

Restaurants Take Trip to Store

Chains Tout Branded Products in Supermarket Aisles

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Restaurant chains are reaching out to consumers in an unexpected place: supermarket aisles.

As the economy has soured, many

consumers have ditched going out to eat for a trip to the grocery store, and restaurant chains are following.

Starbucks Corp., which has seen traffic to its stores decline, in April launched a line of coffee-flavored ice cream in supermarkets. Last month, the company began handing out coupon books to its coffee-shop patrons containing such grocery-store deals as \$1 off ice cream and \$1 off 10-ounce packages of Starbucks brand coffee.

"If consumers are coming in less frequently, they can still treat themselves at home," says Greg Price, vice president of global consumer products at Starbucks.

By putting goods on store shelves, restaurants are able to expand their brands.

Because of weakness in the restaurant industry, "any restaurant is going after additional revenues right now," says Morgan Stanley & Co. restaurant analyst John Glass.

Restaurants are responding to bleak times in their business. Moody's Investors Service issued a report late last month saying the restaurant industry is likely to remain weak for the next 12 to 18 months as declines in restaurant traffic coincide with greater affordability of eating at home.

Burger King Holdings Inc. plans to sell Apple Fries, a product originally developed for its restaurant kid meals, in 10,000 grocery stores nationwide this fall.

The apples, skinned and sliced to look like fries and packaged in a French fry container, will be sold in the produce section of traditional supermarkets, along with a low-fat caramel dipping sauce in a ketchup-like pouch.

California Pizza Kitchen Inc. in March began shipping new microwavable Flatbread Melts sandwiches to supermarkets through a licensing arrangement with Kraft Foods Inc. Dunkin' Brands Inc., meanwhile, has been selling its Dunkin' Donuts coffee in supermarkets nationwide in an effort to bolster its brand image.

For retailers, the well-known restaurant brands are a customer draw. "If people can save a few dollars and save some time by eating at home, these types of familiar brands ... make it easier and more cost-effective," says Meghan Glynn, spokeswoman for supermarket chain Kroger Co., which carries California Pizza Kitchen products, Dunkin' Donuts coffee and other restaurant brand goods.

Some restaurant chains began developing grocery items prior to the recession as a way to boost brand recognition, but now they are finding that packaged food helps them offset some of the loss in traffic to their restaurants.

"Our comparable restaurant sales are down," says California Pizza Kitchen co-chief executive Rick Rosenfield. "People are trading down to supermarkets and we're softening the blow by being there for them." The chain reported a 5.9% decline in comparable restaurant sales for the first quarter.

There are risks. Consumers already are bombarded by numerous varieties of cereal, soup, frozen dinners and other products in grocery stores, and some supermarket chains are culling products from shelves.

In addition, some restaurant-branded products are positioned as premium and so carry high prices. A 12-ounce bag of Dunkin' Donuts coffee costs \$8.99 in some stores, and California Pizza Kitchen's Flatbread

Melts sandwiches, intended for one person, cost \$3.49 each. That's still cheaper than eating out, but more expensive than items like soup and macaroni-and-cheese.

"Restaurants are thinking, 'If we can't capture those consumers in our own stores, we'll get them at home and, when the economy improves, they'll return to our stores,'" says Bill Cross, vice president of food licensing at Broad Street Licensing Group, a Montclair, N.J., company that has brokered licensing deals for restaurant chains.

California Pizza Kitchen has been selling its branded pizzas in supermarkets since 1998. Last year, as the economy worsened, grocery sales of frozen California Pizza Kitchen pizza increased 19.6% to \$159 million. Kraft pockets the bulk of the revenue and pays Califor-

nia Pizza Kitchen an annual royalty, which last year amounted to \$6.6 million.

That's just a fraction of the chain's \$677 million in annual revenue, but it's pure profit, because Kraft underwrites all of the R&D and advertising, Mr. Rosenfield says.

Burger King's Apple Fries come on the heels of the branded salty and sweet chips the chain introduced to supermarkets and convenience stores in late 2007 -- right about the time the recession was starting.

"It gives our brand a lot of great new exposure to consumers who might not have Burger King top of mind," says John Schaufelberger, the company's senior vice president of global product marketing and innovation.