

THE RESPONSE TO A DOWNTURN:

Food services consultancy Horizons suggests that the US is about six months ahead of the UK in the economic cycle and may well slip into recession. Indeed the CBI suggests that employment levels in the UK leisure services sector have fallen for two quarters in a row and, as in the UK, food prices in the US have risen by around 7.5% to 8.0% and, if the US is a useful lead indicator, then the response of US operators to both the economic slowdown and rising prices is of some relevance this side of the Atlantic.

With that in mind, In the US, casual dining companies are said to be serving smaller portions and switching to cheaper ingredients. With some operators suggesting that as much as 1/3 of food served remains uneaten, this seems perfectly reasonable. As regards ingredients, Marston's on Friday agreed with the US numbers of an around 8% y-o-y increase and said that some 70% of the increase was down to red meat. Hence a move to white meat or fish or a promotion of a number of red-meat dishes to the Specials Board (where margins are traditionally higher) is sensible. Although customers may be largely unaware of just which ingredients have risen in price most sharply, moving up the prices of white-meat dishes could be seen as profiteering.

Horizons goes on to say that a large part of the growth in the US market over recent years has been via a widening of the market to include breakfasts and snack sales. The robustness or otherwise of these sales has yet to be tested.

Somewhat worryingly, price wars are also said to have broken out as promotions have been sharpened. Some selling is thought to be below cost with Brannigan's quoted as offering steak meals at just US\$5.99. Hence, in addition to generally higher prices, one might reasonably expect to see the following over time:

- * Smaller portion sizes – this may be hard to spot although smaller containers, for example coffees, will be more visible. Smaller portions may be dressed up as a health conscious response to obesity etc.
- * Red meat dishes leaving the a la carte menu and migrating to the specials' board.
- * Some chicken and pork dishes being raised in price to remain £1 or so below their red-meat equivalents – this will boost margins materially.
- * Increased innovation and attempts to differentiate offerings.
- * Sharpened offers, two-fors and the rest and potentially price wars.