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Annual Leaky Bucket Report examines why customers are leaving certain restaurants

By MARK BRANDAU

(May 04, 2009) The annual Leaky Bucket Report from Restaurant Marketing Group confirms that the trickle of customer defections from restaurants could intensify in this recession, and lack of value and poor service would ensure that guests jump ship.

The online study measures the size of a customer "leak" for each of 160 brands, meaning the percentage of recent customers who report they are unlikely to return to a particular eatery.

Arjun Sen, president of Centennial, Colo.-based Restaurant Marketing Group, said the restaurant industry's average leak size is 36 percent, up 7 percent from 2008.

"If I were a restaurateur," Sen said, "I would connect the dots by saying that a 7-percent increase in the industry's overall leak means [the customer] is grading me severely now."

The survey of more than 5,600 consumers aged 18 to 64, conducted in March, showed an 11-percent increase for price and value as a reason for leaks, compared with last year, accounting for 36 percent of all defections. Service rose 10 percent compared with 2008 and now accounts for 23 percent of all leaks. The only cause of leaks that declined was location, which fell 7 percent.

Food quality, at 25 percent, and menus, at 17 percent, remain unchanged from 2008 as reasons for leaks.

"The main leak increases we have are price-value and service," Sen said. "You're seeing location as a reason for leaks going down, so consumers are saying, 'OK, I'll go two miles farther if you treat me better and give me a better deal.'"

In recent years, location had been a bigger deal-breaker because so many consumers lived near many different restaurants, Sen said.

One industry segment faring better than others is Asian, as that sector's 37-percent average leak size is a 1-percent improvement on last year's average. While that is slightly above the entire industry's 36-percent average leak, the Asian category outperforms the industry averages on every individual metric for leaks: price-value, service, location, food, menu, atmosphere and family-friendly.

"As a category, Asian is so fragmented," Sen said. "From Panda Express to P.F. Chang's or beyond, they're each a little different. But all of them have freshness cues everywhere, and all have been born more recently than [many other] brands. As consumers look for more choices, these brands are jumping up more."

Asian concepts also score far better than industry averages on price-value and service. The Asian category average score for price-value was 33 percent, compared with 36 percent for all restaurants, and the category's service score was 18 percent, compared with a 23-percent industry average.

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By contrast, the bar and grill sector's 22-percent service score is merely on par with the industry average and accounts for more leaks than service in the Asian, coffee, sweets and treats, and soup and salad segments.

"I would have expected casual dining to have the most advantage in terms of service," Sen said, "because they're offering the most service."

Many casual brands also struggle with value perceptions, especially at lunch, accounting for a 39-percent price-value leak score, Sen said.

"They're doing what's 'price-value-relevant' for dinner," he said. "If we want to use the best deal, **Applebee's** '2 for $20' deal, it's still not relevant for lunch. It's very tough for them to compete with fast food and fast casual, especially the sub sandwich [category]. In three to five years, **Subway's** $5 footlong and **Quiznos**' $4 Toasty Torpedo will be seen as a defining moment. [Those deals] move traffic away from both fast food and casual dining."

The one segment whose average leak size remained constant from 2008 was coffee, which held steady at 33 percent. The three chains in the sector—Caribou Coffee, Seattle's Best and Starbucks—combined for a mixed performance on the two main causes for leaks this year. The coffee segment had an average score of 18 percent for service, better than the industry average of 23 percent. But the sector's price-value leak score was 49 percent, due largely to Starbucks' score of 67 percent

"Starbucks has a price-value problem," Sen said. "It was still tolerable last year, because people said, 'You don't have low-price items, but if I want to spend $5, you are the best."

However, Sen noted, this year Starbucks and other coffeehouses face credible threats from McDonald's and **Dunkin' Donuts**, who have upgraded their coffee items. The coffee segment leader has responded with its new value offering, the $3.95 breakfast pairings launched this winter.

"Even with Starbucks' price changes," Sen said, "unless they can move many people to that new $3.95 price point, their biggest problem is still in front of them, because so many people still feel Starbucks' price-value is broken."

However, "service is still great in coffee," he said. "That's what's holding Starbucks together."