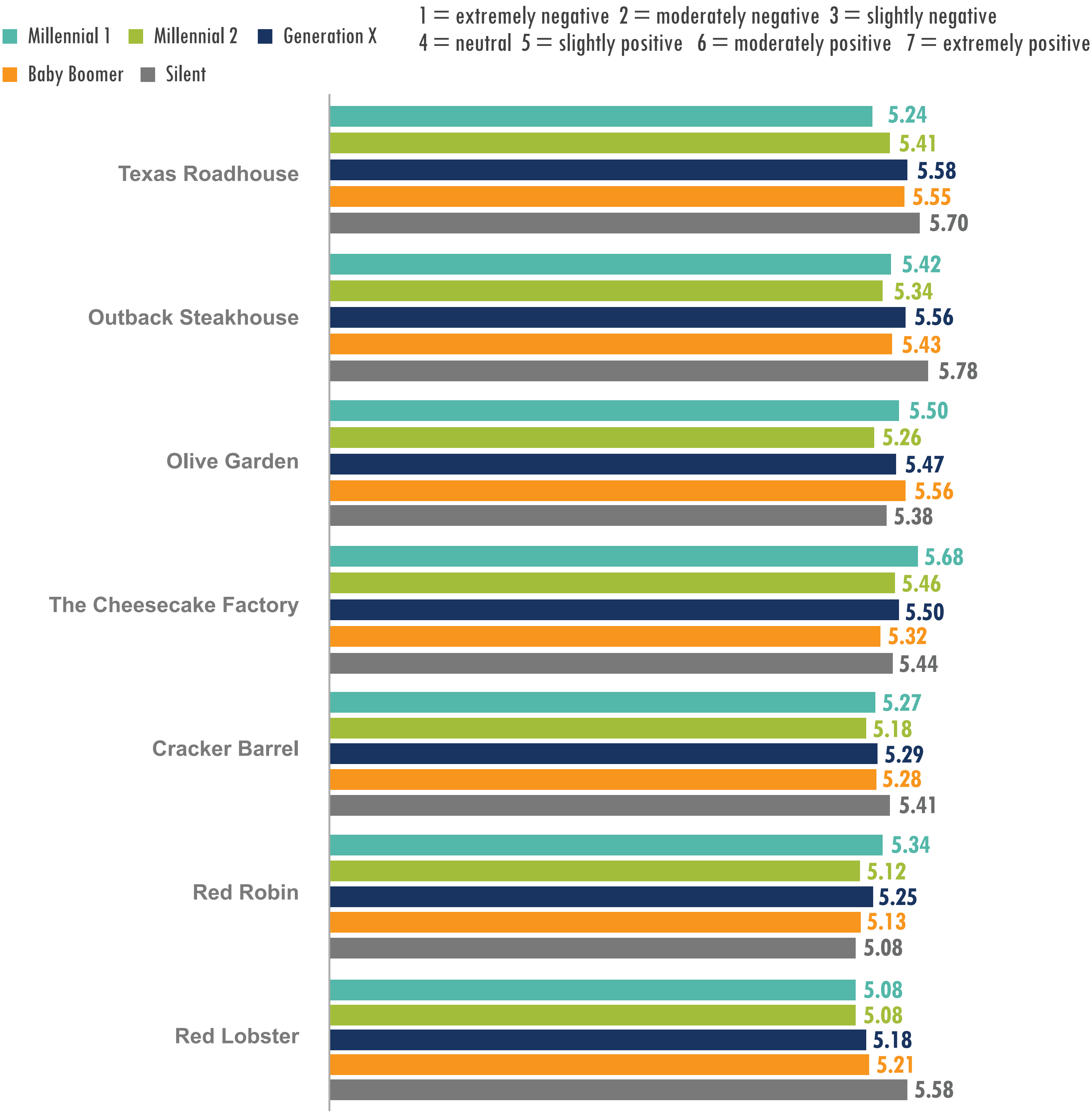


A LOT OF THESE CHAINS GET A SIGNIFICANT RURAL BUMP, MEANING THEY ARE DISPROPORTIONATELY MORE POPULAR AMONG RURAL COMMUNITIES THAN THEY ARE IN URBAN SECTORS.

OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS CONTINUED

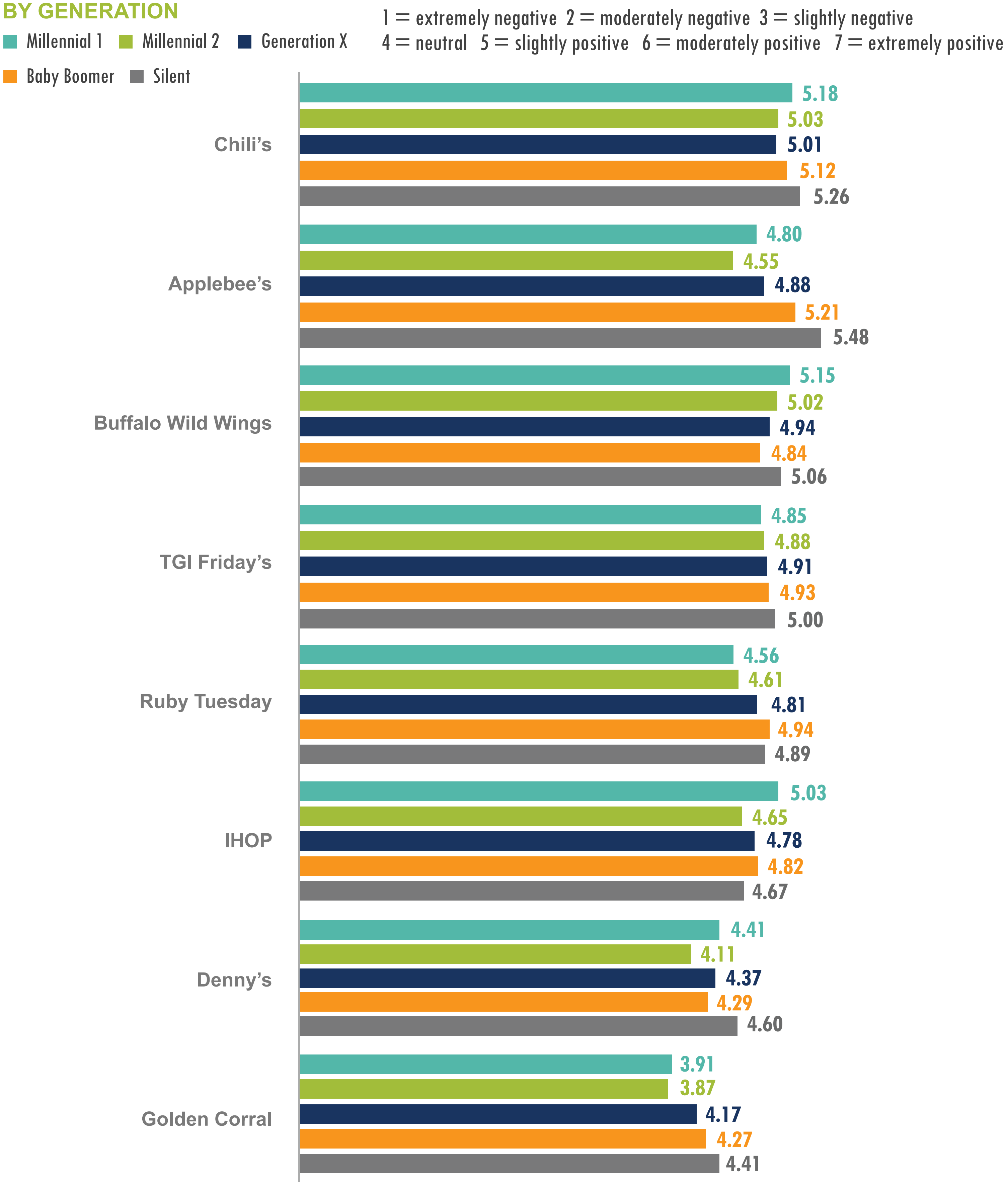
There's a lot to unpack here, so feel free to take a second and pore over the numbers. Obviously, Silents' love for many of these chains is nice and all, but everybody would rather be the Cheesecake Factory and IHOP than Applebee's and Red Lobster, loved by millennials on the ascent, as opposed to the declining silents.

BY GENERATION



OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS CONTINUED

BY GENERATION



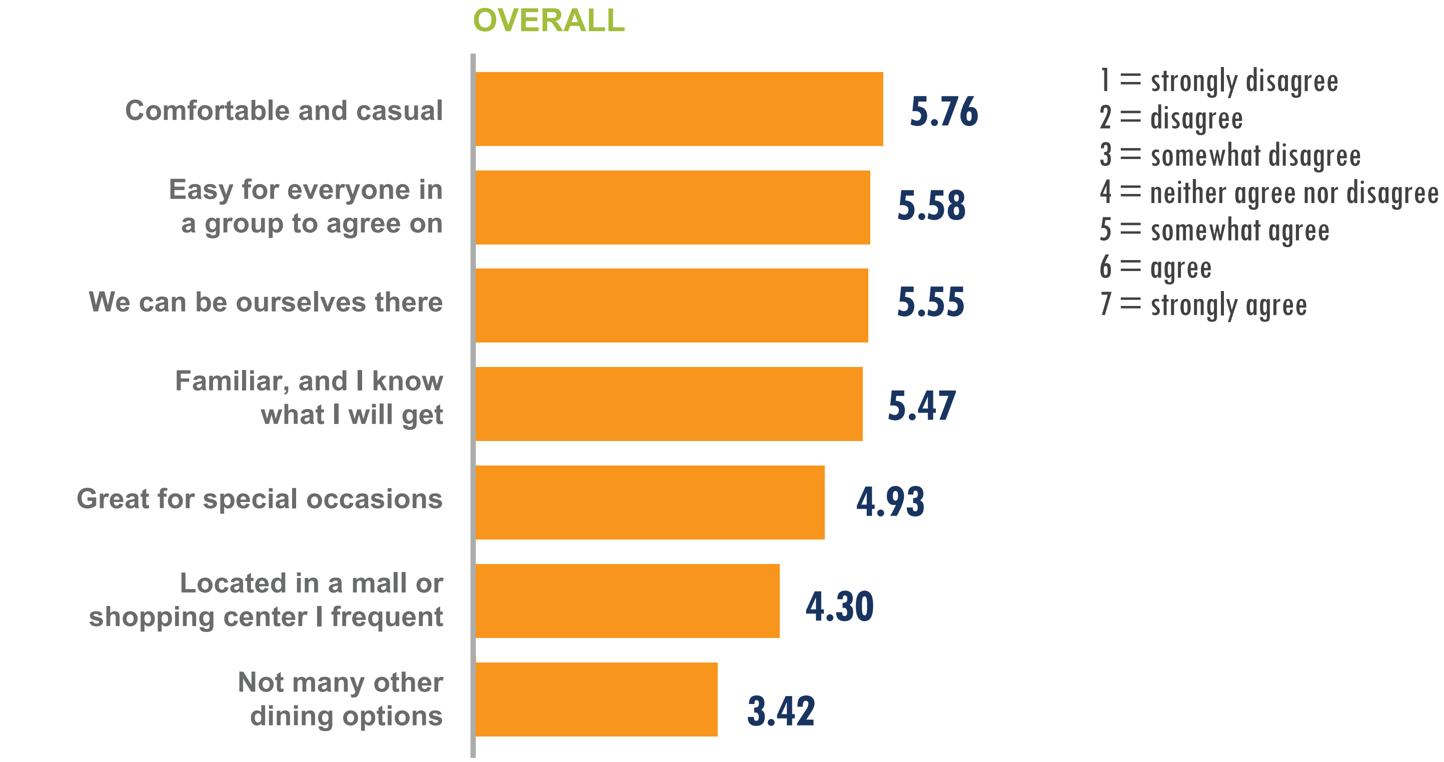
TRENDSOURCE TRUSTED INSIGHT

GIVING CASUAL DINING CHAINS COMFORT

So, having surveyed the field, let's get into some deeper analysis. There's been a lot of bad news within this segment over the past few years (yes, some of it came from us), but the first thing to note is that, though distressed, it's not all gloom and doom.

Frankly, the biggest thing these chains have going for them at the moment is their comfort and familiarity. Indeed, asked what motivates their casual dining, respondents across gender, community, and income all rated familiarity and comfort among the highest.

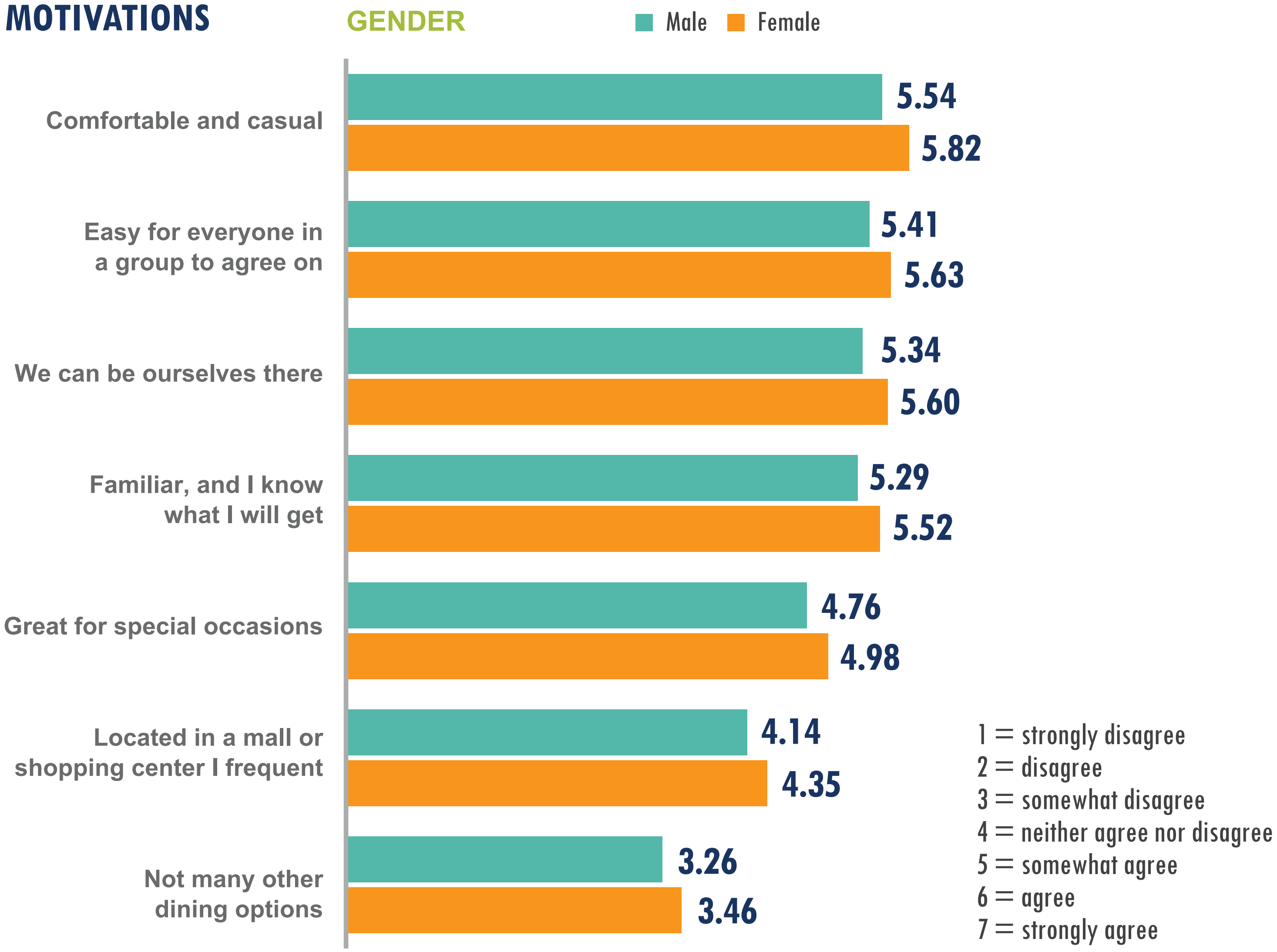
AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT MOTIVATIONS. CASUAL DINING CHAINS ARE...



THE BIGGEST THING THESE CHAINS HAVE GOING FOR THEM AT THE MOMENT IS THEIR COMFORT AND FAMILIARITY

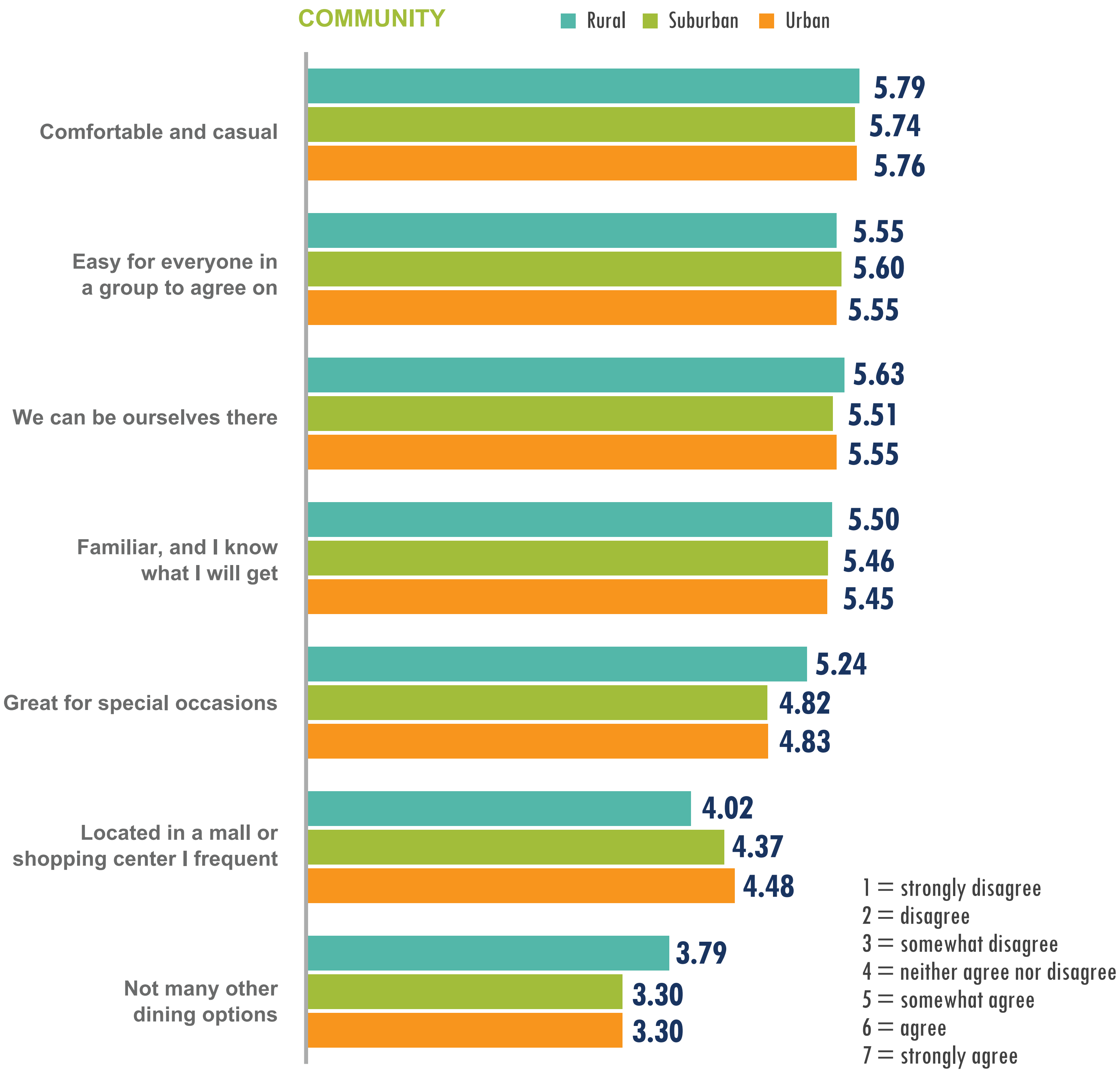
In a world where menus are increasingly becoming an unintelligible litany of unfamiliar ingredients, and dining rooms are a fish bowl of scenesters, respondents find comfort in what they know. Sure, a cynic could say that these chains are the Jay Leno of dining, a lowest common denominator that is familiar, safe, and easily agreed upon, and while there may be some truth to it, it is nonetheless myopic. Being the lowest common denominator filled Leno's garage(s), and though it may not be the sexiest boast, it is valuable nonetheless.

AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT MOTIVATIONS



That's because there's something to be said for comfort and familiarity. A consumer knows that whether they are in Chicago or Cheboygan, the food they will get at the nearest Red Lobster will be the same. There will be no snootiness from the hostess (and no worry about pronouncing maitre d'), and the ingredients will be simple and known.

AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT MOTIVATIONS

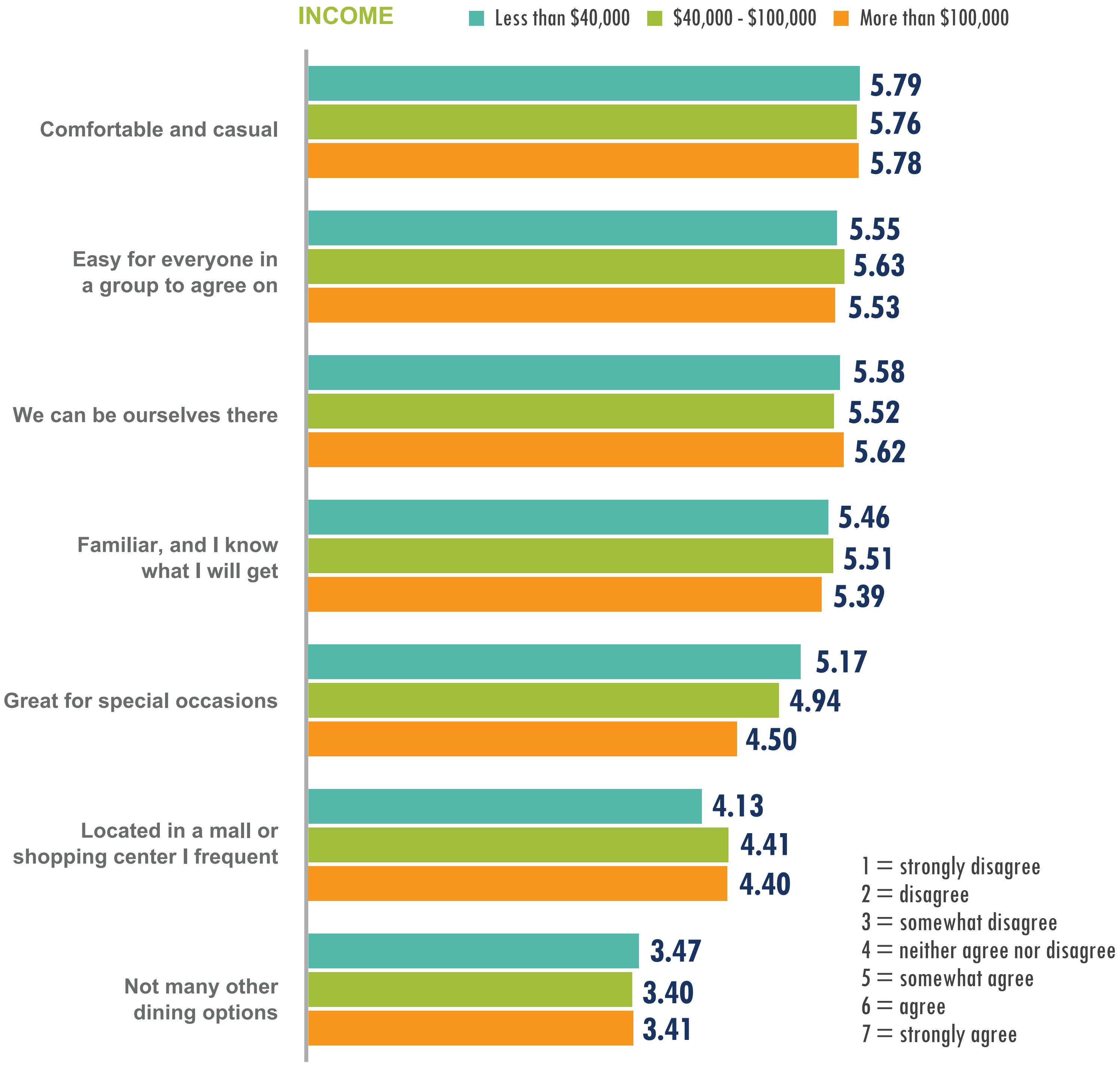


TRENDSOURCE TRUSTED INSIGHT

There's a reason the TGI Friday's in Times Square is always crowded with tourists—when everything is new and alien, sometimes you just need some good old fashioned loaded potato skins. No worry about wading through a trendy cocktail list or trying to comprehend a menu predominately in a foreign language. Just bring on the wings.

As restaurants fall over themselves to get more and more unique, there will be a corresponding demand for the boring (comfortable) and same old (familiar). Chains must figure out how to communicate this on a local level, however.

AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT MOTIVATIONS

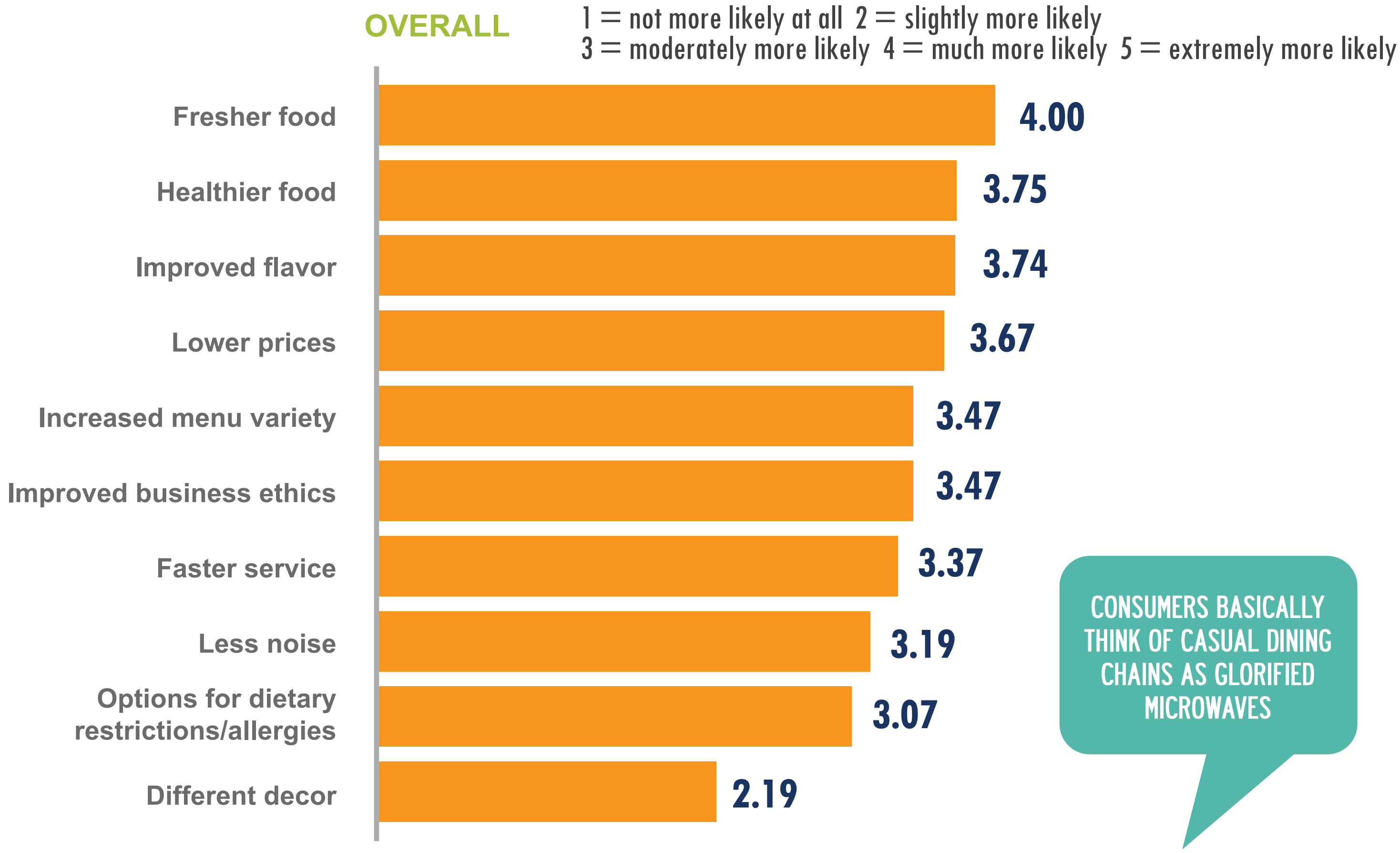


TRENDSOURCE TRUSTED INSIGHT

DISCOMFORTING TRUTHS

Yet there are some consequences to such uniformity that must be addressed. Commissary prepared, cold shipped food can be soothingly familiar, sure, but it also implies a lack of freshness, health, and flavor.

INFLUENCES ON LIKELIHOOD OF GOING TO A CASUAL DINING CHAIN IF IT MADE THESE CHANGES



Asked what would influence their likelihood to go to a casual dining chain, our respondents clamored for fresher food. Indeed, on a five-point scale, fresher food rated a 4/5, healthier food a 3.75, and tastier food a 3.74. These numbers, particularly the bit about fresher food, should give these chains pause, and that these numbers hold across community, gender, and even available dining options should extend that pause even further. These are not merely coastal urban snobs thumbing their nose at the Olive Garden before heading to Valentino.

That bit about fresh food is like a frozen pie to the face. It means that consumers basically think of casual dining chains as glorified microwaves, a place where pre-fab food is thawed, warmed, and prettied up a bit before hitting their table.

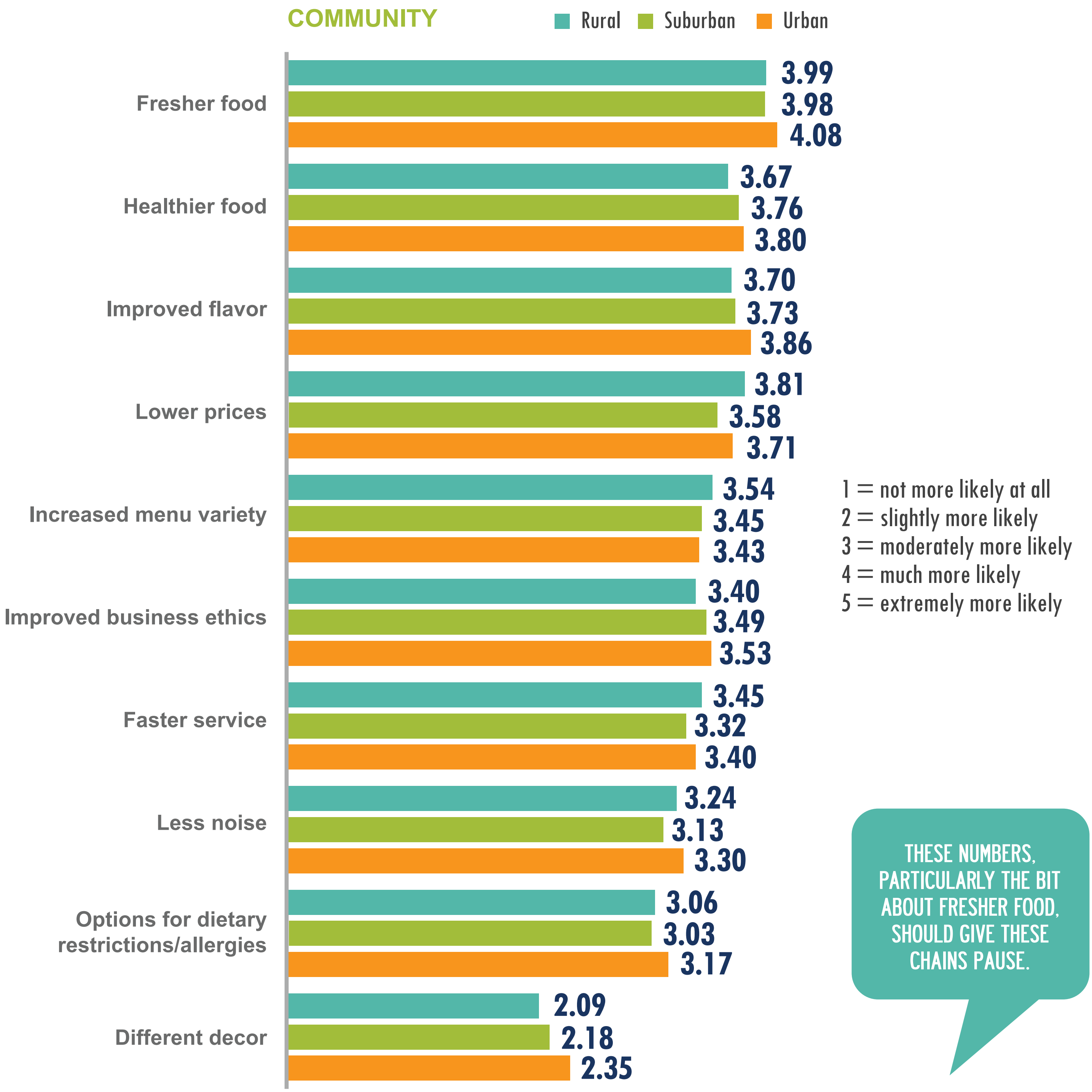
As more and more "better" chains put their freshest foot forward, consumers are increasingly demanding bespoke options that are prepared to order from fresh ingredients. With their relatively lower overhead, fast casual chains in particular are in a position to offer fresher food at a lower price point, ultimately eating into casual dining chain's bottom line.

Even more problematically, the commissary is the basis of these chain's business model, a way to keep costs low and menus uniform. That is quite a tough tanker to turn around, and sprinkling some fresh microgreens over the chicken isn't going to cut it.

INFLUENCES ON LIKELIHOOD OF GOING TO A CASUAL DINING CHAIN CONTINUED

Obviously, as consumers become increasingly aware of and concerned about the health implications of preservative-laden food, they will seek out fresher and healthier options, and according to our respondents, they currently are not finding those in casual dining chains.

One final note on this: does anybody remember those Domino's commercials where they basically said, yeah, sorry, our pizza has been a mess for a long time and now we are going to turn it around? That's the level of messaging probably necessary to turn this ship around. If the mountain will not come to Muhammad, Muhammad must go to the mountain.

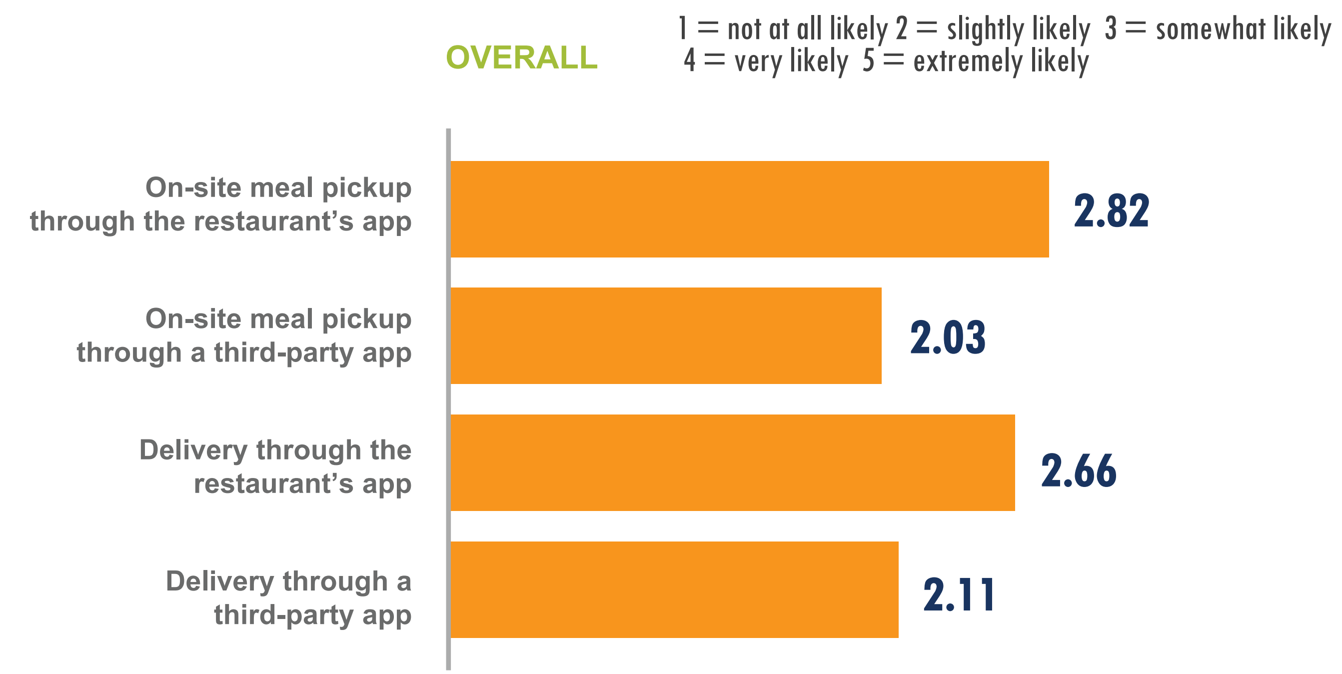


DELIVERY SHALL NOT DELIVER THEM

There's some more bad news. One would think with the proliferation of on-demand delivery brought to us by Postmates, GrubHub, and the like that casual dining chains could reassert themselves by building out their digital operations and becoming even more convenient.

But according to our numbers, delivery will not deliver them.

LIKELIEHOOD OF USING DELIVERY OPTIONS



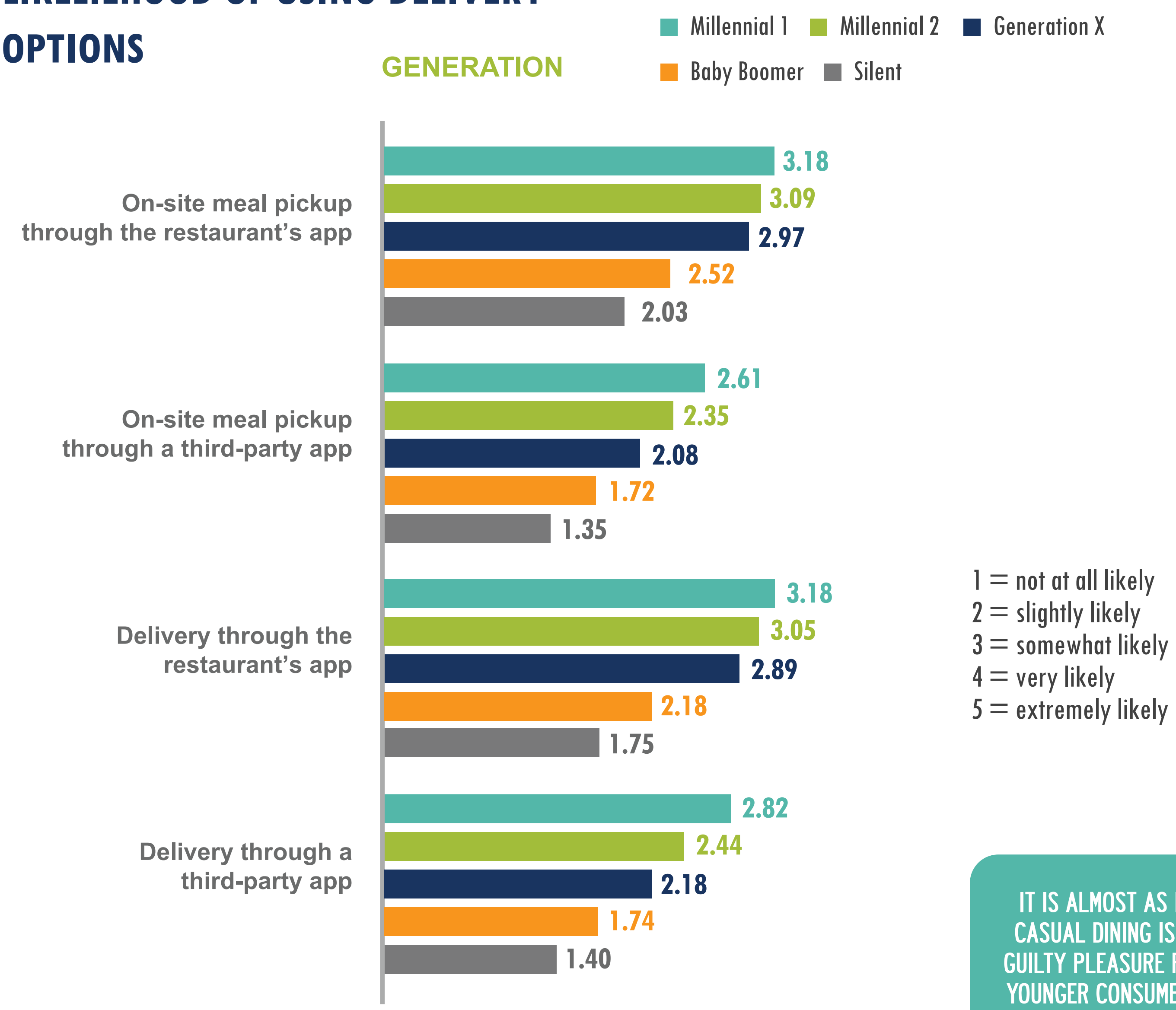
Our respondents are somewhere between uninterested and apathetic when it comes to casual dining chain delivery and on-site pickup. These numbers stay uniform across community, meaning there is no low hanging suburban fruit for Applebee's to pick.

TRENDSOURCE TRUSTED INSIGHT

One segmentation, however, at least provides a modicum of hope. The younger the consumer, the more receptive they are to casual dining delivery, which is at once both confounding and appropriate. It is confounding because millennial identity is often rooted in unique (read: Instagram-able) fare and experiential dining in general; these chains don't boast such offerings, though they do offer a heaping spoonful of irony, a known millennial favorite. Yet, these numbers also make sense as millennials are more open to delivery writ large, meaning they just want more on demand options as a general rule.

It is almost as if casual dining is a guilty pleasure for younger consumers, likely a nostalgia-laced option that recalls family dinners after little league games, but one they prefer to eat in the private anonymity delivery provides.

LIKELIEHOOD OF USING DELIVERY OPTIONS



IT IS ALMOST AS IF CASUAL DINING IS A GUILTY PLEASURE FOR YOUNGER CONSUMERS.

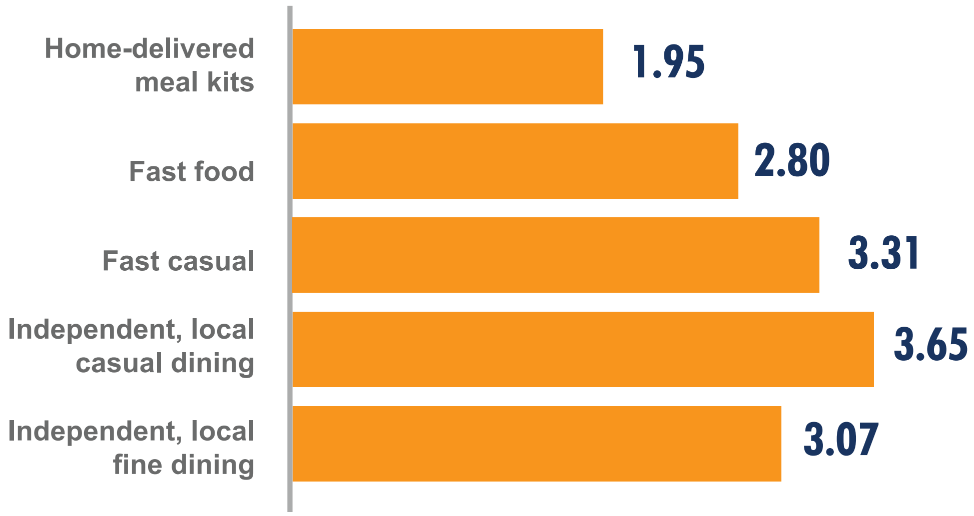
STACKING UP THE COMPETITION

In conventional wisdom, the biggest competition casual dining chains faced was always themselves— remember Friday's and Applebee's war of discounted escalation?—but recently shifted to fast casual locations such as Chipotle and Panera. Such fastcasual joints could offer fresher ingredients and healthier fare at a better price point due to the relatively lower overhead, and seemingly spoke to consumers' busy schedules and desire to avoid as much personal interaction as possible.

LIKELIHOOD OF CHOOSING THE FOLLOWING DINING OPTIONS INSTEAD OF A CASUAL DINING CHAIN RESTAURANT

OVERALL

1 = extremely unlikely 2 = somewhat unlikely 3 = neither likely nor unlikely
4 = somewhat likely 5 = extremely likely



THE BIGGEST THREAT CASUAL DINING CHAINS FACE IS LOCAL, INDEPENDENT CASUAL DINING OPTIONS.

But, according to our numbers, the biggest threat casual dining chains face is not Chipotle's rapidly-expanding empire, but rather local, independent casual dining options. It is impossible to provide familiar examples of these restaurants since they are, by definition, independent, local, and unique. But we all know them when we see them. They are the places Ma and Pa run, featuring authentic (often ethnic) cuisines. They offer a unique experience casual dining chains simply cannot match.

It seems like we are trying to have our cheesecake and eat it too, right? We just got done saying that familiarity is the biggest thing these chains have going for them, and now here we are seemingly saying the opposite, that consumers have tired of repetition and want something new.

Allow us to explain: we are not suggesting that the Olive Garden fracture into a confederacy of independent operations, or that they try to vary their menu from location to location. They simply are not going to compete with independent restaurants—if consumers decide they are in the mood for something local, they are not going to the local strip mall for some Ruby Tuesday.

But there is no reason that the likes of Panera should continue robbing Red Robin. That's the segment casual dining chains should be attacking and one that, from our perspective, is within reach.

Obviously, this requires some freshening up.

CLUSTERING CASUAL DINING CHAIN CONSUMERS

As in our previous reports, we have divided respondents into clusters, separating them out not by demographics such as income, community, and generation but rather along axes that track their perceptions, preferences, and pain points.

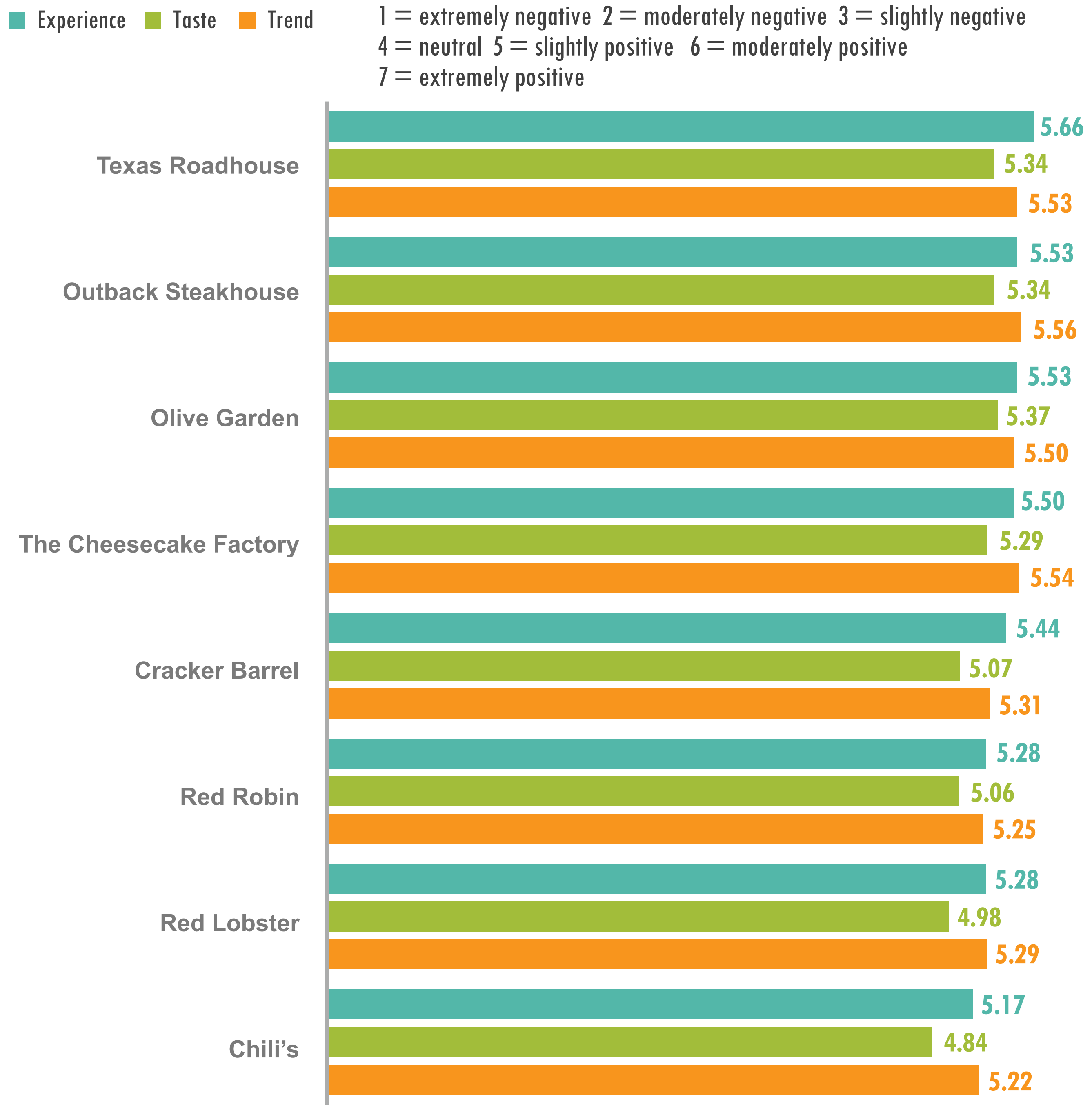
Clustering by their prioritization of experience, responsibility, recommendation, and taste, we constructed three distinct segments. No two consumers are identical, but through K-Means analysis, we have broken down casual dining consumers into these groups based on their dining priorities. As you can see, our respondents are split relatively evenly across these segments.

They are:

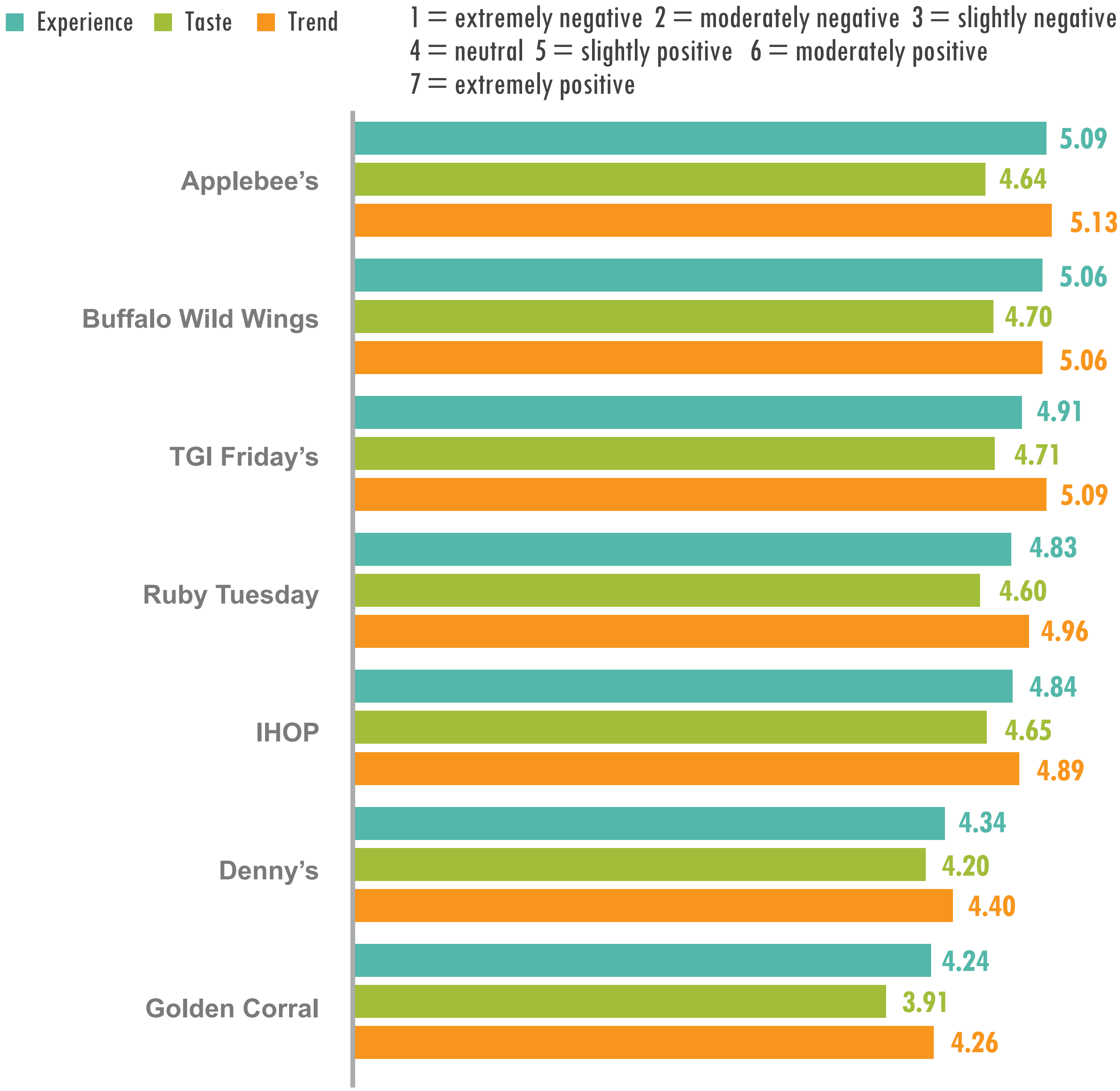
- **Experiential Enthusiasts (30.21%)**
- **Flavor Savers (33.41%)**
- **Trend Seekers or Trend Sourcers (36.38%)**

Cluster	Cluster Name	Proportion of Sample	Average Age	Experience	Responsible	Recommended	Taste
1	Experiential Enthusiasts	30.21%	48.15	.75	-.50	-.74	.28
2	Flavor Savers	33.41%	47.19	-.96	.31	.18	.76
3	Trend Seekers	36.38%	46.30	.26	.13	.46	-.93

OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS



OVERALL IMPRESSION OF CASUAL DINING CHAIN BRANDS CONTINUED

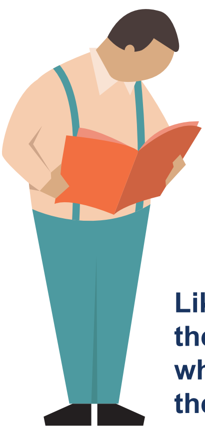


THE EXPERIENTIAL CLUSTER

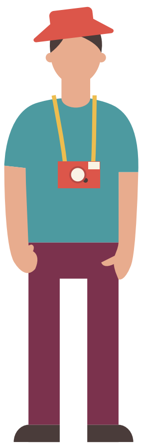
Experiential Enthusiasts

These are the diners who come for the experience and stay for the food. They want unique, authentic, and social-media friendly dining options. If they choose a casual dining chain, it is likely based on the ambiance and atmosphere, and probably organized around a social event.

You may be tempted to assume this cluster is comprised entirely of Intagram addicted millennials, but you would be wrong. The average age within this segment is 48.15, and they comprise over 30% of our overall sample.



Likeliest to choose the Cracker Barrel, which is also quite theme-heavy



Likeliest to choose Texas Roadhouse, with its on-the-nose theme, complete with peanut shells

Least likely to care about their food's taste

Least likely to believe casual dining chain food is healthy and to not care if it isn't

Least likely to try a restaurant based on somebody's recommendation

Likeliest to choose a casual dining chain for its comfort and familiarity

Flavor Savors

THE FLAVOR CLUSTER

This cluster values taste above all else, and so it should not be surprising that they are also the least interested in casual dining chains in general, which we know scored low in terms of flavor and freshness.

They do not care about experiential dining, and don’t really care for their friends' or families' recommendations either. They are there to party with their buds—their taste buds that is. Obviously, attacking this cluster is something of an uphill battle for casual dining chains as these consumers choose food based on taste, not experience, health, trend, or even proximity.

Trend Seekers or Sourcers

THE TREND CLUSTER

The largest cluster in our analysis, Trend Seekers are there because that's where everybody else is. They are not followers, per say, but they are the likeliest to follow a recommendation and the least likely to choose a restaurant based on taste.

If you can get the experience seekers into your restaurant, it is likely the Trend Seekers will follow. They go with the flow, follow the foot traffic, and, when it comes to what they are having for dinner, seem the most ambivalent of the clusters. At an average age of 46 years old, they represent 36.38% of the overall sample.

Least likely to go to fast food instead of a casual dining chain

Likeliest to order pickup and delivery from a casual dining chain

Likeliest to choose a home-delivered meal kit over a casual dining chain

Likeliest to choose TGI Friday's, Outback, and Cheesecake Factory

Likeliest to choose a casual dining chain based on class and style

Likeliest to choose independent fine dining over a casual dining chain

Likeliest to choose a casual dining chain based on its proximity to a mall or shopping center

Least likely to believe that casual dining chain food is clean or safely prepared

KEY RECOMMENDATIONS:

You have to get better at formulation, preparation, and communication. We are reminded of Homer Simpson pounding on his television, saying, "Get Better!" He loves TV, he wants it to be better so he can continue to love it. That's how people feel about this dining segment.

This means fresher, and consequently healthier, food that also tastes good. Yes, this is a tough needle to thread, particularly for those on the commissary model, but it is imperative that chains take what people love about them (familiarity) and combine it with what they want from them (better food).

But don't get carried away and start throwing three adjectives in front of every noun on your menu. Lean into comfort and familiarity, meaning nothing unpronounceable or exotic. Don't try to compete on invention and creativity, you are going to lose. There is no need for Applebee's to roll out a sriracha lime chicken fried steak with beignets or some such hipster fare. Choose your battles and stay in your lane. Familiar, Fresh, and Friendly. See, sometimes the copy just writes itself.

WHAT IS THE BEST THING ABOUT CASUAL DINING CHAIN RESTAURANTS?

For the purposes of this study, generations were broken down as follows:

Millennial 1: 18-27 years old

Millennial 2: 28-36 years old

Generation X: 37-52 years old

Baby Boomer: 53-71 years old

Silent: 72+ years old

THANKS FOR READING THE
2018 FOOD INDUSTRY REPORT!

For more consumer insights, visit our Consumer Study Page at
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TRENDSOURCE
TRUSTED INSIGHT

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