



RESTAURANT INDUSTRY TRENDS

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IN TODAY'S INFORMATION ENVIRONMENT, FINDING SIGNALS IN THE NOISE IS CHALLENGING.

In an effort to help restaurant leaders identify and focus on the things that matter most, our team reviews top industry trade journals and marketing information sources for this quarterly Restaurant Trends Report. The report contains summary information on a handful of current topics determined by our team to be most relevant for restaurant marketers each quarter.

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01 THE VALUE EQUATION

Price is still important but other factors matter.

TREND

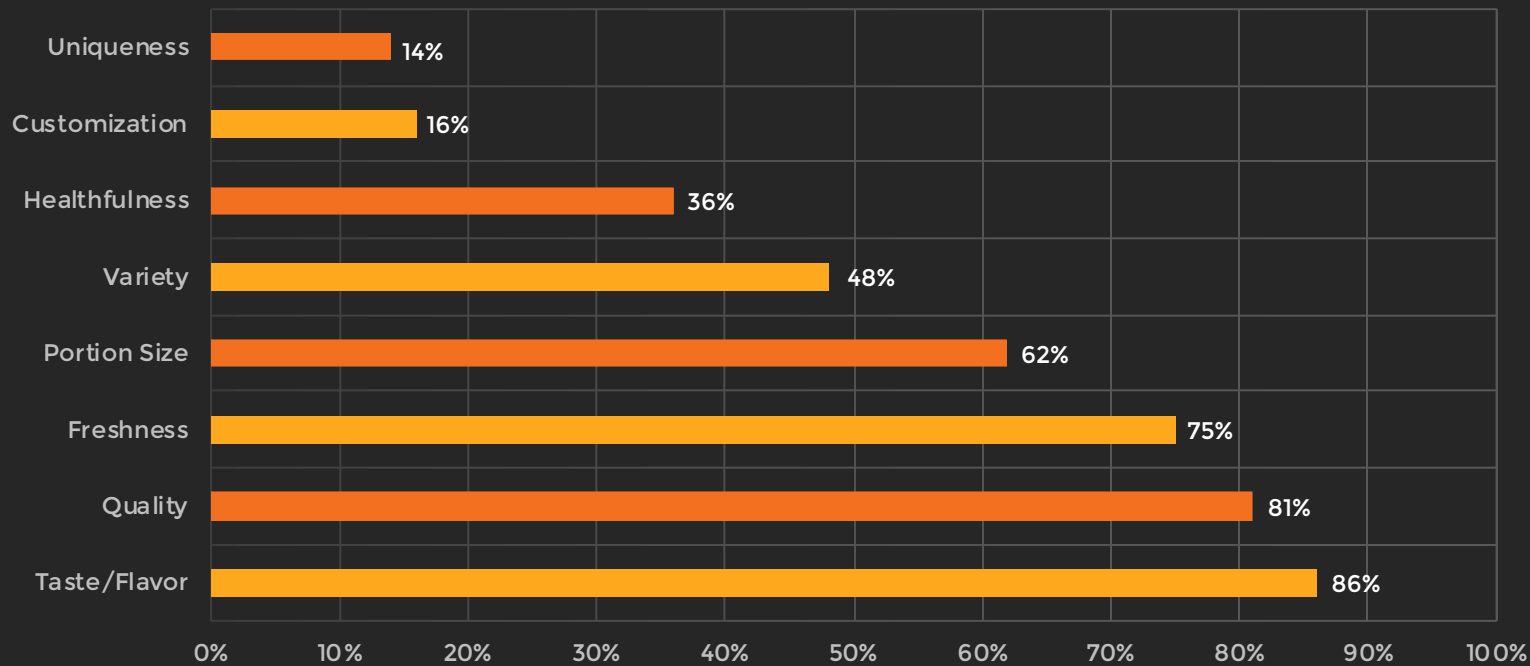
PRICE IS STILL IMPORTANT, BUT OTHER FACTORS MATTER

Despite the economy doing well, consumers' individual finances may be weak. Falling unemployment has not yet led to strong wage growth, and median HH incomes are *just now* slightly higher than before the recession. This means that the average consumer may have more money to dine out, but not enough money to "trade up" to fast casual restaurants. Lower prices make QSRs appealing destinations for these consumers.

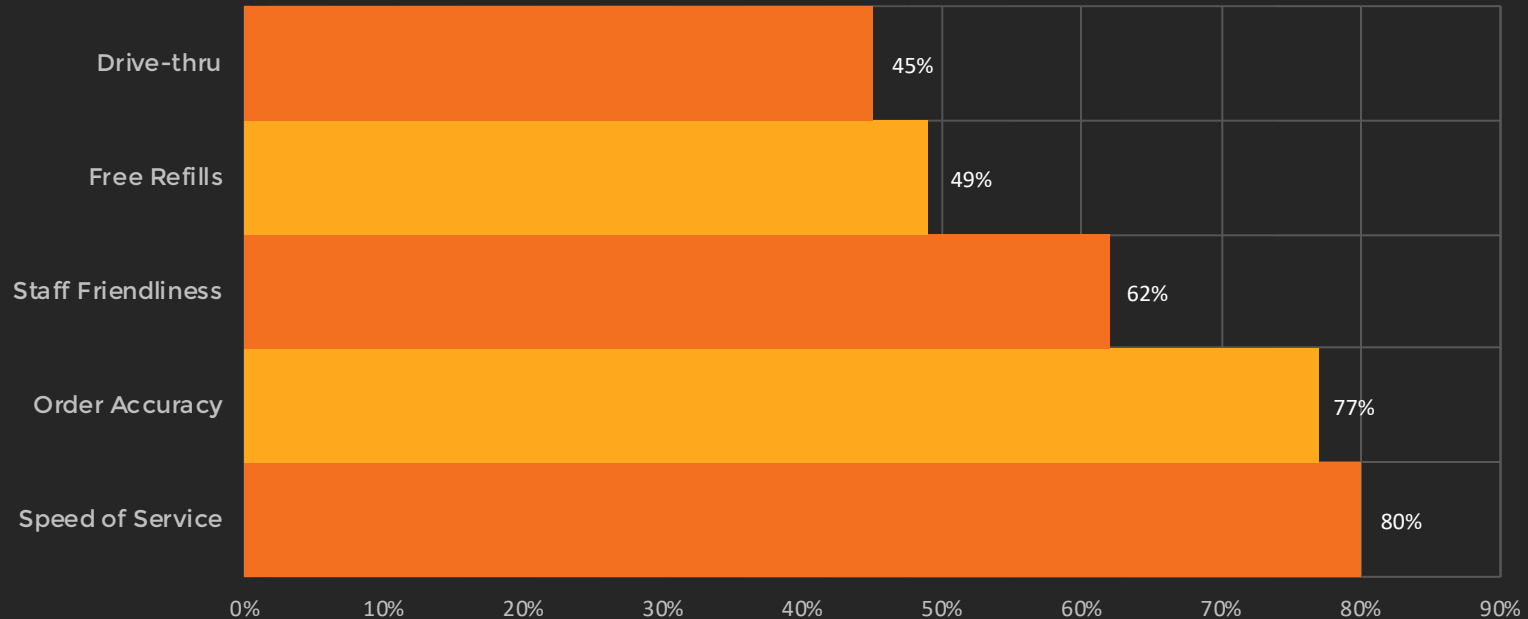
Economic circumstances have made consumers highly motivated by value. Recognizing this, several chains recently revived or expanded their dollar menus. But these new pricing strategies were met with mixed results. While deals and combo options are still important, for today's consumers, value isn't *just* about price. A study by Winsight highlighted several critical attributes, including flavor, quality, freshness, portion size, variety, healthfulness, customization and uniqueness. In addition, services like order accuracy and staff friendliness also factor into the value equation. Consumers are considering all of these attributes as they decide where to go for their next meal.



Attributes THAT CREATE VALUE



Services THAT CREATE VALUE





BRANDS DELIVERING VALUE

In-N-Out (Quality)

For nearly 70 years, In-N-Out's culinary formula hasn't changed. The brand produces its own (never-frozen) beef patties. Burgers are cooked to order and served with fresh produce and buns baked in-house. Potatoes are hand-cut and milkshakes are hand-spun with real ice cream.

The chain focuses on a limited menu with items they get right every time, that taste great every time. They pride themselves on "serving the highest quality food with no compromise." In fact, they just rolled out a billboard campaign with copy that reads "No Microwaves, No Freezers, No Heat Lamps." The result? The typical In-N-Out currently outsells a McDonald's nearly twice over, bringing in an estimated \$4.5 million in gross annual sales versus McDonald's \$2.6 million. In-N-Out has also received top satisfaction scores in NRN's Consumer Picks survey.



BRANDS DELIVERING VALUE

Chick-fil-A

(Speed of Service)

In 2017, Chick-fil-A increased its system sales by \$1.1 billion—twice the growth of Wendy's and Burger King combined. It's notable that Chick-fil-A has done this without resorting to massive discounts or constant new product offers and while keeping doors closed on Sundays. They're doing a lot of things right, including focusing on speed of service at the counter and in the drive-thru.

Chick-fil-A continuously tests designs and processes with a full-scale drive-thru mock-up at its Atlanta headquarters. The company has made several improvements to their standard drive-thrus – from adding a second lane, to sending employees out to take orders with tablets as soon as a car hits the driveway. Inside busy stores, employees also walk down counter lines with tablets to speed up order time. These tactics have allowed the chain to process more orders (one store recently processed a record 178 cars in an hour) and to drive up their customer satisfaction scores. They recently earned the top spot in the American Consumer Satisfaction Index's rankings for the third year in a row. In addition, the brand's market share has grown 13 points over the past four years, sales are up 15.5%, and traffic is up 10% this year.

PRICE IS STILL IMPORTANT, BUT OTHER FACTORS MATTER

KEY TAKEAWAY

There are many ways to earn and build consumer loyalty that don't involve price. Winning with 1-2 of the other value attributes may allow for less discounting and more premium-focused messaging.

Sources: QSR Magazine, Restaurant Business Online, Forbes, BisNow.com

02 THE RISE OF SNACKING

Snacking has become
more prevalent.

TREND

SNACKING ON THE RISE

As consumers' lives have become more hectic and "on-the-go," snacking has become more prevalent. A recent study by Mintel found that 94% of US adults snack. 70% snack at least twice a day and 15% snack 4 or more times per day. And they're not just snacking between meals. 30% of consumers regularly *replace* one or two meals with snacks, largely because they're in too much of a hurry for a sit-down meal. Consumers are seeking flexible menus with convenient, portable solutions for snacks – and drinks – on the run.

In response, some chains are repositioning select menu items as snacks. Other QSRs are innovating – creating entirely new "mini-item" menus to drive traffic during off-peak hours. QSRs that have picked up on the snacking trend are seeing results. A recent study published by Forbes found that 81% of consumers have purchased a snack at a QSR – more than any other away-from-home category.

Some of the brands taking advantage of snacking opportunities now include Starbucks, Dunkin', McDonald's and Taco Bell, all of which attract more than 40% of their consumers' visits in off-hours, according to InfoScout data. Many of these brands are strategically offering snacks only during off-peak hours. According to Technomic, 35% of restaurants are offering "happy hour" deals – discounting menu items or offering snacks in the hours between lunch and dinner. This lessens the risk that customers will order small bites instead of regular meals during peak hours.





BRANDS DRIVING INCREMENTAL TRAFFIC & SALES WITH SNACKS

Dunkin'

As part of an effort to reposition the brand as a quick stop for grab-and-go beverages and snacks, Dunkin' recently launched the Dunkin' Run menu.

The new menu features a lineup of snacks available for \$2 each and intended to increase afternoon traffic. The snacks pair perfectly with Dunkin's signature beverages, providing Dunkin' with opportunities to upsell on drink-only orders. Options include chicken tenders coated in sweet waffle batter, pretzel bites with spicy brown mustard and churro-like "donut fries." Dunkin' is also offering \$2 hot or iced lattes between 2 and 6 p.m. to further increase traffic in off-peak hours. Q3 2018 results indicate that the snack strategy is working. US system-wide sales grew 4.6% and comparable store sales grew 1.3%. Donut Fries became one of the best-performing LTO bakery items in recent brand history and the snacking platform delivered their highest afternoon comp store sales growth in more than two years.



BRANDS DRIVING INCREMENTAL TRAFFIC & SALES WITH SNACKS

Starbucks

Starbucks realized that while they had no trouble driving traffic in the morning, very few consumers thought to visit in the afternoon.

To increase afternoon traffic, Starbucks leveraged their mobile app which already had a large database of users. Through the app, they launched a new happy hour program, complete with coupons and push notifications to motivate their customers and keep the brand top of mind. Happy hour deals were pushed to users for redemption during afternoon hours only, and offers rotated to feature different products and discounts. Starbucks also sent offers via email to customers who *didn't* have the app, to widen their reach. The results? Sales at stores open for at least one year jumped 4% during the company's fourth quarter. The company's Starbucks Rewards program grew to 15.3 million active U.S. members, a 15% jump year-over-year and its highest growth rate in seven quarters.

SNACKING IS ON THE RISE

KEY TAKEAWAY

The new consumer preference for snacking means QSRs will need to focus on additional dayparts. Deals tailored to certain off-peak hours will keep the snack menu from cannibalizing the regular menu. And QSRs will gain sales from snackers and meal-skippers, in addition to their regular customers.

Sources: Restaurant Business Online, RestaurantDive.com, AdAge, QSR Magazine, Marketwatch

03 SUSTAINABILITY & TRANSPARENCY

The use of sustainable foods
creates value.

TREND

FRESHNESS, SUSTAINABILITY & TRANSPARENCY MATTER

57% of consumers say the use of sustainable foods creates value. There's a growing desire among consumers to understand the operating practices of the companies they buy from. Especially when it comes to food, consumers want to know where it came from, how it was sourced, and even how the company's food practices affect the environment. Everything from the freshness of the burger toppings to the sustainability of the packaging impact the consumer's perception of quality.

Post-recession, and with the influx of Millennials, consumers are becoming more altruistic and socially aware. And they want to make purchases that reflect these values. When they know they're purchasing food that's healthy for themselves and their families and environmentally sustainable, they feel good about their choices – and that's added value.

88% of consumers have indicated that they want restaurants to help them make good choices by

being more transparent about their ingredients and preparation methods. 72% say they spend more money on brands that demonstrate social and environmental stewardship. Over a third of consumers think restaurants should concentrate on producing less packaging waste. And consumers of all ages say they're willing to pay extra for sustainable offerings.

It can be challenging, and costly, for QSRs to become completely eco-friendly. For example, Subway invested \$80 million to develop new culinary innovations, update their store interiors with new menu boards and outfit their staff with new uniforms to promote their "Fresh Now" upgrade. But a major overhaul may not be needed. The answer may be in making small upgrades (like adding a recycle bin next to the trash can) and offering a mix of value and premium items, conditioning customers to expect premium pricing for fresh and sustainable options.





BRANDS DELIVERING FRESHNESS,
SUSTAINABILITY & TRANSPARENCY

White Castle

In September 2018, White Castle launched its meatless Impossible™ Slider at nearly 400 restaurants across the country.

The burger is a plant-based product that attempts to replicate meat in appearance, taste, and texture. The Impossible™ Slider first premiered at 140 locations in three test markets: New York, New Jersey, and Chicago. The new burger was an immediate hit, with sales more than 30 percent above forecast. Stores with Impossible™ Sliders saw a 250% jump in market share versus those stores that didn't have them, prompting the chain to roll the product out to the entire system before the end of summer. The expansion comes at a time when consumers, especially younger ones, are concerned with not only personal health ramifications of eating meat but also the environmental impact.



BRANDS DRIVING INCREMENTAL TRAFFIC & SALES WITH SNACKS

Panera

In 2015, Panera launched its “Food As It Should Be” campaign to position the company as an ally in wellness for guests through clean ingredients and transparency.

The brand kicked off a PR-led initiative to open a dialog about what we eat, how it's made, and where it comes from. Panera released an “Unacceptable Ingredients List” detailing the 150 artificial ingredients to be removed from their menu by the end of 2016. More than 35 national media outlets picked up the story, including Good Morning America, The Today Show, The New York Times, The Wall Street Journal, USA Today, and Forbes. Panera then opened a one-day pop-up pantry in NYC to put their 450 all-natural ingredients on display. As a result of the campaign, Panera's sales rose 1.5% in Q1 of 2016. In Q2, sales rose 2.4% and revenue increased 7% to \$677m.

FRESHNESS, SUSTAINABILITY & TRANSPARENCY

KEY TAKEAWAY

It's clear that consumers care about sustainability and expect businesses to be transparent about their practices. While many restaurants are overhauling their menus and packaging, small changes have meaning too. Transparency and small efforts are more important than “having it all figured out.”

Sources: QSR Magazine, Mintel, Warc, Bloomberg

04

MOBILE DELIVERY

A huge opportunity to serve
consumers the way they prefer.

TREND

DELIVERY IS A MUST-HAVE

According to a recent study by Gartner, consumers are exhibiting an increased desire to stay home and order delivery. What used to be a millennial trend is quickly becoming a behavior that crosses generational boundaries. 40% of consumers now prefer to order meals online.

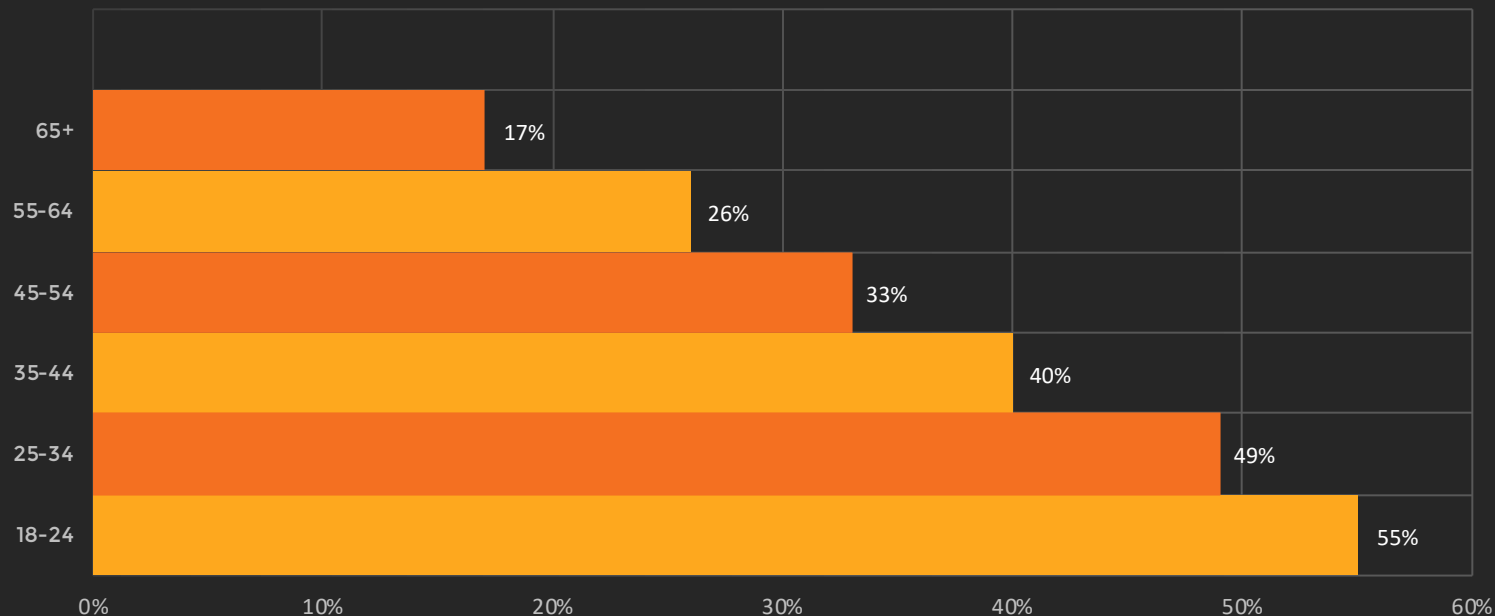
A recent report by Mintel found mobile delivery options from QSRs are in demand. More than half of diners (51%) would like to see QSRs offer mobile delivery apps. While most consumers prefer to order directly through a restaurant's app, third-party aggregators (like UberEats, DoorDash and Postmates) are gaining popularity as they continue to grow and expand their reach into new markets.

Whether they've developed their own apps or partnered with a third party, QSRs offering delivery are seeing positive results. Wendy's claims that average check sizes from mobile delivery are 1.5 to 2 times higher than those made at physical locations, and delivery customers are often repeat customers.

In addition to the immediate (traffic and sales) benefits, the mobile delivery channel allows QSRs to collect helpful consumer data. In Q3 of 2018, McDonald's app reached 60 million downloads. Through the app, McDonald's can collect data on customer purchasing behavior and preferences, which can be used to inform upcoming marketing campaigns.

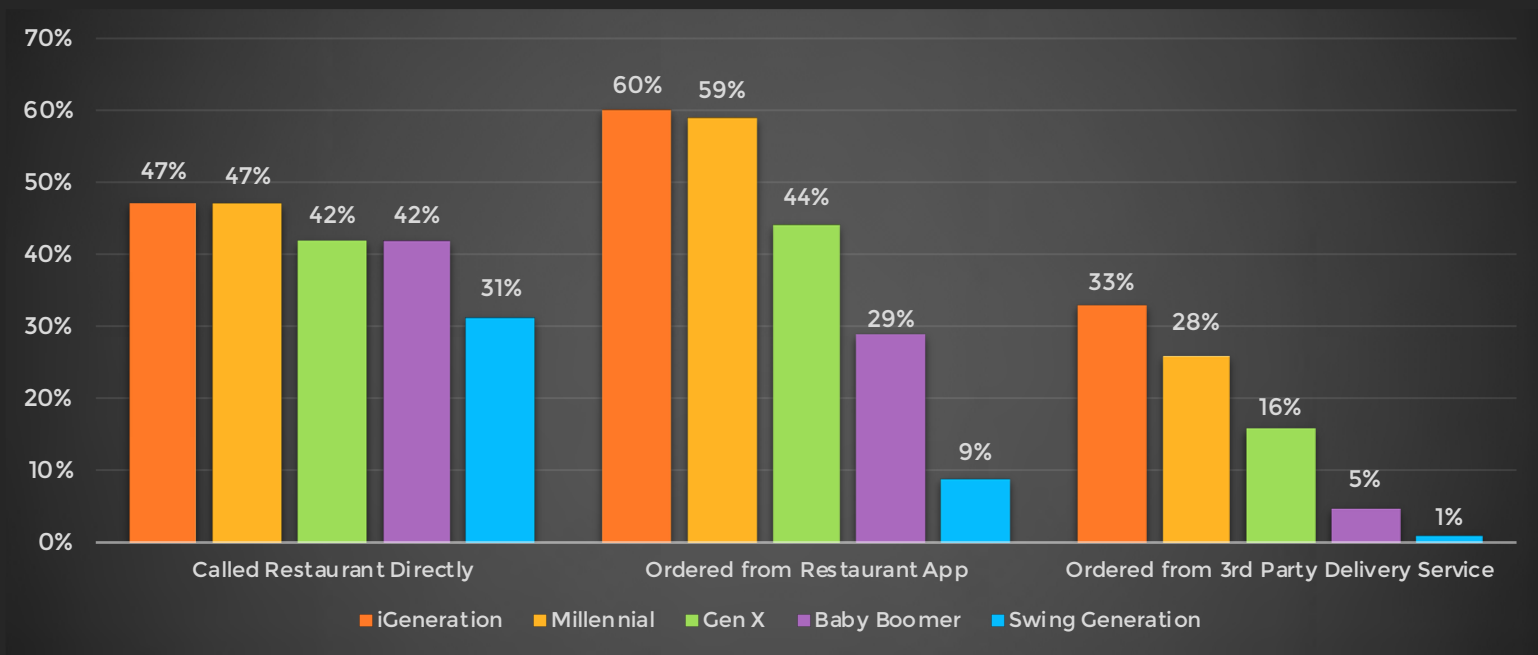


U.S. INTERNET USERS WHO HAVE USED A DELIVERY SERVICE (by age)



RESTAURANT

DELIVERY & CARRYOUT (usage by generation)





BRANDS DELIVERING WITH MOBILE

Wingstop

Wingstop Restaurant's virtual ordering assistant, Wingbot, lets customers place orders with text messages, Twitter, Facebook, Alexa or DoorDash.

Thanks to this approach, more than 20% of Wingstop's orders flow through digital channels. The company has seen an increase in sales in the "mid-to-high single digits" when it adds delivery in a market, despite the fact that the chain does little to advertise the service. And digital orders are carrying an average check \$5 higher than on-premise.



BRANDS DELIVERING WITH MOBILE

Wendy's

In addition to listing their menu on DoorDash, Wendy's is currently working with DoorDash to capture more mobile orders through the Wendy's app.

This will allow customers to place DoorDash orders in an entirely Wendy's-branded experience, enhancing loyalty to the brand while still providing third party delivery services. According to the brand, average check sizes from delivery are 1.5 to 2 times higher than those made at physical locations. In addition, Wendy's strongest customer satisfaction scores are coming from delivery. To encourage more delivery orders, the brand is currently testing loyalty programs and offers through the mobile app.



BRANDS DELIVERING WITH MOBILE

Domino's

Domino's, a long-time leader in the digital space, is continuing to innovate by streamlining online and mobile ordering through voice technology and real-time order tracking.

The company is also working to implement self-driving cars and Hotspot delivery services, which would allow customers to order pizza at locations without a physical address such as parks or stadiums. The brand reports that nearly 60% of its orders now come through digital channels. Domestic same-store sales were up 8.3 percent during the quarter ended March 25 2018, compared to a year earlier.

MOBILE DELIVERY

KEY TAKEAWAY

Mobile delivery offers a huge opportunity to serve the consumer in a way he or she prefers. It also provides opportunity for the brand, in the form of higher tickets, repeat business, and higher satisfaction scores.

Sources: BCG, QSR Magazine, Digiday, Mintel

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