

Premium products draw high-income consumers to QSRs

By Fern Glazer

The face of today's quick-service consumer is changing as high-income consumers visit and spend more at fast feeders, according to a new study by The NPD group, a Port Washington, N.Y.-based global market research firm.

According to the NPD data, in the past year there has been an increase in spending at quick-service restaurants, or QSRs, across all income groups, but those in the highest income brackets made the strongest increase in spending, of 5 percent. During the year that ended June 2006, consumers with annual household incomes of more than \$75,000 spent \$796 per capita at quick-service restaurants and \$790 per capita at full-service restaurants.

NPD defines QSRs as fast food or fast casual restaurants, typically with a drive-thru, and full-service as any table-service restaurants.

"It's not a huge number, but it's a trend," Michele Schmal, vice president of CREST product management at The NPD Group, said of the shift.

While consumers with high household incomes have historically spent more per capita dining out than any other income group, this is the first time that their spending at QSRs has exceeded their spending at full-service restaurants, according to NPD data.

Not only did they spend more, high earners also visited QSRs more often. According to NPD, per-capita visits to QSRs by high-income consumers rose by 3 percent in 2006.

Menu upgrades

"The introduction of premium products/categories has shifted some of the spending of high-income [consumers]," Schmal said

of what's driving this demographic group to the QSR segment.

Once the exclusive domain of table-service restaurants, premium products, such as artisanal breads, espresso drinks, and prime cuts of meat and fish began appearing on traditional QSR menus across the country about five to seven years ago, according to industry observers. Many QSR chains have added such products to their menus in an attempt to lure high-income consumers away from full-service restaurants.

In the summer of 2001, Carl's Jr., the 1,072-unit burger chain, introduced The Original Six Dollar Burger. Featuring a half-pound of Angus beef topped with red onion and condiments for just \$3.95, the burger was designed to directly compete with what casual dining was offering at the time, said Brad Haley, executive vice president of marketing for the Carl's Jr. and Hardee's brands.

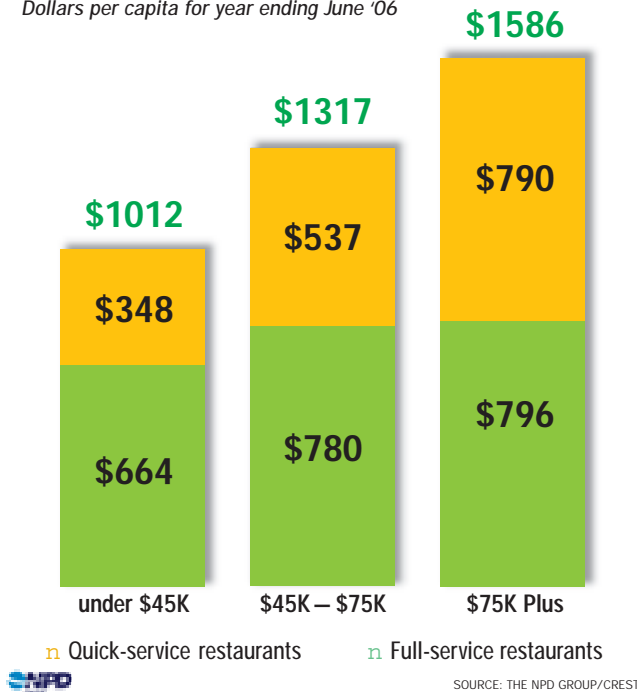
Since introducing The Six Dollar Burger, the brand has rolled out a number of other premium offerings, ranging from a steak and egg burrito to hand-scooped ice cream shakes and malts.

"It's been our plan to differentiate ourselves from other QSR by targeting the quality levels of casual dining," Haley said.

Carpinteria, Calif.-based CKE Restaurants, the parent company of Carl's Jr. and Hardee's, attributes its recent 7-percent blended same-store sales gain to a combination of its premium product strategy and advertising support-

Consumers with higher incomes spend more at restaurants per year

Dollars per capita for year ending June '06



Category choice

No matter where they eat out, high-income consumers tend to spend more per visit than less affluent consumers do. According to NPD, in the year ending June 2006 the average check for consumers with the highest incomes was \$6.92 per person per visit, 27 percent more than the amount spent by those earning \$45,000 or less. More choice in food categories are among the drivers behind the high checks, Schmal said.

According to the NPD data, the top food categories for high and low earners are similar, with hamburger and pizza chains topping both lists. However, in 2006 high earners increased their share of visits at a number of food categories that tend to have higher-priced items, including gourmet coffee and tea; other sandwich, such as subs; doughnut; and bakery sandwich. In addition, Schmal said high-income consumers are less likely to take advantage of deals.

Boston-based Au Bon Pain, which NPD includes in its bakery sandwich category, has been offering premium products since its inception in 1978. Among Au Bon Pain's latest offerings is a salmon breakfast sandwich with wasabi sauce. The sand-

wich, which debuted Sept. 1, already represents more than 20 percent of all the chain's breakfast sandwich sales, according to Ed Frechette, vice president of marketing.

"It's brought in a whole new customer," Frechette said of the salmon item, which is priced at \$3.99, a dollar more than the chain's other breakfast sandwiches.

The 350-unit chain also is increasing its focus on espresso drink offerings. In addition, this summer the chain opened its first Bistro Au Bon Pain, a suburban outpost of the urban bakery-cafe that features premium menu items for all three dayparts in a more upscale environment.

In the gourmet coffee and tea category, Minneapolis-based Caribou Coffee Company attributes increasing traffic from its largely high-income customers in part to the constant introduction of premium offerings.

The 425-unit coffee company, which had systemwide sales of \$197 million in 2005, has seen sales for its new Obisidan Dark Roast Blend coffee double in volume. During the summer months, the company also experienced an increase in traffic related to new products such as its Cold Press Iced Coffee.

Segment competition

While the high-earner shift toward quick-service restaurants is minimal so far, Schmal called it a "tipping point." It's also an opportunity, she said, for QSR operators to tap into a new demographic group that has more money to spend.

Table-service operators, Schmal said, should consider the trend a "warning signal." Signs of those heeding that warning have cropped up in the past few years as major casual dinnerhouse chains, including Applebee's, Chili's, Outback Steakhouse and Romano's Macaroni Grill, unveil such services as car-side delivery. This service, which allows consumers to order over the phone and have the order brought out to the car, offers consumers casual menus with the convenience that is the hallmark of fast feeders. ■

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Top 10 categories by income group

Percent of consumer traffic for year ending June '06

Under \$45K Share		\$75K Plus Share	
Hamburger	24.9%	Hamburger	17.9%
Pizza	8.9	Pizza	8.2
C-Store	8.4	Other Sandwich	5.8
Other Sandwich	5.8	C-Store	5.2
Food/Drug Store	4.6	Midscale Varied Menu	4.9
Midscale Varied Menu	3.9	Gourmet Coffee/Tea	4.4
QSR Mexican	3.8	Doughnut	4.2
Chicken	3.6	Food/Drug Store	3.5
Doughnut	3.1	Casual Dining Bar & Grill	3.4
Family Style	2.9	QSR Mexican	3.3