Restaurant industry trends

Digital transformation and growth on the menu

Following several years of pandemic-fueled headwinds, the restaurant industry saw sales growth in 2023, as slower inflation, less chatter about a recession, an improved labor market, and better-functioning supply chains relieved operational pressures.

Methodology

Against that backdrop, KPMG polled more than 40 senior restaurant executives on the state of the industry. Attendees were asked to discuss a broad array of topics including:

- How the industry performed throughout the year
- Recent consumer trends
- Current headwinds and tailwinds
- Existing restaurant capabilities
- Focus areas for further development/investment
- Their overall sentiment looking toward 2024

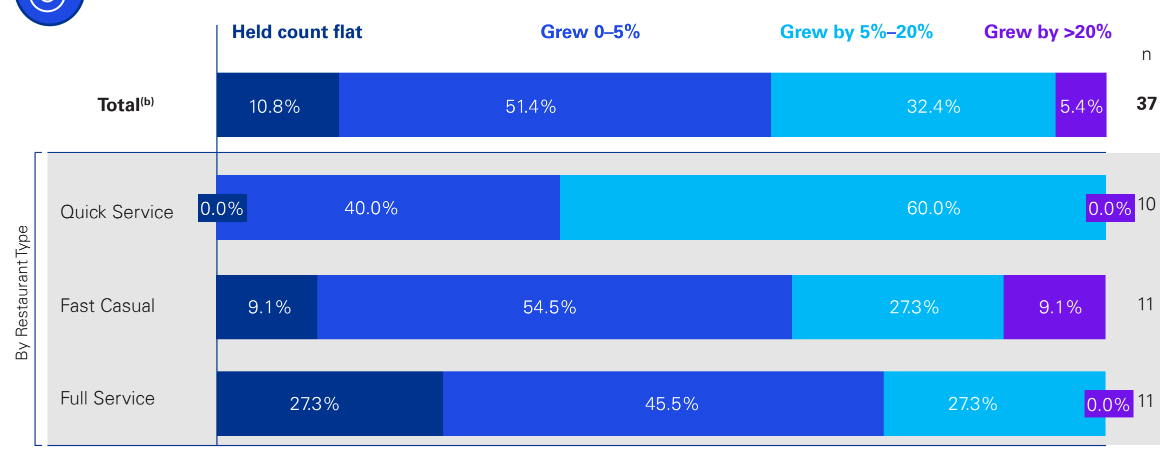
The participants' responses provide a glimpse into the motivation behind companies' recent behavior and priorities going into 2024. We calibrated the questions to highlight the commercial, operational, and investment levers companies are using to drive efficient and profitable growth.

Commercial

Restaurant count growth

Despite challenging headwinds, restaurants broadly saw positive location count growth in 2023, with quick service (QSRs) leading the way. The vast majority of the industry experienced positive unit growth in 2023—at the time of the survey nearly 90 percent said their count had grown during the year. At 60 percent, QSRs had the highest growth of five to 20 percent, with no respondents indicating zero growth. The full service segment (FSRs) grew least overall in 2023 and saw the highest proportion of zero growth responses (27 percent).

How would you describe your restuarant court growth in 2023?[(a)]

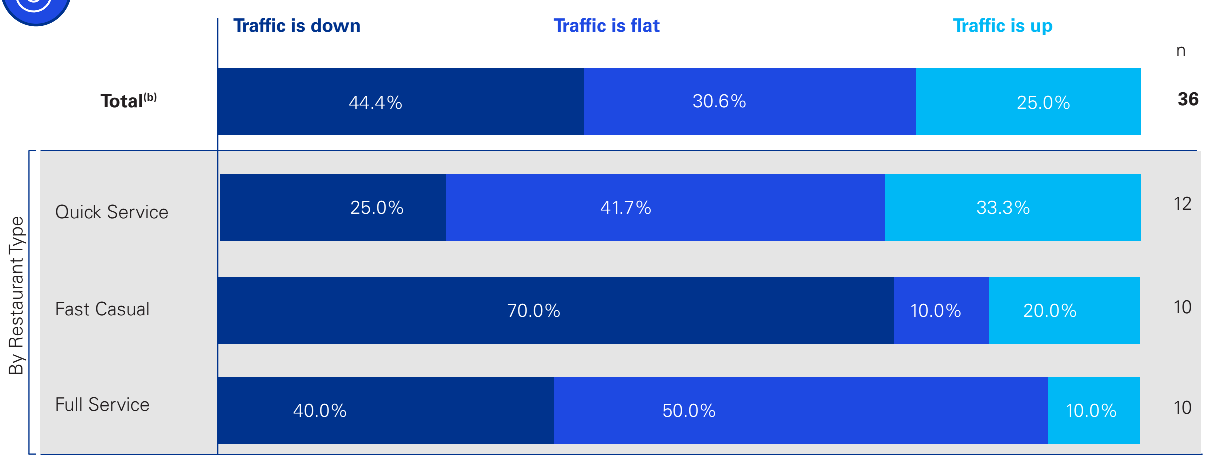


Note(s): (a) The count of survey responses varies between questions as some forum attendees did not respond to all questions;
(b) The total bar includes responses for executives who did not specify which restaurant they operate

Menu changes and customer counts

Although consumer traffic was down, there is high variability between restaurant types with QSRs reporting net-positive traffic and fast casual declining. Approximately 44 percent of respondents experienced a decline in customer counts year-over-year, while only 25 percent indicated an increase in traffic. QSRs were the only segment to see net-positive traffic, with just over eight percent more respondents indicating 2023 traffic was up (33 percent) versus down (25 percent), which aligns with the affordability QSRs offer relative to the other segments. Fast casual restaurants saw the largest decline in traffic by far, with 70 percent estimating customer counts were down. This could be attributable to QSRs providing similar service at lower prices.

How has the change in your menu offerings impacted your customer counts year-over-year?[a]



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Menu changes based on customer trends

In response to consumer trends, operators are increasing promotions, shifting to cheaper products, and focusing on menu freshness. Most restaurants—just under 89 percent—increased menu prices in 2023. QSRs were fixated on increasing promotional value rather than shifting toward lower-cost product mixes or refreshing their menus more frequently. This is likely attributable to a focus on speed and already-tight margins. On average, fast casual restaurants and FSRs are taking a more balanced approach, with 36 percent and 20 percent of respondents, respectively, noting a shift to lower-cost products and a focus on refreshing their menus.

How have your menu offerings changed this year to last year to reflect consumer trends? (select all that apply)?[a]

	Respondent Classification	Number of Respondents	Increase prices	Shift to higher price product mix	Shift to lower cost product mix	Increase value of promotions	Focus on menu freshness
	Total[b]	**36**	**88.9%**	**13.9%**	**19.4%**	**36.1%**	**13.9%**
By Restaurant Type	Quick Service	12	91.7%	16.7%	0.0%	58.3%	0.0%
	Fast Casual	11	100.0%	9.1%	36.4%	27.3%	18.2%
	Full Service	10	70.0%	20.0%	30.0%	30.0%	20.0%

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Operations

Digital enablement

Unsurprisingly, every respondent indicated they are working to digitally enable their restaurants in at least one area. A majority of respondents are looking to expand digital ordering options (80 percent), improve loyalty programs and CRM capabilities (67 percent), and invest in POS technology (54 percent). While increasing partnerships with third-party delivery services is common (44 percent), working with third-party reservation management services is not (five percent). Despite expanding loyalty and CRM being a priority overall, it is decidedly less important for FSR respondents (36 percent) relative to QSR (77 percent) and fast casual (91 percent), both of which focus on customer experience to drive repeat traffic.

What are you doing around digitally enabling the restaurant?[a]

	Respondent Classification	Number of Respondents	Expand digital order options	Invest in POS technology	Increase 3P delivery services	Increase 2P rez mgmt services	Invest in owned solutions	Expand loyalty and CRM	Integrate new digital tools	Others
	Total[b]	**39**	**79.5%**	**53.8%**	**43.6%**	**5.1%**	**15.4%**	**66.7%**	**23.1%**	**5.1%**
By Restaurant Type	Quick Service	13	69.2%	53.8%	46.2%	0.0%	15.4%	76.9%	15.4%	0.0%
	Fast Casual	11	90.9%	45.5%	27.3%	9.1%	18.2%	90.9%	27.3%	9.1%
	Full Service	11	72.7%	63.6%	36.4%	9.1%	18.2%	36.4%	36.4%	9.1%

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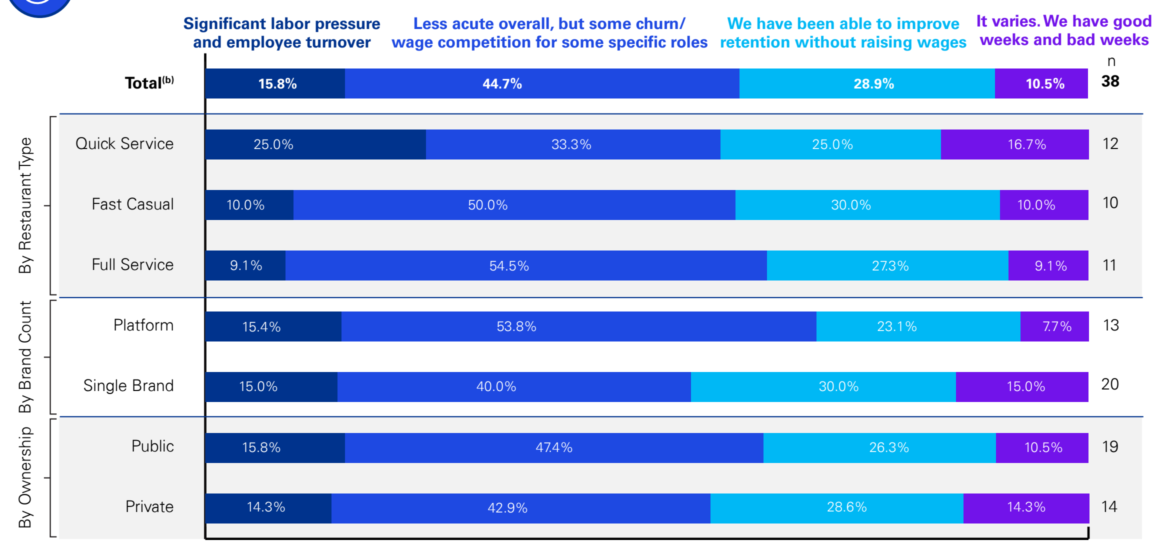
Impact of labor trends

Despite improvements, labor continues to be a pressure point, with most respondents indicating they are experiencing at least some churn and wage competition. Approximately 60 percent of respondents said they have consistently experienced churn and wage competition for some roles over the past three months, indicating it is still a challenge to retain talent even though the labor market has loosened. QSRs are having the hardest time attracting and retaining talent, with 25 percent reporting they have experienced significant labor pressure and turnover compared to 15 percent on average across all three segments.

Which of the following best describe how labor trends are impacting your business over the last three months?[a]



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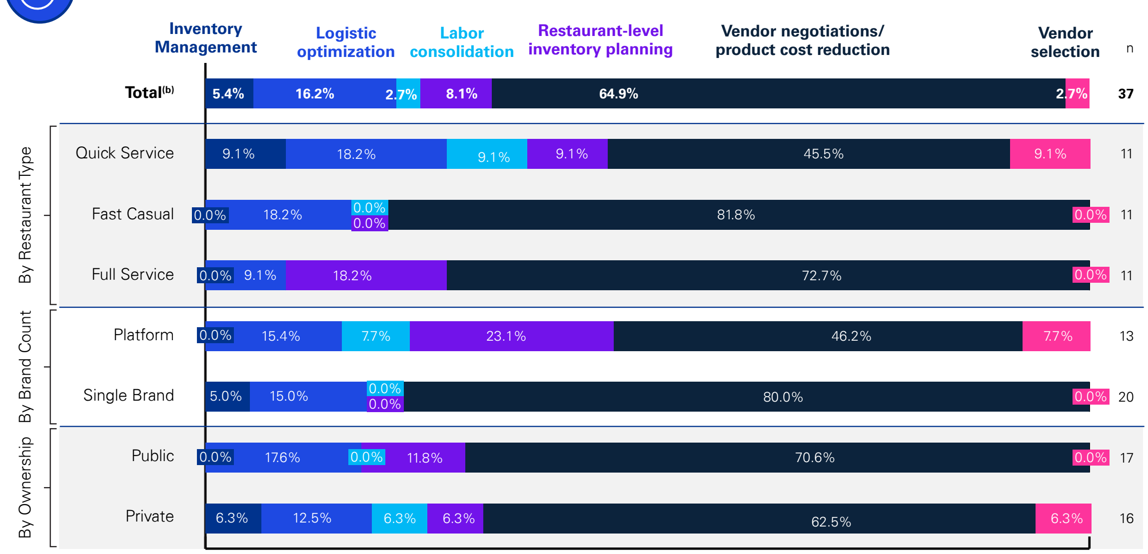
Supply chain planning

Product margins are a top priority, with almost two-thirds of respondents viewing vendor negotiations/ product cost reductions as their primary strategy for improving supply chain efficiency. At 46 percent, QSRs are significantly less focused on vendor negotiations than fast casual (82 percent) and FSRs (73 percent), which makes sense as QSRs already have the lowest costs. Multi-brand platforms have the largest focus on restaurant-level inventory planning, with 23 percent of respondents indicating this is their supply chain priority compared to zero for single-brand respondents.

What element are you most focused on to improve supply chain planning?[a]



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Investment

Back-office transformation

Every respondent is actively transforming at least one back-office function to meet the evolving needs of their restaurants. At least half of respondents are actively transforming their Accounting (61 percent), FP&A (50 percent), and HR (53 percent) functions. FSRs' HR function is the most aggressively transformed back-office area at 82 percent, which is likely attributable to the segment's heavy reliance on customer service and customer experience to drive revenue.

What back-office areas are you actively transforming to meet evolving business needs? (select all that apply)?[a]

	Respondent Classification	Number of Respondents	Accounting	FP&A	Procurement	HR	Restaurant Dev	Field Operations	Marketing	Others
By Restaurant Type	**Total[b]**	**38**	**60.5%**	**50.0%**	**28.9%**	**52.6%**	**21.1%**	**23.7%**	**36.8%**	**5.3%**
	Quick Service	12	66.7%	41.7%	33.3%	41.7%	16.7%	16.7%	41.7%	0.0%
	Fast Casual	11	63.6%	72.7%	18.2%	27.3%	27.3%	36.4%	45.5%	9.1%
	Full Service	11	45.5%	27.3%	36.4%	81.8%	27.3%	27.3%	27.3%	9.1%
By Count	Platform	13	69.2%	46.2%	46.2%	46.2%	23.1%	15.4%	46.2%	15.4%
	Single Brand	21	52.4%	47.6%	19.0%	52.4%	23.8%	28.6%	33.3%	0.0%
By Ownership	Public	18	55.6%	44.4%	22.2%	55.6%	38.9%	22.2%	33.3%	5.6%
	Private	16	62.5%	50.0%	37.5%	43.8%	6.3%	25.0%	43.8%	6.3%

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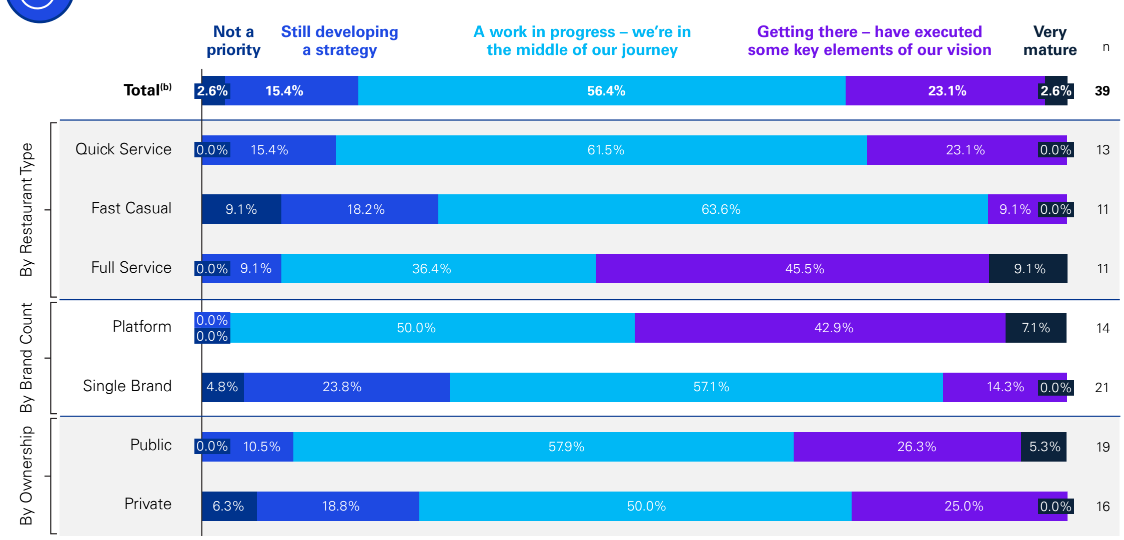
Automation/technology maturity

Nearly all respondents acknowledge the importance of automation and other emerging technologies. The majority of restaurant segments have started investing in automation or other tech-related solutions, with 82 percent indicating they have started deploying capital toward tech enablement and nearly 98 percent of respondents acknowledging the strategic importance of these tools. Larger, multi-brand platforms indicated they have more mature technology-driven solutions, with 50 percent indicating they are at or near maturity compared to only 14 percent of single-brand respondents, potentially positioning them to more efficiently address inflation and other cost-related pressures.

How would you describe your organization's maturity across automation or other tech-enabled workflow solutions?[a]



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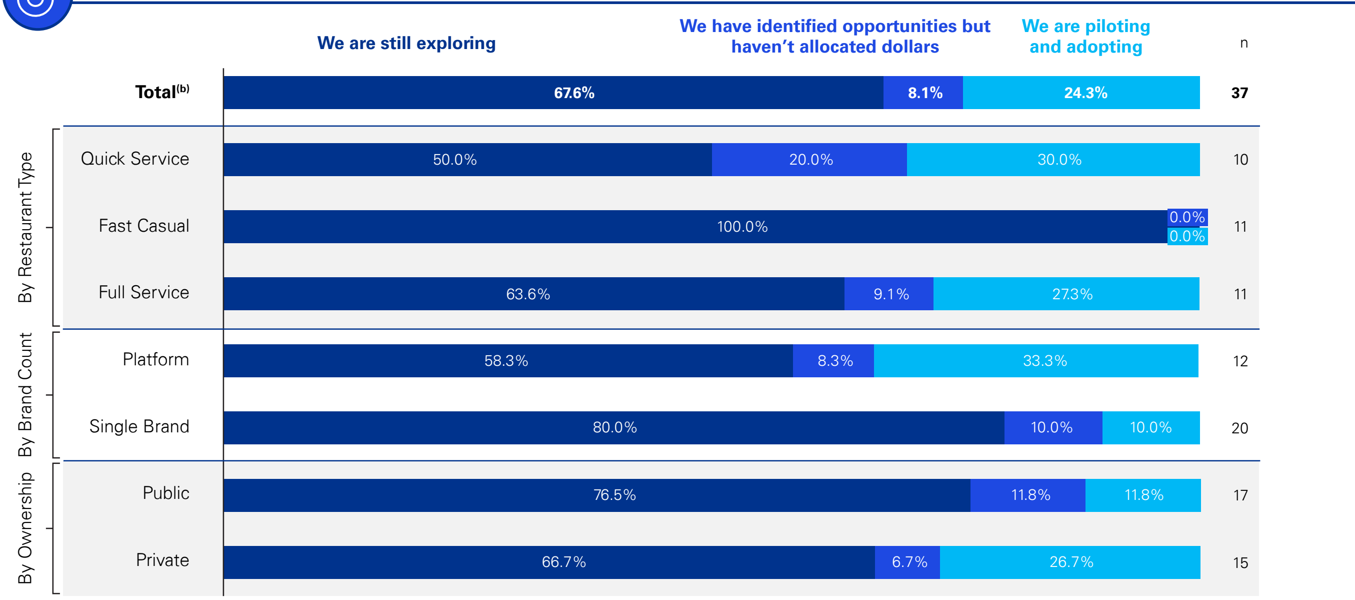
AI maturity

While most restaurants are still early in their AI journeys, many are starting to identify opportunities for future investment. More than two-thirds of restaurants (68 percent) say they are just starting their AI journeys and are still exploring opportunities to invest in and implement AI-based tools. Similar to the maturity of other tech-enabled solutions, multi-brand platforms indicated they are farther along with AI than single brands, with 33 percent saying they are already piloting and adopting AI solutions versus just 10 percent of single-brand respondents.

Where are you on your AI journey?[a]



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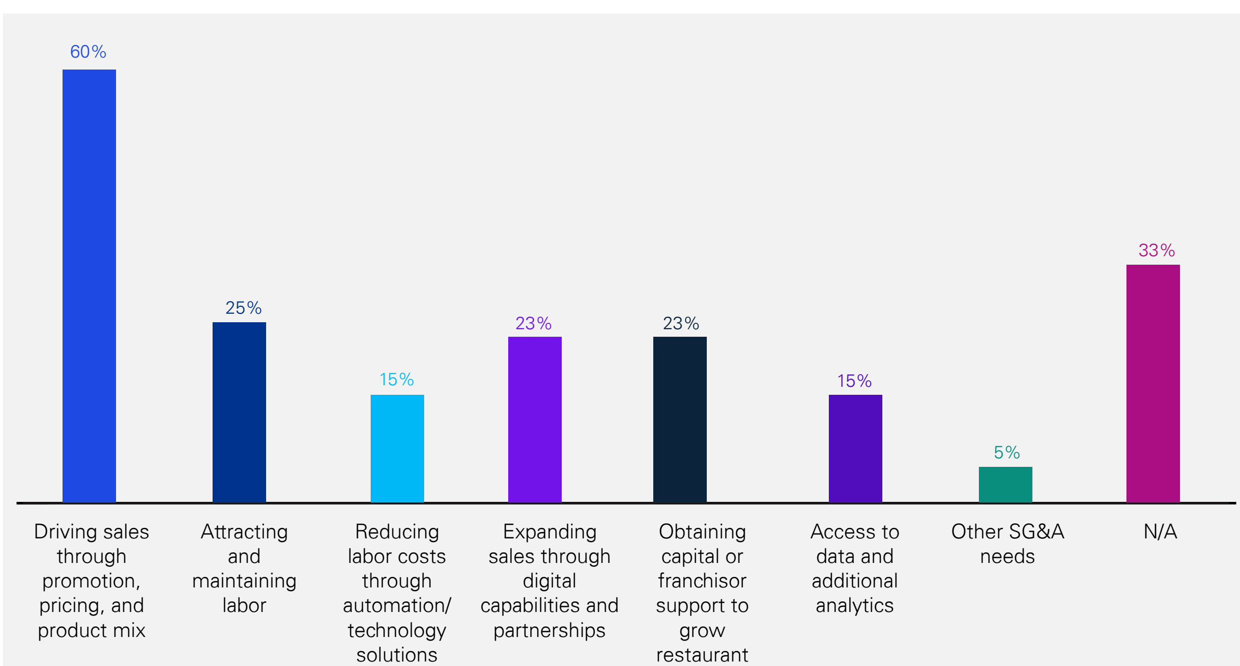
What's keeping franchisees up at night?

Franchisees acknowledge a broad array of concerns but are overwhelmingly focused on sales. A majority of respondents (60 percent) list driving sales through promotion, pricing, and product mix as their top concern.

What concerns are currently most common from franchisees? (select all that apply)



Cautious optimism for 2024

Despite improving economic conditions, attracting and retaining both labor and customers will always be challenges for the restaurant industry. In this ever-evolving environment operators that acknowledge the promise of automation and artificial intelligence (AI)—and implement these paradigm-transforming tools to redefine the employee and customer experience—will likely be positioned to maintain and increase competitive advantage.

> As labor, supply chain, and recession pressures abate, it is encouraging to see restaurant operators actively transforming their operational capabilities and experiential strategies with digital technologies like automation and AI. It's that kind of innovative thinking that will impact customer loyalty, near-term value, and long-term growth.
>
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