

QSR WHITE PAPER - FEBRUARY 2023

**QSR Success Isn't About Recapturing What Was.
It's About Embracing What's Next.**

EXECUTIVE SUMMARY

The Quick Serve Restaurant (QSR) business is changing at the speed of technology. Be it the aftermath of COVID or simply the speed of advancement, today for the majority of consumers, the QSR experience flows through the drive-thru (increasingly driven by better tech), cell phones, and brand apps.

New technology can capture a massive amount of information about evolving customer behavior – the QSR brands that succeed are the ones with systems robust enough to harness that data to leverage later. Consider the following:

- 75% of all QSR sales now come through the drive-thru.
- Online food ordering has grown 300% faster than dine-in since 2014 and now accounts for roughly 40% of total restaurant sales.
- Around 59% of millennial restaurant orders are for takeout or delivery.
- About 92% of all top-performing restaurants offer mobile order-ahead and loyalty rewards programs or a combination of both.
- About 64% of consumers prefer to order digitally on-premises at a QSR.

The metrics that have always driven QSR – quality, speed of service, and value – are still crucial to traffic and loyalty. When good, they clearly build relationship. When bad, they drive unforgiving consumers to other options that grow in number every year.

What has changed are the expectations consumers have now regarding the brand experience and what THEY want QSR brands to deliver. That begins and ends with technology. People want to place their orders online. They want their favorite brands delivered. They want to interact with them when, where, and how they want them, not the other way around. They want to engage with brand apps that reward them for their loyalty. They want brands to make them feel special and appreciated – as though their patronage makes them part of an exclusive club.

It doesn't matter that those brand experiences were informed by brand interactions completely outside the restaurant business. Today's consumers have taken the best practices they've experienced from high end retail, airlines, restaurants, financial services, luxury goods, online shopping, apps, and loyalty programs and made those experiences their default expectation for every brand interaction they have including fast food.

In 2023, restaurant operation will not be for the faint of heart. Following a year where traffic was down significantly, 2023 promises the threat of recession, further inflation, and continued staffing challenges. That said, QSR will be better positioned than dine-in restaurants to capture consumers that are sensitive to price and looking to order quickly through a drive-thru. The brands that succeed will be the ones ready to serve those consumers by giving them what they want, when and how they want it. Orders that are consistently 100% accurate. Friendly service



that's fast and efficient. Reliable online and delivery options. An ordering process that's frictionless in every channel.

Customers reward brands that meet them on their terms. The world is moving too fast for them to slow down and let brands catch up. We live in a time of instant gratification when people hold a world of information and possibility in the palm of their hand. The QSR brands that succeed will be the ones that embrace those possibilities and leverage them for their own benefit.

“IT’S TIME” FOR QSR BRANDS TO EMBRACE THE FUTURE

The following white paper contains extensive details about what is working in QSR, the brands that are finding success where others are not, and what opportunities QSR brands have at their fingertips in 2023:

TECHNOLOGY, DIGITAL & APPS

- Many QSR brands are lagging behind their competitors technologically. It's time for those brands to do a technology audit to see where they need to catch up including their POS systems, their online and delivery ordering capabilities, and their apps.

Questions to ask:

- What are the financial and operations barriers hindering your move to better technology and what conversations need to happen to address them?
- Is it time to invest in a system-wide technology upgrade?
- If you are struggling to make your app into the app you want, is it time to consider starting from scratch and designing the app you want and need vs. the best you can do with what you have?

DRIVE-THRU

With 3 of every 4 orders now going through the drive-thru, order accuracy (#1 customer priority), speed of service, and quality of food are paramount to keeping customers and driving traffic. It's time to look at every aspect of your drive-thru experience to see where it can be improved.

Questions to ask:

- Physical
 - Does the drive-thru flow efficiently? If not, can it be changed?
 - Is the driveway smooth? Are there potholes that need to be fixed?
 - Is there a sufficient overhang over the window to keep customers dry picking up orders when it's raining?
- Visual
 - How is the lighting? Is the drive-thru too dark?
 - Are the menu boards and/or confirmation screens lit and functioning properly?
 - Is there trash in and around the drive-thru?

- How does the landscaping look? People are looking while they are waiting.
- If there are posters/message boards between the order board and the pickup window, are they aged and faded? Do they need to be cleaned or replaced?
- Process
 - How can you ensure 100% order accuracy? (No. 1 for customers)
 - If stores can't afford "preview boards," can they encourage people to download the app to review the menu online while they are waiting?
 - How can you efficiently speed up service? (Customers expect to be through in 10 minutes)
 - Where are there bottlenecks? How can you fix them?
 - How can you engage your customers in a more friendly manner?
- Messaging
 - Are there too many messages/stickers on the drive-thru window?
 - What do you MOST want your customers to know?

DELIVERY

Nearly a third of Americans are using delivery at least twice per week and on the operator side, using third-party delivery has been shown to increase store sales by 10 to 20 percent. And yet, thousands of QSR locations are not optimized for delivery and online ordering. It's time to change that and quickly.

Questions to ask:

- If a store isn't offering delivery, why not and what are the barriers to changing that quickly?
- In what ways can you surprise and delight your customers in your delivery orders? Special offers in every bag? A thank you card?
- What can you do to ensure your cold items (drinks/treats) travel well in delivery, especially in the summer? Can you freeze items ahead of time without sacrificing quality, so they don't melt before delivery?
- What can you do for the delivery drivers to help ensure they do their part to deliver the brand well?

LOYALTY

The QSR brands that are succeeding are investing in their loyalty programs and using them to learn from and communicate with their best customers. It's time for QSR brands to move past basic loyalty programs and recreate a program that will drive new interest and build relationships with younger generations hungry to connect. It's time to discuss opportunities and roadblocks to:

- Providing a constant stream of new News to excite customers
- Finding ways to personalize the loyalty program experience
- Allowing members to customize their experience and rewards
- Rewarding loyalty/app members with unexpected value (Free product/music downloads/invitations to try a new product)
- Giving digital users first access to new product news/events/swag

- Asking loyalty members for their opinions/suggestions/recipes
- Increasing the level of rewards a member gets as their visits to the brand increase

VALUE

As one emerging QSR brand put it, “we win the value battle not by racing to the bottom but by delivering a premium experience.” Value works but only when brands use it in service of something greater. It’s time for QSR brands to rethink value strategically by looking at pricing, sizing, snacking, and providing an experience that delivers value not discounts.

Questions to ask:

- What would a revised 3-tier pricing strategy look like with your menu?
- What opportunities can you leverage with smaller portioning?
- What would a “Snack” section of the menu look like?
- Could you further leverage morning and afternoon “Happy Hours” the way other brands like Sonic have?

BRAND LOVE

Like every QSR brand, yours has legions of brand evangelists who are quick to tell anyone who will listen how much they love the brand. But unlike other QSR brands like Whataburger, Chick-fil-A, and Sonic that give their fans entire stores full of swag to show their brand love, many QSR brands give their evangelists very few ways to show their affection. It’s time for those brands to create a swag store so the fans who love their brand have the opportunity to show it.

Questions to ask:

- What barriers are in the way of creating your own branded swag and how can you address them quickly? Sourcing? Logo trademark? Revenue?
- Who can handle swag design and fulfillment?
- How quickly can you develop an online store?
- Knowing consumers are craving experience, how can you create more fun ways for people to experience your brand?

TREATS, EATS & DRINKS

With all that’s changed in QSR, there’s one thing that hasn’t – new product news still grabs attention and drives traffic. For some brands, that means the creation of completely new treats, eats, and drinks. For others, it means extending the reach of existing items like tater tots, fries, burgers, and shakes with new toppings, sauces, and flavor profiles. It’s time for QSR brands to look at both their existing menus and new product opportunities to see where they can drive new traffic in 2023.

Questions to ask:

- What fan favorites does your brand have that could be brought back to leverage excitement?

- Like McDonald's adult Happy Meal, is there some nostalgic twist you could put on another fan favorite to give it new life?
- Even people who have their favorites get bored and tired with the same old thing. Are there trendy flavor profiles you can leverage?
- Are there tasty combinations of existing ingredient SKUs that could be mixed to create something new?
- What could you do with new sauces and flavors?
- Is there an initiative you can create that becomes a routine? Sundae Mondays? Extra Fry-days? What could be the next Taco Tuesday?

MEDIA SPENDING

While success isn't all about media spend, general spending levels can't be ignored when analyzing the competitive landscape. Successful brands are not just investing heavily on their media spend. They're investing in upgrades to their technology, their apps, their loyalty programs and in their POS systems so they can collect and leverage their customer data. It's time for every QSR brand to think about upgrading their spending and looking for strategic ways to build relationships with their customers.

Questions to ask:

- Where can you add to the media spend in strategic areas to help build relationship with Millennials, Gen Z, and soon, Gen Alpha?
- When you're being outspent 2 to 1 in major media, are there other strategic places you can have a bigger presence? Where can you be big?
- Where do you need to invest to position your brand well for the next decade and beyond?

STAFFING

Without question, brands that pay attention to building a positive, supportive company culture are more successful than those that don't. While QSR brands are battling to find good employees in what is already a difficult climate for hiring, they cannot lose sight of the people they already have – especially the great employees who are showing up for the brand every day. Building and curating a positive, nurturing culture for your employees cannot be an afterthought. It's time for each QSR operator to look at the culture of each store and ask, "how can we build a culture where people want to work?"

Questions to ask:

- What can you do to make your stores more attractive places to work?
- Looking at your best employees, where can you find more people like them?
- If you're having trouble keeping employees, is your store culture toxic, and why?
- How can you build a greater sense of community among your employees?
- Are there meaningful benefits your store can add to attract A players? Mentorship? Management training? What are other stores with great employees doing to keep their staff intact?

- What can you do to engage Gen Alpha to build relationship with them before they enter the workforce in a few years?

MARKETING

There's a lot right with any campaign that can last five, 10, or 20 years. The question is whether your current campaign is grounded in an authentic truth about your brand. Does your brand statement and your brand promise resonate with your customers both young and old? Your great opportunity is finding a way to resonate with younger generations who don't share the same affinity that older generations do. Time is always moving and right now, it's time for QSR brands to explore new ways of connecting with younger audiences and building relationship with them.

Questions to ask:

- How can your brand inject itself into people's QSR consideration, and most importantly, get into the consideration sets of younger consumers?
- How can you leverage more Local Store Marketing (LSM) to drive traffic?
- How can you use your marketing to help build your Loyalty Program?
 - An invitation with a FREE meal to download the app and join the loyalty program?
 - A targeted guerrilla campaign to keep your brand top of mind?
 - Digital flash sales exclusive for app users?
 - FREE swag for loyalty members after 10 visits? 20 visits?

A BRIEF INTRODUCTION TO CHANGE

It's been nearly three years since the beginning of the pandemic and QSR still isn't back to normal. The problem is that many brands are still waiting for yesterday's normalcy to return and that is highly unlikely. The world has changed. Consumers have changed. Eating patterns, delivery channels, our relationship with technology have all changed and there is no going back to what was.

In a December 26, 2022, Washington Post article titled, "How the Pandemic Altered the Restaurant Industry Forever," author Laura Reiley paid specific attention to three key areas of change that have laid the foundation for a massive shift in restaurant behavior that will affect QSR brands for the foreseeable future:

1. Where People Eat Has Changed

According to Reiley, "restaurants are still seeing 16% fewer people eating on-premises compared to before the pandemic" with the offset countered by the rise of delivery (up 5%) and the number of people using the drive-thru (up 13%).¹ According to Hudson Riehle, an economist for the National Restaurant Association quoted in the same article, "39 percent of all restaurant traffic is [now] bumper to bumper in a drive through lane."²

“There’s a dichotomy in what consumers want. They want value and convenience but also crave an experience,” said David Henkes, a senior analyst at market research firm Technomic. “Quick-serve restaurants are betting a lot of money that those changes are permanent.”³

To that end, QSR brands like Taco Bell, McDonald’s, and others are experimenting with new concepts without dining rooms featuring second floor kitchens, four lanes dedicated to drive through and delivery, and food delivery that comes via “space age” tubing with orders arriving just two minutes from the time of order.

“The dine-in business is going to be radically smaller than it was, with much more focus on takeout orders, a huge shift in the basis of competition to be all about technology and convenience,” Henkes said.⁴

2. How People Order Has Changed

Post-pandemic, there has been a pronounced pivot to restaurants incorporating a more robust digital strategy. According to the restaurant website company BentoBox quoted in Reiley’s article, “the restaurant industry saw an 18 percent increase in eateries offering direct online ordering this year.”⁵ Reiley noted that this digital movement has “also prioritized delivery app menus and mobile app-based loyalty programs.”⁶

Tony Smith, co-founder of Restaurant365, offered this anecdote: “I was talking to a client while he was trying to order food on his phone, and he was getting frustrated. I said, ‘Why don’t you call?’ and he said, ‘I shouldn’t have to talk to a person.’”⁷ Consumer expectations have shifted.

3. What People Order Has Changed

After a brutal year of inflation in 2022, according to most economists, the U.S. is heading toward some level of recession in 2023. However that turns out, “diners are skittish and extra price-conscious”⁸ according to Reiley. That mindset was clearly reflected in the decline of YOY traffic for most QSR brands throughout 2022.

“Consumers feel constrained, but restaurateurs are extra pinched,” Reiley noted.

“According to government data, prices for food consumed at home rose 12 percent over the past 12 months, while food consumed away from home rose 8.5 percent in the same time. This means restaurant owners are eating some of that increase in food costs and not passing it along to customers to stay competitive.”⁹

Whether restaurants are keeping up by increasing price, or discounting with promotions, neither approach has proven to be the perfect solution as sales traffic continued to suffer at the end of last year.

“The robust sales rebound was felt in traffic growth too, with same-store traffic growth reaching -3.2% in improvement over the -6.8% recorded for July... But the stark reality is that restaurant guest traffic continues eroding compared to the previous year. Same-store traffic growth has now been negative, for eight straight months.”¹⁰ It’s a reality RMS Director of Research and Consumer Analytics Francois Acerra, saw coming a year ago.

“Consumer habits are fundamentally different,” Acerra noted in February of 2022. “Traffic is down, but the relative increases in average check indicate that QSRs haven’t lost customer segments. Instead, we believe that quick-serve restaurant customers have permanently changed their behaviors – visiting less frequently than pre-pandemic yet spending more per visit.”¹¹ Ten months later, Acerra’s assertion was validated with QSR traffic down 4.2% in Q4 2022.¹²

THE CHALLENGES DOUBLE DOWN

Amid historic inflation and shifts in digital engagement, consumers have changed how, where, and what they order. On top of that, global supply chains are still in disrepair. Many restaurants – especially QSR – are experiencing unprecedented labor and staffing issues.

In 2021 during “the Great Resignation,” a full quarter of the American workforce turned over¹³ with estimates that another 70 percent had considered changing jobs post-pandemic. During this period, many Americans began to work remote or hybrid schedules – this cultural shift only added pressure to those required to work 100 percent of the time in an office, store, or restaurant.

The pandemic’s forced national lockdown gave the employed an unprecedented opportunity to experience greater work-life balance, and the opportunity to analyze whether the environment they were working in was positive or toxic. It’s no secret working in restaurants and QSRs post-COVID was hard, often thankless work. Lack of staff, impatient customers, and ongoing health concerns were more than enough for many to question whether their hourly wages were really worth it. Ironically, for many, the mental strain of quarantine gave way to a new independence and a desire to pursue new jobs and careers.

According to a post on QSR.com, “as of August, following a month where restaurants added 74,100 jobs, the field remained more than 600,000 [jobs]short of February 2020.”¹⁴ Those staffing losses – many in QSR – remain a serious challenge for those trying to deliver quality service. The QSR article continued, “The ability to identify talent, keep high-performing employees engaged, and create workplaces where people want to join and stick around, and in turn, deliver hospitality to guests, has become a differentiator that can’t be understated.”¹⁵

One final dynamic that seems to be hurting QSR is a shift back to social dining, but at Fast Casual rather than QSR locations. This GravyAnalytics article echoes what others have documented on the lack of QSR foot traffic:

“As the year has progressed and people have adjusted to a new normal, we’ve been seeing a common foot traffic theme: people are placing an emphasis on social opportunities... It seems consumers prefer buying—and dining—where they can spend time together... This is likely why fast casual dining is seeing foot traffic growth while fast food locations are seeing declines or minimal growth YoY... Although McDonald’s saw a major spike in foot traffic in Q4 of last year, the chain saw just a 3% increase in foot traffic in Q3 2022, compared to the same quarter in the year prior. This was the greatest YoY increase we saw out of the fast-food brands we analyzed. Whataburger, Wendy’s, and Burger King each showed a 1%, -3%, and -5% YoY change, respectively... **The overall trend we’re seeing is a greater increase in consumer visits to fast casual chains than fast food chains.**”¹⁶

THE PATH TO SUCCESS

Clearly, QSR is in a very different place than it was 24 months ago and where it will be 24 months from now. In the balance of this white paper, we will examine:

- The anticipated QSR trends expected in 2023.
- What is working in the industry.
- What the best-in-class players are doing to succeed.
- How you stack up against what’s working.
- 10 areas where QSR brands can focus to drive traffic, sales, and profitability.

SECTION 1 - THE ANTICIPATED QSR TRENDS FOR 2023

As at the beginning of every year, numerous think tanks, consulting firms, media companies, and category experts write about emerging trends they expect to see in restaurants and QSR. While the cumulative observations number in the hundreds, there are some prominent areas of interest that people are talking about. Here are just a few industry predictions for 2023:

Inflation and Recession Will Greatly Impact Pricing

“The macroeconomic issues defining 2023 will be inflation and recession... When the pandemic hit, people were less sensitive to prices. This time, consumers will be more sensitive to price due to inflation and limited wallet share. While restaurants have been able to pass these inflationary prices on to consumers in the past, they will no longer be able to do so in this new recessionary environment.” – Sam Zietz, CEO, GRUBBRR¹⁷

Updated Training Will Be Key To Solving Staffing Issues

“Connecting with today’s learner is mission critical to success in 2023! Those who continue to train the way they always have will struggle to meet goals with uninspired teams and high turnover.” – Sara Studer, Leadership Effectiveness, Training Innovation, Talent Strategy And Design, Whataburger¹⁸

“A focus on simplifying process and re-training fundamentals to all levels. With the past few years full of constant change, high turnover, and quick promotions, a focus is needed on core skills and behaviors required to execute quality operations and lead people.” – Rachel Richal, VP, Training, Buffalo Wild Wings¹⁹

“Investing in people—like REALLY investing in the leadership of the General Managers, Assistant Managers, and Shift Leaders. Many of them are in those positions because they were really good at their job—not necessarily because they are good at LEADING people.” – Sunny Ashman, VP Of Training, QSR Division, FAT Brands²⁰

“Retention will rely on great training and development! With our industry's turnover rates and doing all we can to keep doors open, training has not been delivered at our best. Those that train well and keep folks engaged through development will reap the rewards.” – Kelly McCutcheon, VP Of People, Hopdoddy Burger Bar²¹

Industry Pruning Will Benefit The Survivors

“I see a new wave of closures in the post pandemic era. PPP and other programs that kept struggling locations afloat during the pandemic are winding down just as a recession is starting. There will be a massive shake out. At the same time, surviving operators may finally see some labor relief as layoffs hit other industries and underperforming restaurants close.” – Mark Hutchings, principal, Statement Insurance Agency²²

Consumers (and Successful Restaurants) Will Continue To Embrace Technology

"I see the future as dynamic speed of service. Flexible technology solutions that enable the guest to control the pace of their experience. For airport dining this is especially important, and I see benefits across the industry. [Quick-serves] have become more about convenience [DTs, third-party delivery) than as dine-in destinations. Expect this trend to continue and become even more specialized." – Neil Thompson, VP, Digital, HMSHost²³

"I see self-service evolving again this year, giving customers more control of their own experience. Voice, interactive visuals, mobile, computer vision, and loyalty will all play a role." – Scott Marentay, VP Of Customer Experience, Fingermark²⁴

"Solutions that address the labor challenges that the restaurant world is continuing to face, such as self-ordering kiosks in the front of the house and automated cook stations in the back of house. The restaurants that leverage technology to best address the labor crisis will come out on top at the end of 2023." – Zak Bertram, Senior Sales Executive, GRUBBRR²⁵

Loyalty Programs Will Continue To Grow and Improve

"Maybe I am biased, but I see more expansion for restaurants [quick service but particularly full service] into loyalty, using data to personalize and integration into online ordering and contactless payment." – Brittany Maroney, Director Of Marketing And Communications, PAR Technology²⁶

Successful Brands Will Lean Into Culture

"We believe restaurants will place more emphasis on employee culture and retention. Team members are at the core of every successful restaurant, and their value is immeasurable. As brands grapple with lingering labor shortages, operators should continue to invest in employee-focused initiatives to improve their day-to-day tasks and build brand loyalty." – Frances Allen, CEO, Checkers & Rally's²⁷



SECTION 2 – WHAT’S WORKING NOW?

DRIVE-THRU

According to a recent article from Nation’s Restaurant News, Americans love the drive-thru more than ever:

“Perhaps the stickiest trend that resulted from the pandemic is the deepening of affection for restaurant drive-thru... If Americans didn’t love picking up food without leaving their cars before the pandemic, they certainly do now.”²⁸

According to a July report from consumer behavior experts, Revenue Management Solutions (RMS), drive-thru represented about 75% of quick-service sales, down from more than 90% at the height of the pandemic when restaurant dining rooms were closed. But, even as dine-in returned, restaurant operators across the industry said their drive-thru business has remained strong.

The 2022 Drive-thru Report from QSR concurred, putting an even greater emphasis on the role the drive-thru is playing for restaurants that are succeeding.

“Consumers today, according to the survey portion of the 2022 QSR® Drive-Thru Report, are more satisfied with their drive-thru experience than at the peak of the pandemic. It’s why brands, from Wendy’s to Chipotle to Applebee’s, haven’t dialed back in light of cafes reopening across America. If anything, the COVID stabilizer has become the industry’s most innovative arena... Upgrades such as better signage, sanitation, and, of course, technology, were ticks guests had been waiting for.”²⁹

“When asked what the top two reasons they choose to order using the drive-thru were, per this year’s study, guests picked “Convenience” and “Speed of Service.”

- 78% of customers picked convenience as their No. 1 drive-thru draw. That figure was 79 percent last year and 75 percent in 2020.
- Speed of service, meanwhile, clocked in at 42%, a full 9 percentage points down, year-over-year (it was 45 percent in 2020).
- For vital factors driving future drive-thru visits—what would inspire a repeat trip—more than half (58%) indicated order accuracy was most important. It was more than twice the second metric, speed of service, at 23 percent.
- A menu board placed ahead of the ordering speaker (18%), order confirmation screens (18%), and the ability to pay with mobile phone or app (11%) rounded out the top 5.
- Customers in the survey said they’d be willing to spend 13 minutes when ordering through a drive-thru (same as last year and a minute higher than 2020).
- They noted they typically wait 10 minutes and think 8 is ideal.

- Respondents considered it reasonable and fair to spend just under 6 minutes prior to ordering; 4.95 minutes between placing order and picking up; 4.72 parked in a separate waiting area at pickup when order was not ready; and 3.38 placing their order.³⁰

Drive-thru satisfaction continues to be a function of customer service as much as a function of speed. In 2022, Chick-fil-A continued to be the gold standard for QSR for a number of reasons, one of them being the drive-thru experience they provide. Interestingly, the two statistics below confirm it's not all about speed.

- Among the major QSR brands studied, in average speed of service, Chick-fil-A ranked dead last at 325.47 seconds according to Intouch Insight's Annual Drive-Thru Study. For context, Taco Bell was the fastest at 221.99 seconds.
- Despite having the slowest drive-thru in QSR, Chick-fil-A received a 93% grade for speed of service satisfaction from its customers (which trailed only Arby's at 96%). (NOTE: speed of service for CFA is a relative stat – 16% of the time when consumers arrive at Chick-fil-A, there are at least 10 cars already in line. When you measure actual time per car in line, Chick-fil-A becomes the quickest drive-thru in QSR).³¹

Whatever the reason, customers are still waiting in line. But in the case of CFA, they don't mind. Much like Disney that has mastered the art of reducing angst over waiting in line by keeping their guests engaged along the way, Chick-fil-A now positions employees with hand-holds in the drive-thru to greet and engage with their customers, take their orders, and in some locations, confirm the order with a second employee, all before the driver reaches the window to receive their order. Recall, 58% of customers said order accuracy is a vital factor for a return visit, while only 23% said speed of service.

Preview menu boards and confirmation screens have also become essential parts of a more satisfactory drive-thru experience. Again, from the 2022 QSR© Drive-thru Report:

"73% of customers said order confirmation screens were "somewhat" or "most important" to their drive-thru visit. A menu board placed ahead of the ordering speaker (so there was time to review prior to order) was also high at 78%. Both are up from 74 and 60%, respectively, in 2020.

What this indicates is twofold—standards have hiked at the drive-thru due to usage; and secondly, as these systems spread and consumers use them regularly, they place them higher in their demand set... Order accuracy proved especially vital to Gen X in the survey, with 71% getting "angry" when their order was inaccurate.³²

DELIVERY

For decades, food delivery for certain cuisines has been limited. But thanks in large part to third-party companies like GrubHub, DoorDash, and UberEats, widespread delivery options from a variety of restaurants is now the norm. If our predilection for convenience and instant gratification meant occasionally paying more to have food delivered before COVID-19, the pandemic transformed those occasional indulgences into regular behavior. For the restaurants that have recognized those shifts in behavior, delivery has become a significant revenue stream and a way to drive repeat business in an ever-expanding geographic footprint. Consider these statistics from madmobile, a leading tech company serving restaurants across the country:

- Around 31% of American consumers use third-party food delivery services at least 2x a week.
- Around 59% of millennial restaurant orders are for takeout or delivery.
- Revenue in the Online Food Delivery segment is expected to show an annual growth rate of 8.29% resulting in a projected market volume of \$466.5 million by 2026.³³

And consider these statistics from Lightspeed, a tech company offering one-stop commerce platforms for companies and restaurants around the world:

- 87% of Americans who use third-party food delivery services agree it makes their lives easier.
- 60% of restaurant operators say that offering delivery has generated incremental sales.
- Working with a third-party delivery service has been found to raise restaurant sales volume by 10 to 20%.³⁴

In many of the same ways streaming and on demand options have shifted viewing behaviors from big movie theaters to the comfort of home, delivery companies have made it possible to enjoy any of our QSR favorites without the hassles of getting in the car, driving across town, sitting in the drive-thru, and driving back home. And while certain brands may have benefitted from being closer to the consumer, delivery puts more brands in the consideration set, rewarding those who use delivery tools to their benefit. It's certainly resonating now – takeout and delivery traffic were up 22.1% and 15.9% in Q4 2022.³⁵

TECHNOLOGY – DIGITAL & APPS

Technology in the QSR space is nothing new. But the way brands are using tech and the extent to which consumers are using technology to engage with their favorite brands most certainly is. From online ordering to mobile apps to loyalty programs, technology allows consumers to interact with their favorite brands how, where, and when THEY prefer it.

“The idea today that a restaurant has a mobile app or offers website ordering is far from a differentiator. If guests can't access the brand through the means they want, they head elsewhere. You could even argue the experience must mirror ecommerce habits in

general. Friction in the ordering process has become the divider of a changing generation. COVID essentially put a drive-thru screen in the hands of nearly every consumer in America. It's a reality that both raises the stakes and opens the potential."³⁶

Technology offers restaurants an extraordinary opportunity to engage with their customers. For those who do it well, it also offers an intimate, personal, ownable experience that both strengthens brand loyalty and drives repeat engagement. Brands with systemwide integrated technology also give themselves access to big data they can leverage to their advantage. Those restaurants that continue to ignore technology, or simply "dip their toe in" do so at their own peril as competitors pass them by. And it's not simply about engagement. Better technology means bigger business. Again, consider these statistics from madmobile:

- Online food ordering has grown 300% faster than dine-in since 2014 and now accounts for roughly 40% of total restaurant sales. In 2023, online food revenue is expected to rise to \$220 billion.
- More restaurant customers are tapping mobile devices, with one-third (35%) placing more orders on apps compared to three months ago, and customers are likely to spend more when ordering via a restaurant app.
- Restaurants with an online ordering system are able to raise their takeout profits by 30% higher than those who don't.
- In 2022, the number of Americans using apps to order food and other groceries is expected to rise from 27.9 million to 30.4 million.
- About 92% of all top-performing restaurants offered mobile order-ahead and loyalty rewards programs or a combination of both.
- About 64% of consumers prefer to order digitally on-premises at a QSR.
- Nearly 60% of restaurants can expect more sales when they offer online ordering.³⁷

While restaurants are clearly investing in technology in-house, there is also a trend to increase marketing spend to reach consumers on digital platforms. According to findings by the Winterberry Group shared with Marketing Dive, advertisers are expected to spend an estimated \$509 billion in 2023, up 6% from \$481 billion last year. Investments in data segments, including data, data services, platforms, and identity, are projected to increase 7% year-over-year for a total of \$34 billion.³⁸

Why? Survival. According to marketing firm Moveable Ink, "some 52% of QSR sales are projected to be digital by 2025."³⁹ One look at those finding success in the industry and it's clear technology is a big reason why. Here are just a few examples of how successful QSR brands are leaning into technology:

Wendy's

Wendy's is rolling out hand-held POS devices systemwide like Chick-fil-A, and In-N-Out is giving employees the ability to roam the drive-thru lane and take orders directly at customers' cars during peak periods.

Potbelly

"Prioritized its technology platforms to drive traffic, as well as to ease operations. The company's digital sales mix has consistently hovered close to 40% for over a year, driven by a tech stack that includes a new app, new website, new loyalty engine, a new order integration platform, an updated payments infrastructure and a new "Potbelly Digital Kitchen." Said CEO Bob Wright, "The industry on average spends 4-to-5% of sales on marketing, so we have quite a bit of catching up to do."⁴⁰

Shake Shack

"In Q3, Shake Shack grew its digital app purchasers by 40 percent, year-over-year (more than a million app installs since the beginning of this year). Since March of 2020, the brand has gathered more than 4.5 million unique first-time digital app purchasers. Shake Shack has fed this base with offers like enabling digital users first access to a limited-time Hot Ones menus and other promotions that center on digital-only day parts. Shake Shack's digital guests spent on average 25 percent more per visit than non-digital users in Q3, and digital mix was 36 percent of sales."⁴¹

Even the digital channels QSR brands are using to engage with their customers are changing quickly. "According to MGH, a marketing and communications agency, 53% of Millennial TikTok users have visited a restaurant and/or ordered food from it after seeing it on TikTok. Additionally, 38% of TikTok users across all generations – approximately 51.8 million diners – have visited a restaurant or ordered food from it after seeing a TikTok video about it.

The MGH survey also found that TikTok videos have prompted users to travel longer distances for new dining experiences, as well as swayed them to spend more money than they usually would on restaurants. Of the TikTok users surveyed, 30% have traveled longer than they normally do to visit a restaurant after seeing it on TikTok, and 28% have visited a restaurant that was slightly more expensive than the ones they usually visit after seeing it on TikTok."⁴²

LOYALTY PROGRAMS

Brands with robust loyalty programs are winning. Previously, basic reward programs with points for purchase were passable – today, they are simply price of entry. The brands pulling ahead are the ones that view their loyalty programs as a place to engage their customers. To communicate with them. To give them exclusive previews, perks, and rewards that only the brand's most loyal followers receive. Brands are using their loyalty programs to build intimacy with their customers and to listen to what their customers want. Brand loyalty programs are an extraordinary place to



surprise and delight the customers clearly leaning into whatever it is you're selling. But at the same time, when executed poorly, they can be cause for disaster.

In 2022, Dunkin' Donuts ended Q3 down 4% YOY. One article suggested, "Dunkin' could be feeling the growing pains that came with their revamped rewards program. This new program disappointed many loyal Dunkin' customers, likely causing less habitual visits."⁴³

On the opposite end of the spectrum, McDonald's reported 2022 Q3 earnings up 6.1% across the U.S. system marking the company's ninth consecutive quarter of comp sales growth in the U.S., and the 22nd out of the last 23. Unlike most other QSR brands, traffic counts were up as well. During the company's earnings call, CEO Chris Kempczinski credited the fledgling My McDonald's loyalty program as a "significant growth driver," as well as the chain's marketing presence. There are now 25 million active members of the loyalty program, launched just last year in the U.S., which is exceeding expectations, according to Kempczinski.⁴⁴

A number of industry experts have suggested that loyalty programs should be one of the key tools QSR brands use to reengage lapsed customers in 2023:

"This year, despite tough economic conditions, many restaurants didn't necessarily see a drop in topline sales," [said Phil Quackenboss, VP of restaurants and growth at Fetch, a rewards app and engagement platform.] "Instead, they suffered drops in visit frequency. So, the sales growth restaurants did see wasn't a function of selling more food — it was a function of selling the same amount (or less) at higher costs. In 2023, companies should lean into growing brand loyalty and engaging even more deeply with existing customers as they look to offset drops in visit frequency in the category."⁴⁵

In the fall, Taco Bell took that exact tack tweaking its "Steal a Base, Steal a Taco" promotion during the World Series to shift the focus to its loyalty program. "In this case, if a player successfully steals a base during the fall classic, then members of Taco Bell Rewards can get a free taco as soon as that night— rather than wait as long as a week, as in the past. In other words, the company is hoping to get customers to sign up for its loyalty program, which is where most big chains are shifting their discounts."⁴⁶

Alex May, a leader at marketing firm Movable Ink, agrees we'll see more brands giving more attention to their loyalty programs in 2023:

"Expect more restaurants to roll out loyalty programs, and for existing programs to become much more sophisticated, May said. "This is not only driven by innovations in Web3, but also by the fact that Millennials and Gen Z are 'more willing to do something or go somewhere if they have a positive experience... Restaurants will need their loyalty programs to be more interactive via rewards, personalized deals, order recommendations, and special events."⁴⁷

VALUE

While not always the most profitable tactic, value has always been a tried-and-true marketing lever pulled by QSR brands, both occasionally and constantly depending on the company.

With traffic struggling throughout 2022, many QSR brands turned to value to try to bring in repeat business, but it's a double-edged sword. Try to drive traffic with "ultra-value" meals and make up profit on volume – or raise prices, lose price-sensitive customers, and hope you come out ahead in the end. It's a dance. Consider these recent value meals from big QSR competitors:

Burger King

- Your Way Meal for \$5
 - Whopper Jr/Chicken Jr/Bacon Cheeseburger + 4 Nuggets + Small Fry + Small Drink

Wendy's

- 4 for \$4
 - Jr. Cheeseburger + 4 Nuggets + Small Fry + Small Drink
- \$5 JBC Biggie Bag
 - Jr. Bacon Cheeseburger + 4 Nuggets + Small Fry + Small Drink
- \$5 Crispy Chicken BLT Biggie Bag
 - Crispy Chicken BLT + 4 Nuggets + Small Fry + Small Drink
- \$5 Double Stack Biggie Bag
 - Jr. Double + 4 Nuggets + Small Fry + Small Drink

Taco Bell

- \$5 Cravings Box
 - Specialty Item (Chalupa Supreme/Cheesy Gordita Crunch/Crunchwrap Supreme) + Traditional Item (Cruncy Taco/Beefy 5-Layer Burrito) + Side Item (Chips & Cheese Sauce/Cinnamon Twists) + Drink (Reg. Blast or Freeze/Medium Drink)

Mcdonald's

- Free FRY-day
 - Free medium Fry through the App

Other brands like Jack in the Box have also stated their commitment to return to a value menu to build check averages rather than simply taking price increases in 2023.⁴⁸ Ultra-value is always a customer pleaser. What remains to be seen is the effect it will have on profitability.

BRAND LOVE – NOSTALGIA & SWAG

Brand Love is something every brand covets. Every brand has its evangelists, its core group of apologists who will love the brand no matter what. But real success comes when a brand can

attract a wider circle of consumers and convert them into brand evangelists through exemplary food, value, and service. Brands that have been able to do that over time have the luxury of being able to trade on their brand's nostalgia. And for many, that includes the creation of branded "swag" – clothing, tumblers, coolers, and the like – that allow consumers to express their brand love wherever, and whenever they'd like. Look at the industry leaders in QSR and you'll see brand love on clear display. Here are just a few examples:

McDonald's

McDonald's current strength is not just due to a more favorable QSR space. The company is tapping into its older consumer base's nostalgia to draw Millennials back to the chain with the recently introduced adult Happy Meals, available for a limited time. So far, the promotion has been a resounding success – visits to McDonald's spiked dramatically with the release of the adult Happy Meals. Throughout August and September, weekly foot traffic to McDonald's remained fairly steady, with YoY weekly visits staying between 2.4% and 9.7% above 2021 levels. But the week of October 3rd – when the Happy Meals launched – saw a massive jump in foot traffic, with 37.1%⁴⁹

Whataburger

This from an article about a woman who has eaten at Whataburger every day for 10 years. "Thornton's usual breakfast order is a sausage biscuit. Her favorite used to be a Jalapeño Cheddar Biscuit until it was "discontinued by the Chicago Overlords." "I am still grieving over the loss of the Jalapeño Cheddar Biscuit! The best thing that was ever on the menu! I bought two cases of them right before they took them off the menu, hoping they would eventually come to their senses and bring it back. But my supply is dwindling, and I am starting to lose hope," she said. "All I can tell you is that every day I woke up a little bit happier because I knew I was going to get a Jalapeño Cheddar Biscuit for breakfast. And now every day I wake up a little sadder because I'm not."⁵⁰ In the article, there were no less than 6 images all showing the woman with different branded swag from Whataburger. Is she an outlier? A bit. But there are thousands like her. From branded Yeti Tumblers to annual "Whataburger Class of 20__" T-shirts, to their signature ketchups now selling in grocery stores, WAB has leaned into swag and made it huge part of their branding. Their "Whatastore" is a shrine to the brand love WAB's customers feel. The fact that it offers Free Shipping over \$100 tells you in part how much people are spending.

Sonic

At SonicSwagShop.com, fans of Sonic can buy everything from Ketchup and Mustard themed pajamas, Sonic cups, mugs, and tumblers, Sonic socks and slippers, Tater tot earrings, an entire collection of Sonic T-shirts and even swag for dogs in "The Wag Shop." Sonic rotates new swag in seasonally and if fans didn't love purchasing their favorite merch enough, 100% of the net proceeds from sold merchandise benefit the Sonic



Foundation, which provides much-needed supplies and learning resources to public schools across the communities Sonic serves.

Chick-Fil-A

In typical Chick-fil-A fashion, they took what other were doing and took things up a notch. To further add to the exclusivity of Chick-fil-A's swag, their store is in essence an LTO. It popped up, sold out of everything, and then went away. When you search for the swag store now, you simply get a prompt to add your email so Chick-fil-A can let you know when the store reopens. Already a coveted brand, Chick-fil-A also added scarcity making whatever swag there is in the world even more special.

SECTION 3 – WHAT ARE THE BEST-IN-CLASS PLAYERS DOING?

When it comes to ranking QSR brands, there are any number of ways to measure those you would consider to be “best-in-class.” We can look at size. Quality. Value. Menu innovation. Service. Loyalty programs. Drive-thru. Technology. Not surprisingly, the beloved brands that rise to the top of “best-in-class” conversations are the ones that deliver above average results in most, or all, of those categories.

As your brand explores solutions for driving traffic, increasing check averages, improving profitability, building recognition, and engaging with multiple generations, it behooves you to look closely and learn from what the brands constantly being mentioned as “the best of the best” are doing to succeed.

McDonald's

You don't get to stay the 800-pound gorilla year after year without doing a lot of things right –and McDonald's certainly does. Traffic in McDonald's U.S. stores was up 6.2% in September, one of the lone QSR brands to have positive visit counts. In addition, McDonald's Q3 same-store sales increased 9.5% according to IBES data from Refinitiv.⁵¹ Here are just some of what's helped McDonald's drive traffic in 2022:

- Investments in assets and focus on food quality and ops. For example, their speed of service is better now than it was in 2019 despite today's labor challenges.
- Their “MyMcDonald's” Loyalty program that provides relevant content and offers to consumers – with tailored messages.
- A 27-day “Camp McDonald's” promotion that provided “experiences,” food deals and merchandise and leveraged a TikTok influencer – all things relevant to Gen Z.
- An adult happy meal that played off the nostalgia of happy meals of now grown adults' youth (again, with merch involved).
- They are gaining share with a lower-income audience, despite price increases.

McDonald's also focused on simplicity and the basics. Said McDonald's CEO Chris Kempczinski, “All of our campaigns were focused on our core menu items which kept operations simple and brought customers closer to our iconic food.”⁵²

McDonald's is also leaning heavily into digital, marketing, and delivery which performed well for the Golden Arches in Q3. In 2023, McDonald's is integrating a new feature where customers can earn loyalty points or pay for delivery orders through the app.⁵³

Chick-Fil-A

Now the third largest QSR chain in America, Chick-fil-A is earning more than \$6 million in average sales volume per store in just six days a week. In many ways, that alone makes Chick-fil-A the Gold Standard for the industry. In service. In consistency and quality of food. In operations. In customer love.

While it would be easy to hang CFA's success on its beloved chicken sandwich, there are a dozen great chicken sandwiches in QSR right now. Chick-fil-A's success starts with the people they hire and the training they provide. As noted earlier, Chick-fil-A has the slowest cumulative drive-thru times in QSR (primarily due to volume) AND a 93% customer satisfaction rating on speed of service. That only happens with exemplary service.

Chick-fil-A maintains a tight menu focused on what they do well, and they are slow to change it, occasionally rotating in seasonal products like the Peach Shake in the summer and the Peppermint Shake during the winter holidays.

The brand also features a robust app and loyalty program that increases the value of the points earned as consumers hit certain milestones based on purchases. In addition, the brand sends app users random rewards and makes sure they are the first to know about new items and insider information.

Taco Bell

Taco Bell has never been what you'd call a conventional QSR brand. With its cheap(ish) food, 2am closing time, and full embrace of its young, hip, quirky, gamer/stoner mix of clientele, Taco Bell has put on a Master Class of late for being who you are, listening to your customers, and delivering what it is they want most. In 2022, that was the relaunch of a product that's been around for 30 years.

According to Taco Bell CEO Mark King, there were two big reasons Taco Bell excelled in 2022. First, they brought back the Mexican Pizza, a cult favorite for Taco Bell lovers. But it wasn't just that they brought it back. It was how they brought it back.

"Because of the genius way the marketing team relaunched [the Mexican Pizza] all on TikTok, with Doja Cat and Dolly Parton, with the musical [yes, they wrote a three-part Musical about the Mexican Pizza], and all of the things that made Mexican Pizza come to life, I think it was just a great example of what we call "restless creativity"—take something and do it in a completely new way and create a new life for it. And it not only had big sales impact, but I think it had amazing brand impact."⁵⁴

In addition, King credits Taco Bell's 3-prong promo pricing strategy. 1) Pricing value items \$1 to \$5 to capture snackers and people seeking value; 2) LTOs priced at a premium for customers



willing to pay for new items; 3) staples priced with margin for customers willing to pay for their Taco Bell favorites.

Finally, when you're considering Taco Bell's success, you cannot overlook the quality of their creative branding work. The 2022 campaign featuring people doing things that triggered the signature Taco Bell sound effect was both fun and memorable. Sonic pneumonics are extremely effective and essentially turning anything that remotely sounds like a giant bell into a trigger for going to Taco Bell was extremely smart strategically.

Whataburger

In 2022, Whataburger continued building its cult status throughout Texas and also continued pushing the brand into other parts of the country with stores now in 13 states. Kansas City Chiefs QB Patrick Mahomes, a Texas native and Texas Tech grad, added great excitement for the brand when he invested heavily to bring new WAB stores to both Missouri and Kansas.⁵⁵ In addition to the expansion news, Whataburger also played a prominent role in the summer movie "Vengeance" written, starring, and directed by "The Office" alum B.J. Novak. The film centers around a New York reporter who comes to Texas to investigate a murder. Numerous times, the family he's visiting takes him to Whataburger – because that's what people in Texas do. The scenes are a love letter to WAB and the Texans who love it.

Like most restaurants in QSR, Whataburger spent 2022 pushing customers through their app and encouraging people to both join and use Whataburger's loyalty program. WAB's ReWards Program that gives visitors FREE food after five visits also sends additional offers and rewards throughout the year. According to QSR, Whataburger had one of the 5 fastest growing apps in the industry:

"Year-over-year in the month of November, downloads of the top 36 quick-service restaurant apps are up 18.6 percent. A download represents a new user and the first conversion on the mobile app customer's journey. The fastest growers so far this year are Zaxby's (317 percent), Jersey Mike's (176 percent), CAVA (130 percent), Panera Bread (39.5 percent) and Whataburger (39.3 percent)."⁵⁶

New product news and bringing back old favorites also played a big role in Whataburger's success in 2022. In addition to bringing back their Buffalo Ranch lineup (Chicken Strip sandwich and Buffalo Ranch salad) and Dr Pepper Shake for a limited time to start the year, WAB also introduced an LTO spin on its beloved Spicy Ketchup with "Whataburger Spicy Ketchup Limited Batch #2."⁵⁷ Then in July, the brand added back their Bacon Blue Cheese Burger, Peppercorn Ranch Chicken Club, Banana Pudding Shake, and Chocolate Chunk Brownie for a limited time as well as their Breakfast Burger "as long as supplies last."⁵⁸ Clearly WAB's strategy of rotating in new product news is working as they started the year bringing back the Dr Pepper Shake on January 3 for a LTO promotion.

Sonic

For Sonic, 2022 was a year filled with change – but that’s just how they like it. As in years past, Sonic was a revolving door of new product news highlighted by the massive change in their marketing campaign in August from the “two-guys in the car” commercials to musical vignettes that promise “a brief escape from everyday life.”⁶⁰

Among the new products Sonic introduced were burgers with a more sophisticated, upscale flavor profile including the Chophouse Cheeseburger flavored with Worcestershire sauce, black pepper, paprika, garlic, onion, chile flake, coriander, and dill.⁶¹ The new Steak Butter Bacon Cheeseburger was served with grilled onions, two slices of cheese, and topped with a dollop of compound butter made with Montreal seasoning.⁶² At the end of the year, the chain also introduced a new Steak and Bacon Grilled Cheese. Sonic also has plans to expand its Tator Tot menu. Following the introduction of the brand’s broccoli cheddar tots in 2022, in January, Sonic is rolling out BBQ Potato Chip Seasoned Tots in the first of a line that may include dill and garlic-Parmesan flavors in the future.⁶³

Despite some negative press over store closings in Washington and Oregon⁶⁴ and a near \$42,000 fine in Kansas for an operator who violated child labor laws,⁶⁵ Sonic offset that news with new store openings in Hawaii⁶⁶ and beyond and a further expansion of the brand’s push into alcoholic beverages.

“Sonic partnered with COOP Beverage Works to license the hard seltzers, launched in select markets in 2021 and rolled out to 38 states earlier this year. The 6% ABV drinks come in ready-to-drink cans in eight flavors inspired by the chain’s iconic soft drinks, such as Cherry Limeade, Lemon Berry and Classic Lemonade and are available at Walmart, Target, Costco, and smaller outlets, including c-stores.”⁶⁷

Now in its fifth year since being purchased by Inspire brands, Sonic shows no signs of slowing down its expansion or its commitment to constantly transform its menu to attract new and repeat business. This is how Vetted Biz, a leading platform for accessible and analytical U.S. franchise and business data frames Sonic’s present position in QSR:

“With a powerful restaurant firm like Inspire Brands supporting and backing the Sonic franchise and their commitment to keeping their restaurants updated with new technology and automation to ensure further customer satisfaction, Sonic is better positioned than most in the fast-food industry.

Sonic is uniquely positioned to grow within the Fast-Food industry after it was acquired from Inspire Brands which owns Arby’s, Buffalo Wild Wings, Jimmy John’s, Rusty Taco, Dunkin’, and Baskin-Robbin. Since Sonic has been around for almost 70 years and with the backing of a multi-brand restaurant company like Inspire Brands, they have the management and capital to continue to grow in a competitive industry.”⁶⁸

Culver's

While the Culver's brand isn't yet a huge player nationally, it's a brand on the rise and one to watch due to the stark similarities to a number of other QSR brands.

In 2021, Culver's grew system sales 25.3 percent moving the brand up to No. 52 in the Franchise Times Top 500 rankings, increasing sales to more than \$2.5 billion with just 837 restaurants.⁶⁹ According to Culver's CEO Rick Silva, the brand is well positioned and not focused on driving business through discounting.

"Culver's is positioned well within the category, he continued, 'priced a little above folks' in QSR 'but a little less' than others in the fast-casual segment. We win the value battle not by racing to the bottom but by delivering a premium experience," Silva said.⁷⁰

Based in Wisconsin, Culver's menu consists of both treats and eats. It leans on regional culture (in their case, the Midwest), and has a strong sense of being a "community brand." Culver's has a longstanding campaign tagline – "Welcome to Delicious" – and they are known for keeping things simple and not taking risks. The branding is tight and clean with a feel that's both nostalgic and modern. In addition to its signature ButterBurgers, Culver's recently introduced a new "CurderBurger" made with the brand's signature Cheese Curds.

The brand is fully committed to its positioning, "From Wisconsin With Love." They harken back to their people, their purpose, and their community with featured stories and charitable giving, including more than \$4 million donated to agricultural education and \$5 million in scholarships awarded to team members.⁷¹

Boding well for its future growth, in 2022, Culver's was the fourth preferred QSR chain among Millennials behind only Chick-fil-A, Cold Stone, and Tropical Smoothie. Forbes listed Culver's as the third best high investment franchise. And "Eat This Not That" ranked Culver's the No. 1 Regional QSR brand.

"Thrillist called Culver's "The best regional fast-food chain in the country," singling out its ButterBurger, cheddar cheese sauce, and even its coffee. It was also named a favorite chain among Millennials by Restaurant Business. As a private company, Culver's doesn't disclose quarterly earnings, but the burger slinger can regularly be found at the top of fast-food rankings—this year it took fifth place in USA Today's annual favorite regional fast-food chains list.⁷²

Raising Cane's

When it comes to chicken, no brand in America is growing faster than Raising Cane's. In 2022, the Louisiana-based Chicken Fingers restaurant opened 100 new locations, spreading "One Love" across the country with a 2020 average unit volume of \$3.85 million. This puts it second behind only Chick-fil-A's singular \$5.01 million per store.⁷⁶ When asked about the secret of Raising



Cane's success, co-CEO AJ Kumaran was quick to "credit the brand's commitment to its employees for its sustained momentum."⁷⁷ That commitment recently landed Raising Cane's on Glassdoor's most recent "100 Best Places to Work in the U.S." list.

Recently, Kumaran joined the podcast "Take-Away with Sam Oches" to "share more about how the company has managed to sustain its growth momentum while navigating all of the challenges of the past two years."

In the conversation, the Raising Cane's co-CEO spoke of taking care of the brand's employees, emphasizing that:

- Showing your appreciation for your team members can go along away
- You should train your teams well in advance of growth
- The human touch still counts for something
- There's nowhere to hide from inflation⁷⁸

Raising Cane's success is interesting in that they do not focus on discounting, LTOs, or new product news like most QSR brands. Instead, they stay in their lane focusing on what it is they do well – providing fresh, hot, delicious chicken fingers and sides – and taking care of their customers quickly and with outstanding customer service.

SECTION 4.1 – HOW DOES YOUR BRAND STACK UP AGAINST WHAT'S WORKING?

TECHNOLOGY – DIGITAL & APPS

What's working:

- Online ordering has grown 300% faster than dine-in since 2014; now accounts for roughly 40% of total restaurant sales
- 52% of QSR sales projected to be digital by 2025
- 35% of consumers placing more orders on apps compared to 3 months ago
- Restaurants with online ordering system increase takeout profits 30% higher than those that don't
- About 64% of QSR consumers prefer to order digitally on-premises
- Robust mobile apps
- No friction in the digital ordering process
- The ability to gather customer data that can be leveraged later is invaluable
- TikTok – 53% of Millennials who are TikTok users have visited a restaurant or ordered food after seeing a brand on TikTok

DRIVE-THRU

What's working:

- 75% of all orders are going through the drive-thru
- Better signage and sanitation
- Better technology including reader boards and confirmation screens
- Staff members with hand-held tech facilitating orders
- Order accuracy 2x as important as speed of service
- Customers say 8 minutes is ideal to go through the drive-thru

DELIVERY

What's working:

- 31% of Americans use third-party food delivery 2x per week
- 59% of Millennial restaurant orders are for takeout or delivery
- Delivery traffic was up 15.9% in Q4 2022
- 60% of operators say offering delivery generates incremental sales
- Allows store to expand geographic footprint
- Delivery has raised sales volume 10 to 20 percent

LOYALTY PROGRAM

What's working:

- Engaging and communicating with customers through a robust loyalty program
- Giving engaged customers previews, perks, inside rewards only users receive
- Brands are building intimacy with customers by listening to them
- Brands looking to go deeper with brand evangelists



- Driving special promotions through the loyalty program to incent sign up
- Personalization is powerful – personal rewards, order recommendations, invitations to special events

VALUE

What's working:

- Ultra-value meals are driving some traffic (but hitting profitability)
- \$5 seems to be the discount trigger for promotional combos (BK, Wendy's, Taco Bell)
- **Free is a strong driver (McDonald's Free Fry-days)**

BRAND LOVE – NOSTALGIA & SWAG

What's working:

- Leveraging nostalgia in the brand
- Robust collection of branded Swag
- PR for new product news and brand evangelists

SECTION 4.2 - WHAT CAN YOUR BRAND LEARN FROM THE BEST-IN-CLASS BRANDS?

McDonald's

- Investment in assets and focus on food quality and operations.
- Strong app and loyalty program with tailored messages to build relationship
- Promotions tailored to the Millennial and Gen Z demos driven by TikTok and technology
- Leaning into nostalgia where possible
- Don't forget about lower-income audiences, especially during the recession
- Focus on simplicity and the basics including core menu items
- Lean heavily on digital, marketing, and delivery

Chick-fil-a

- Hire great employees then train and treat them well
- Focus on pinpoint accuracy and efficiency in the drive-thru
- Don't underestimate the power of friendly employees engaging with customers
- Focus on a tighter menu delivering exceptional core items
- Create a robust app and loyalty program that rewards increased level of patronage with greater offers and opportunities to earn
- Send unexpected rewards and make app users feel like an insider

Taco Bell

- Embrace who you are, listen to your customers, deliver what they want
- Focus on the core menu items your customers love and deliver them flawlessly
- Look for every opportunity possible to leverage culture and make a splash
- Embrace tiered pricing strategy: 1) \$1-\$5 items for snackers and value hunters, 2) premium priced LTOs for customers willing to pay for new items, 3) staples priced with margin for customers willing to pay for their favorites
- Embrace great, unexpected, disruptive creative work

Whataburger

- Lean into popular culture and look for places where the brand can intersect
- Strong app and loyalty program with tailored messages to build relationship
- New product news featuring products with engaging flavor profiles drives traffic
- Bringing back old favorites for LTO promotions drives traffic
- Invest in marketing
- Create and market a robust collection of swag to your brand evangelists

Sonic

- Constantly rotate new products in and out to sustain new product news
- Understand new products don't have to be complicated or completely new – a new flavor topping for Tots is as newsworthy as a new burger or shake

- Be aware of emerging, trendy, even upscale flavor profiles and overlay onto core products to create new product news
- Look for opportunities to extend the brand – into the grocery store, into new beverages, etc.
- Strong app and loyalty program with tailored messages to build relationship
- Create and market a robust collection of swag to your brand evangelists

Culver's

- Focus on value, not price. Win the value battle not by racing to the bottom, but by delivering a premium experience (Uber-important to Millennials and Gen Z)
- Deliver the delicious treats and eats your customers want and don't disappoint them
- Build a strong sense of community
- Keep things simple. Focus on and deliver what you do best flawlessly
- Be charitable both to the communities you serve and the members of your team

Raising Cane's

- Focus on what you do best – what you are known for – and deliver that better than anyone else without exception
- Remember momentum begins and ends with your team members
- Showing your appreciation for your team members can go along away
- Train your teams well in advance of growth
- Remember the human touch still counts for something
- Identify your "One Love" and go all in.

SECTION 5 – 10 AREAS WHERE QSR BRANDS CAN FOCUS TO HELP DRIVE TRAFFIC, SALES, AND PROFITABILITY

TECHNOLOGY – DIGITAL & APPS

Today's QSR consumer is all about Digital, Digital, Digital. Nothing is transforming the QSR experience faster than customers' use of technology and data. It has completely changed the game and for those brands and operators embracing technology, it's drastically changing their traffic, sales, profitability, and customer satisfaction. Again, consider these statistics:

1. Online ordering has grown 300% faster than dine-in since 2014; now accounts for roughly 40% of total restaurant sales
2. 52% of QSR sales projected to be digital by 2025
3. Restaurants with an online ordering system increase takeout profits 30% higher than those that don't
4. Even when they are ON PREMISES, nearly 64% of QSR consumers prefer to order digitally

Like most other aspects of consumer interaction today, QSR guests want and expect a robust app where they can engage with the brand on their terms – where, when, and how they prefer. For the brands that are succeeding, their app also provides a way to communicate with their best customers – to listen to them, learn from them, and deliver a more exceptional brand experience. For now, and especially for the future and to build relationship with younger guests, QSR brands should consider doing a detailed technology audit and determine where the brand can better reach and deliver for its customers. Here are some questions you need to answer:

- What are the financial and operations barriers hindering your move to better technology and what conversations need to happen to address them?
- Is it time to invest in a system-wide technology upgrade?
- If you are struggling to make your app into the app you want, is it time to consider starting from scratch and designing the app you want and need vs. the best you can do with what you have?

DRIVE-THRU

With 3 of every 4 orders going through the drive-thru, it's crystal clear that every part of your brand's drive-thru sequence has to be a major area of focus. From the preferences we know from QSR customers industry-wide, start by answering these questions:

- Physical
 - Does the drive-thru flow efficiently? If not, can it be changed?
 - Is the driveway smooth? Are there potholes that need to be fixed?
 - Is there a sufficient overhang over the window to keep customers dry picking up orders when it's raining?
- Visual
 - How is the lighting? Is the drive-thru too dark?

- Are the menu boards and/or confirmation screens lit and functioning properly?
- Is there trash in and around the drive-thru?
- How does the landscaping look? People are looking while they are waiting.
- If there are posters/message boards between the order board and the pickup window, are they aged and faded? Do they need to be cleaned or replaced?
- Process
 - How can you ensure 100% order accuracy? (No. 1 for customers)
 - If stores can't afford "preview boards," can they encourage people to download the app to review the menu online while they are waiting?
 - How can you efficiently speed up service? (Customers expect to be through in 10 minutes)
 - Where are there bottlenecks? How can you fix them?
 - How can you engage your customers in a more friendly manner?
- Messaging
 - Are there too many messages/stickers on the drive-thru window?
 - What do you MOST want your customers to know?

DELIVERY

Delivery numbers are on the rise with nearly 60% of Millennials ordering takeout or delivery regularly and nearly one in three Americans ordering delivery at least twice per week. Delivery raises sales volume by 10 to 20 percent and 60% of operators say it drives incremental sales.

For many QSR brands, improving your delivery game is low hanging (and potentially profitable) fruit. Developing and training to a more efficient and comprehensive delivery program should be a primary focus. Here are some of the first questions you need to answer:

- If a store isn't offering delivery, why not and what are the barriers to changing that quickly?
- In what ways can you surprise and delight our customers in your delivery orders? Special offers in every bag? A thank you card?
- What can you do to ensure your treats travel well in delivery, especially in the summer? Can you freeze cold items and treats ahead of time with compromising quality, so they don't melt before delivery?
- What can you do for the delivery drivers to help ensure they do their part to deliver the brand well?

LOYALTY

Brands that strictly use their loyalty programs to push out discounts are failing. Brands that are winning are the ones using their loyalty programs to engage with their customers in exciting and unexpected ways. They're the ones inviting guests into a valued relationship that makes them feel as though they are part of an "inner circle." If QSR brands hope to leverage their loyalty program in a meaningful way, they have to find ways to build more intimate connections with their customers.

- Brands need a constant stream of new News to excite customers
- Find ways to personalize the loyalty program experience
- Allow members to customize their experience and rewards
- Reward loyalty/app members with unexpected value (Free product/music downloads/invitation to try a new product)
- Give digital users first access to new product news/events/swag
- Ask loyalty members for their opinions/suggestions/recipes
- Increase the level of rewards a member gets as their visits to the brand increase

VALUE

As stated before, value is a double-edged sword. While constantly taking price kills traffic, deep discounts kill profitability. Embracing value requires an intentional strategy like the three-tiered approach Taco Bell is taking where discounting comes with an express purpose and margin is maintained for beloved favorites.

As the country continues battling historic inflation and almost certainly moves into recession in 2023, more and more families will be price sensitive when it comes to eating out and that could benefit QSR as families trade down from restaurants to casual dining and casual dining to QSR. The key to higher profit will be offering families a well-communicated “value proposition” vs. deep discounts. We can begin by asking these questions:

- What would a revised 3-tier pricing strategy look like with your menu?
- What opportunities can you leverage with smaller portioning?
- What would a “Snack” section of the menu look like?
- Could you further leverage morning and afternoon “Happy Hours” the way brands like Sonic have?

BRAND LOVE – NOSTALGIA & SWAG

Consumers don't buy swag from brands they like. They wear clothing, drink out of tumblers, and put decals on their cars of the brands they love. Cult brands aren't built by the brands themselves. They're built by the brand evangelists who identify with them, connect with them, and tell everyone they know just how much they love them. But it's not just about telling. It's about showing. That's why QSR cult brands like Whataburger, Sonic, and Chick-fil-A have robust swag stores where people who love the brand can shop for 100 ways to show others how much.

Every QSR brand has a strong affinity with the fans who love it. And yet, for most brands, those people have very few ways to demonstrate that affection. If you want to increase your brand affinity, you have to find a way to include swag in the mix. At very least it's FREE advertising paid for by the customers displaying it. Having cool swag allows you to play into your nostalgia, to provide fun, cool stuff for your brand evangelists, and to create great rewards for those you're trying to engage with in your loyalty program. Consider these questions:

- What barriers are in the way of creating your own branded swag and how can you address them quickly? Sourcing? Logo trademark? Revenue?

- Who can handle swag design and fulfillment?
- How quickly can you develop an online store?
- Knowing consumers are craving experience, how can you create more fun ways for people to experience your brand?

TREATS & EATS

There is no question that exciting new product news is a key driver for new traffic. Just look at what cult favorites like the Mexican Pizza (Taco Bell), the Dr Pepper Shake (Whataburger), and the Adult Happy Meal (McDonald's) are doing to drive traffic.

- What fan favorites does your brand have that you could bring back to leverage excitement?
- Like the adult Happy Meal, is there some nostalgic twist you could put on another fan favorite to give it new life?
- Even people who have their favorites get bored and tired with the same old thing. Are there trendy flavor profiles you can leverage?
- Are there tasty combinations of existing ingredient SKUs that could be mixed to create something new?
- What could you do with new sauces and flavors?
- Is there an initiative you can create that becomes a routine? Sundae Mondays? Extra Fry-days? What is the next Taco Tuesday?

MEDIA & SPENDING

While success isn't all about media spend, general spending levels can't be ignored when analyzing the competitive landscape. Most QSR brands spend considerably on TV, digital, outdoor, and radio. In addition, successful brands are also investing in their apps, investing in their loyalty programs, investing in integrated system-wide POS systems that enable them to take advantage of big data. Brands that are investing more in strategic places are seeing greater returns. It's about investing wisely in areas that are building relationships with younger generations and in parts of the operation already showing potential for sales increases like drive-thru, delivery, apps and loyalty, digital marketing, even engaging influencers on TikTok. It's time you considered the following questions:

- Where can you add to the media spend in strategic areas to help build relationship with Millennials, Gen Z, and soon, Gen Alpha?
- If you're being outspent in broadcast, digital, and/or outdoor, are there other strategic places you can have a bigger presence?
- Where do you need to invest to position your brand well for the next decade and beyond?

STAFFING

There are thousands of sandwich boards outside restaurants across the county that all share the same message: "The Whole World Is Short-Staffed. Please Be Kind To Those Who Showed Up." It's a compassionate request for guests visiting the restaurant. But it goes double for those in QSR management. Everyone knows how difficult staffing is at the moment, and frankly, that it

may not get a lot better in the short term. That's why hiring well, training well, and treating employees well, are crucial to the customer service QSR brands hope to deliver in 2023.

Brands that pay attention to building a positive, supportive company culture are more successful than those that don't. Employees are rarely net neutral. Happy, friendly people who work hard to serve customers well yearn to work with other people like them. They have a positive effect, but they will not survive in a toxic environment, or even one where they feel overworked, underappreciated, and where they can't make an appreciable difference. To the contrary, a positive, nurturing environment builds on itself and attracts the kinds of people who thrive in that kind of culture.

As you continue tackling current staffing hurdles, ask these questions:

- What can you do to make your stores more attractive places to work?
- Looking at your best employees, where can you find more people like them?
- If you're having trouble keeping employees, is your store culture toxic, and why?
- How can you build a greater sense of community among your employees?
- Are there meaningful benefits your store can add to attract A players? Mentorship? Management training? What are other stores with great employees doing to keep their staff intact?
- What can you do to engage Gen Alpha to build relationship with them before they enter the workforce in a few years?

MARKETING

There's a lot right with any campaign that can last five, 10, or 20 years. The question is whether your current campaign is grounded in an authentic truth about your brand. Does your brand statement and your brand promise resonate with your customers both young and old. Your great opportunity is finding a way to resonate with younger generations who don't share the same affinity that older generations do. Time is always moving and right now, it's time for QSR brands to explore new ways of connecting with younger audiences and building relationship with them.

Beyond the suggested upgrade in technology, in 2023, it would behoove you to look for smart and unexpected places for your brand to engage with younger generations. Like other brands, posting entertaining content on popular social media channels like TikTok could introduce new consumers to the brand as would using marketing to push an enhanced app and loyalty program.

Another effective way to reach younger consumers would be leveraging any of your iconic products to drive traffic with Local Store Marketing. A "Brand Battle" between rival high schools in virtually any town would drive traffic and repeat sales, engage a younger audience, and build a sense of community rapport for the brand. Finding ways to engage with large groups in the community – churches, scouts, Middle Schools, high school teams, cheerleaders, clubs, and marching bands – could also drive traffic and groove repeat behavior. Your brand has to



intersect with people where they are, rather than waiting for them to come to a store. Here are a few things you need to consider:

- How can you inject your brand into people's QSR consideration set of three and most importantly, get into the consideration sets of younger consumers?
- How can you leverage more LSM to drive traffic locally?
- How can you use your marketing to help build your Loyalty Program?
 - An invitation with a FREE Meal Deal to download the app and join the loyalty program (a chance to try your treats, eats, and drinks)?
 - A targeted guerrilla campaign to keep your brand top of mind?
 - Digital flash sales exclusive for app users?
 - FREE swag for loyalty members after 10 visits? 20 visits?

When brands show up in positive, yet unexpected ways, consumers pay attention. People engage with what they like and what they see. Your mission has to be both.

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