

STATE OF THE
INDUSTRY:
RESTAURANT

Executive Summary

In 2018, the quick-service restaurant (QSR) industry totaled \$255.2 billion in revenue. Combining low prices with speed of service and convenience, QSRs have performed well over the past five years despite a saturated food service landscape. However, industry predictions depict a slow-down in annual growth, from 3.8% to 1.8%.

Amidst a rapidly evolving food landscape, full-service restaurants, alternative food service concepts and meal delivery services are expanding into areas once the domain of QSR and fast casual. At the same time, consumers have become increasingly health conscious, demanding alternatives to traditional fast food options. Competition is expected to remain high, contributing to much of the industry's anticipated slow growth.

Successful operators will need to adapt to evolving consumer preferences and behavior as they relate to what they expect from the concept of "fast food", including loyalty programs, robust mobile apps, propensity for off-premise dining, a renewed focus on value, changing media habits and emerging technology.

Updated annually, this state of the industry report covers areas of focus as they pertain to the QSR and fast casual industries, inclusive of trends, best practices, opportunities and more. Based on these findings, this report also includes our predictions for emerging opportunities and what is next for the industry.





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MENU EVOLUTION

The background features a pattern of overlapping circles in various shades of yellow and dark brown, creating a textured, organic feel. The text is centered within a white rectangular border.

APP-BASED
LOYALTY PROGRAMS
& ***MOBILE ORDERING***

App-Based Loyalty Programs & Mobile Ordering

INTRODUCTION

Once two distinctly separate channels, the realms of mobile apps and loyalty programs have merged to offer guests a more accessible, convenient way to interact with restaurants. For operators, the integration of these channels affords an opportunity to build deeper, more robust guest profiles and establish a loyal customer database. With the addition of intuitive mobile ordering systems, QSRs employing a strategic approach to implementation face boundless potential to inspire more frequent visits and grow ticket averages.

SITUATIONAL OVERVIEW



of consumers prefer ordering food online



spend more online than they would in restaurant

6% of total restaurant orders are placed via smartphone or app



3.8 BILLION

loyalty program memberships in the US

Millennials are most likely to belong to food and beverage loyalty program



REWARD PREFERENCES

Generation X – discounts
Millennials – points

REAL-WORLD RESULTS

STARBUCKS



average ticket size for loyalty members vs. average customer

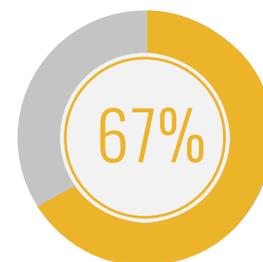
CHIPOTLE



new loyalty members in 3 months

DUNKIN DONUTS

increase in customer lifetime value with loyalty program



of consumers adjust order size to earn more points

OPPORTUNITIES

Loyalty Programs Increase Average Ticket Size

Mobile apps and loyalty programs offer guests undeniable value. The return for operators can be equally rewarding. Today, Starbucks holds over \$2 billion in customer funds across loyalty cards, with loyalty program transactions accounting for 36% of all US sales in Q2 of 2017.

Recognizing guests for repeat visits, loyalty programs inherently increase average ticket size and order frequency. The “gamification” component of loyalty programs encourages additional spending from guests as they may feel they are receiving more value from their experience. Guests who are only one visit, or a certain dollar amount away, from a reward are motivated to return or increase their order size to maximize rewards. In fact, the average guest spends 67% more in their third year as a loyalty member than in their first.

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Drive Customer Insights with Data Collection

Delivering value for guests and a measurable return for operators is a single facet of the sophisticated strategy surrounding effective loyalty programs and mobile apps. As a gateway for each order placed by registered guests, apps with a loyalty program component also collect guest data in real time.

With point of sale (POS) and third-party delivery integration, apps with a loyalty program component serve as a funnel for valuable customer information, including food preferences, most visited locations, guest demographics, visit frequency and check average. Access to this information allows operators to identify slow days or times of day, drop offs in repeat visits or opportunities to grow same-store sales. This data can be used to formulate insights into not only which items guests are ordering, but also what time or day they are ordering and types of offers to which they most respond favorably.

Further, those insights may be applied to future marketing and promotional decisions, guiding initiatives with proprietary research and an in-depth understanding of guest behavior. Operators are able to gain a comprehensive view of individual guests to build customer loyalty and projected lifetime value (LTV).



The Personalization of Online Ordering

Online ordering is no longer an option, it is a requirement for quick-serve and fast casual restaurants aiming to capture the modern consumer set. Not offering a reliable, fast and secure online ordering system was once seen as an inconvenience. Today, it all but guarantees rejection from potential guests.

Integrating ordering systems within your mobile app creates a central hub for guests to interact with your restaurant, building comprehensive guest profiles inclusive of order data and preferences. This is critical as restaurant guests are demanding better, quicker and more personal service delivered on an entirely digital platform. Beyond the ability to select menu items and place an order, guests seek intuitive interfaces that predict and cater to their unique taste. Relevance is essential, as is the ability to customize menu items to adhere to each guest's individual standards.

From an operational perspective, online ordering systems present the potential to alleviate extended wait times in-restaurant while streamlining processes to serve more guests per hour. A proven driver of sales, online ordering encourages repeat visits and an increase in average ticket sales when compared to walk-in orders.

WHAT'S NEXT: VOICE ORDERING

As could be expected, 25% of those ages 16 through 24 use voice search on mobile, however a surprising 37% of consumers 50 and older say they use a voice assistant. For these tech-savvy consumers, ordering food via voice-activated chatbots may become the standard in the not-so-distant future.

Major chains including Domino's, Pizza Hut and Wingstop have positioned themselves at the forefront of innovation, investing in voice activation at its earliest stages. However, implementation of this technology remains at its infancy, offering an opportunity for QSRs and fast casual restaurants to be amongst the pioneers of this integration.

A recent partnership between LevelUp and Orderscape aims to help restaurants make the most of that opportunity. For the tens of thousands of restaurants on the LevelUp network, this partnership brings access to voice-activated chatbots and the technology to implement them across mobile ordering systems.

The image features a close-up, macro shot of green peas, which are slightly out of focus in the foreground and sharper in the background. A white rectangular box is superimposed over the center of the image, containing the text "OFF-PREMISE DINING".

OFF-PREMISE
DINING

Off-Premise Dining: Delivery, Takeout & Catering

INTRODUCTION

A surge in off-premise dining, due in part to the rise in popularity of app-based home food delivery systems, has revolutionized the quick-serve and fast casual industries. An area once reserved for pizza delivery and cold cut catering, food-on-demand trends have elevated consumer expectations. In 2018, convenience and consistency have become the two pillars of a successful off-premise strategy.

SITUATIONAL OVERVIEW



of restaurant traffic is off premises



of consumers said restaurants should offer more delivery options

SINCE 2014

digital ordering & delivery has grown 300% faster than dine-in traffic

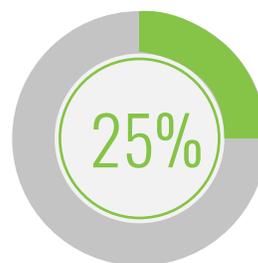


Use of home-delivery for meals has doubled in past

5 YEARS



79% INCREASE in food delivery market projected over the next 5 years



of Americans order takeout or delivery at least once a week



CATERING =

\$45 billion per year industry

BUSINESS CATERING =

\$3 billion per year industry

49% of smartphone users use their phones to order takeout or delivery



TOP THIRD-PARTY FOOD DELIVERY SERVICES

GrubHub | DoorDash | UberEats | Postmates

OPPORTUNITIES

Embracing Third-Party Delivery Services

For quick-serve and fast casual restaurants, adopting a delivery model is not a question of if, but when. Operators are facing a crossroads—keep delivery in-house or outsource to a third-party service? However, these options do not have to be mutually exclusive. Self-delivery services may supplement third-party services, particularly for locations with a high volume of delivery or catering orders.

Eliminating startup cost barriers while mitigating liabilities, third-party delivery services have opened the door for QSR operators to enter the delivery market with minimal upfront investments. These delivery services, many of which are app-based to cater to consumer demand for mobile ordering capabilities, leverage an existing customer base and brand recognition to increase revenue potential and reduce staffing and labor requirements for restaurants.

Additionally, on- and off-premise dining exist on two vastly different planes and therefore should not be treated in the same fashion. The most popular items on your menu may not be suitable for travel or carry a low profit margin. Operators focused on creating an off-premise dining strategy inclusive of delivery, takeout and catering may choose to create unique off-site menus excluding items that do not work to maximize strategic efforts.



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Streamlined Takeout for Maximum Convenience

Social shifts are often represented in the QSR industry, and the accelerated pace of the modern lifestyle has led to a surge in demand for quick, convenient takeout options. Pairing ease of ordering with the convenience of avoiding long lines at peak dining hours, takeout options cater to the needs and preferences of today's restaurant guest.

Curbside check-in and restaurant layouts facilitating order pickup with designated takeout areas have begun to gather traction within the QSR industry. Following the introduction of rapid pickup, Panera reports 10% of its sales stemmed from this option which allows guests to grab their to-go orders from a specified location and eliminates the need to interact with front-of-house employees. The introduction of these options means it is only a matter of time before they become the expectation, not the exceptional.

While takeout, delivery and other off-premise orders continue to climb, the impact of this trend on in-restaurant dining revenue is offset by larger average ticket sizes and increased visit frequency. Reports show guests who order takeout or delivery online are more likely to place additional orders within 60 days than their walk-in counterparts.

Catering with a Quality Focus

Catering industry revenue has doubled in the past decade, carving an opportunity for QSRs to capture a share of this lucrative market. Although catering order volume is lower, spend per order trends significantly higher than in-restaurant tickets. Further, catering expands market reach, introducing new, potential customers to your menu at corporate or social meetings or events.

With online group ordering capabilities having spurred industry growth, app and loyalty program integration creates added opportunities for repeat business.

When crafting a catering strategy, presentation and portability are two crucial factors for operators to consider. Approached and executed correctly, catering creates a seamless brand experience for guests on and off-premises. Successful catering focuses on customer satisfaction—a single negative experience with your brand may impact dozens of potential customers.

In catering corporate or social events, attention to detail works to secure repeat orders from existing catering customers and attract both orders and visits from new guests. Ensure your restaurant's catering packaging allows food items to travel without compromising quality while showcasing your brand in a beautifully plated display.

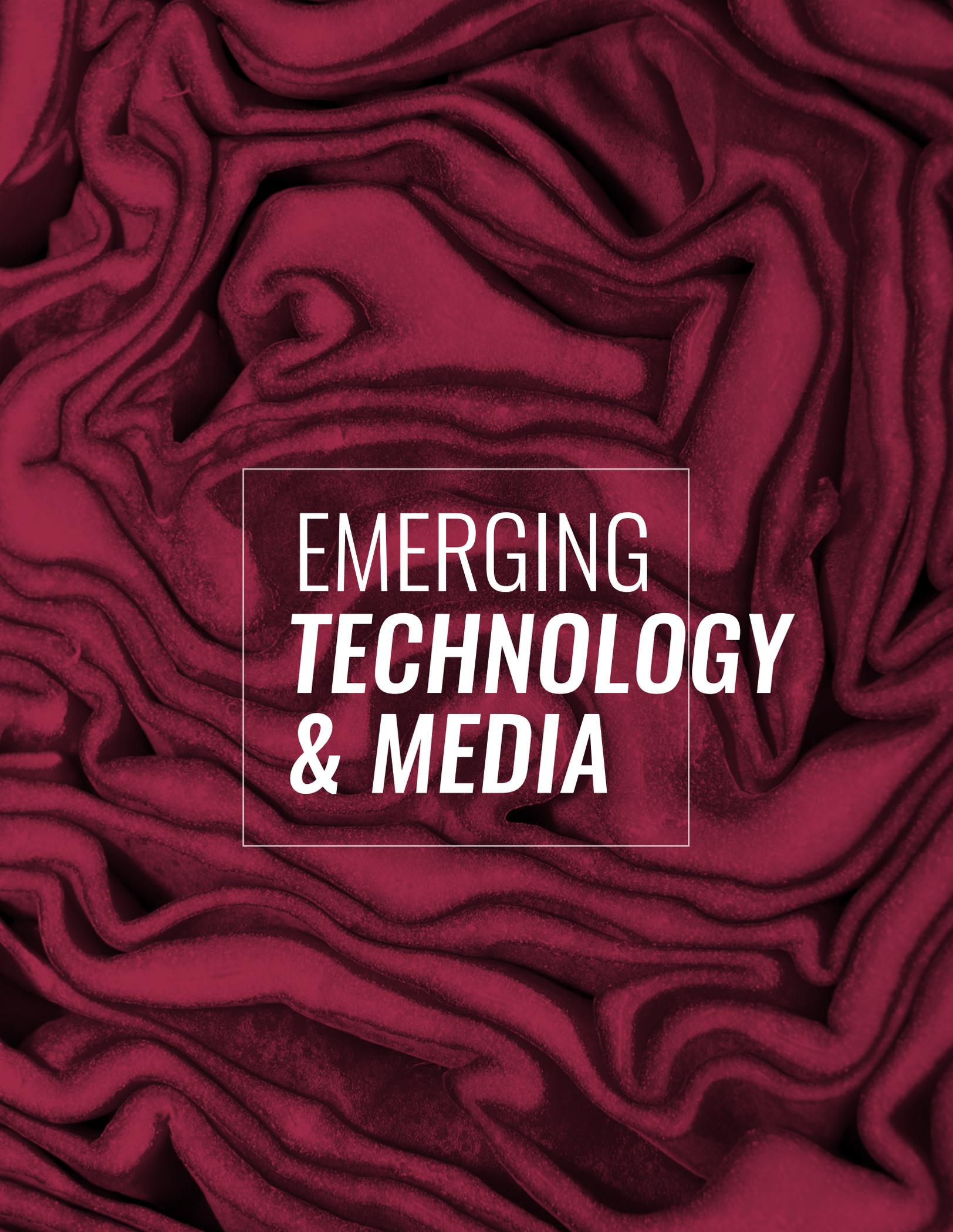
WHAT'S NEXT: DRONE DELIVERY

The next evolution in delivery may eliminate driver and courier liabilities altogether. Drone delivery may reach the realm of food delivery sooner rather than later, revolutionizing off-premise dining once again.

Delivery giant Amazon is already working to implement drones into its Prime Air offerings. Although still awaiting regulatory approval, not to mention social acceptance, Amazon Prime Air can send a drone from a centralized warehouse to the guest's drop-off location.

For operators, drone delivery may take on varying forms depending on order volume, distance and size. This delivery method could be implemented through:

- Restaurant-owned drones that deliver food to the guest and return to restaurant for the next order.
- Guest-owned drones which go to the restaurant to collect delivery orders curbside then return to their owner.
- Third-party owned drones which circulate in the area between guests and restaurants and respond to collection and delivery requests before returning to their roving mode.



**EMERGING
TECHNOLOGY
& *MEDIA***

Emerging Technology & Media

INTRODUCTION

Technology and digital media have unlocked new avenues for restaurants to reach the most appropriate audiences across multiple devices based on their online behavior and search activity. Operators can incorporate GPS, geofencing and Bluetooth technology to target nearby guests, send personalized content and continue that communication once they visit. However, this is only scratching the surface of emerging technologies and advanced targeting capabilities.

SITUATIONAL OVERVIEW



60%
of consumers would visit a limited-service concept more if self-order kiosks were available



44%
of consumers willing to share personal information to receive personalized ads

58%

of consumers say personalization is an important factor in purchase decisions



PERSONALIZED CONTENT



Connects on a deeper level
Encourages repeat visits
Improves brand perception

REAL-WORLD RESULTS

PANERA

3% 

Store sales rose 3% YOY due to digital efforts

15-30%

lift in average check for orders placed on self-service kiosks

Self-service has not only transformed the on- and off-premise dining experience for guests, it delivers direct bottom-line impact for QSRs.

OPPORTUNITIES

The Rise of Self-Service

Across B2C industries, consumers want to feel empowered and in control of their experiences with brands. In the QSR realm, that control translates to convenience, sparking exponential growth in the popularity of touchscreen self-order kiosks.

Self-service has not only transformed the on- and off-premise dining experience for guests, it delivers direct bottom-line impact for QSRs. At their most basic level, kiosks are designed to increase efficiency, reduce labor costs and drive opportunities for upselling. Self-order kiosks allow high-volume restaurants to accept more orders during bursts of traffic, reducing or eliminating long lines that may drive additional guests away. This increase in order-taking capacity results in higher sales per labor hour.

Whether kiosks are programmed to promote higher-margin menu items or upsell guests to lift average check size, orders placed at kiosks typically carry a higher margin than those placed at the counter, with reduced labor costs. Once integrated with your guest or loyalty program database, kiosks can remember order preferences to further accelerate speed of service. Order accuracy also increases with self-order kiosks, reducing food waste due to incorrect orders.

Cost-per-Visit Campaigns Maximize In-Restaurant Orders

For operators of multi-location chains, budget restraints may place limitations on digital media buys aimed at increasing order volume. System-wide media buys, although cost-effective, may not yield the desired results or returns as they do not account for varying geography, audiences or presence in market. Cost-per-visit campaigns present a solution for large-scale operations.

Under a cost-per-visit campaign model, operators pay only for guaranteed physical restaurant visits. Unlike standard media campaigns based on a cost-per-impression or cost-per-click model, these campaigns establish a desired number of visits for a specified duration and run unlimited impressions until that goal is reached.



Personalized Content through Email Marketing

The aforementioned demand for empowerment stretches to branded communications in the form of personalized content. Consumers do not want to feel as if they are part of a mass database being targeted with homogenous messaging—they demand brands communicate with them on an individual basis.

Email marketing excels as a platform through which to deliver highly personalized content. This can be accomplished through dynamic imagery relevant to a subscriber's demographic and geographic data, food preferences based on past orders and unique information, like their first name or closest location.

Through marketing automation, emails can be date-based (birthdays, holidays etc.) or triggered by loyalty status, recent orders or online behavior. Communications may also be designed to re-engage a guest who hasn't placed an order in restaurant or online in a pre-determined amount of time.

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WHAT'S NEXT: DYNAMIC TARGETING

Leveraging programmatic media buying, advertisers have the capabilities to target QSR and fast casual consumers based on their online behavior, including search history, device/app usage, order history and forms filled. Targeting technology can also zero in on location, traffic patterns, time of day and even weather. Layering these capabilities to create intelligent, automated advertising models presents the next big opportunity for operators to connect with consumers at precisely the right moment, with the right offer.

Soon, fully integrated AI campaigns will be capable of optimizing themselves and incorporate media targeting, creative and product offers optimized dynamically in real time. For example, a vegetarian QSR guest approaching one of your restaurants on a cold Thursday at 5:30pm has a heavily congested route home. Dynamic targeting would serve them an ad featuring your freshly made, piping hot vegetable noodle soup, informing them by the time they finish their meal, traffic will be much lighter for an easy drive home. That ad could also offer the guest a way to immediately order the advertised dish and have their food ready for them when they arrive at the restaurant.





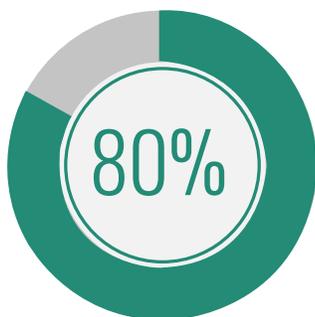
MENU
EVOLUTION

Menu Evolution

INTRODUCTION

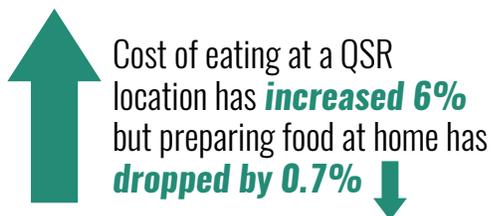
Healthier lifestyles and eating habits have scored highly in recent consumer research studies. When it comes to the evolution of menu offerings, implementing those findings is not a clear-cut process. It calls for a careful balance of health, flavor, value and innovation.

SITUATIONAL OVERVIEW



of US consumers look for healthy options when choosing a restaurant

Consumers
18-34
are most likely to purchase a meal from a food truck



REAL-WORLD RESULTS



OPPORTUNITIES

The Balance of Health and Flavor

For years, quick-serve and fast casual restaurants have been faced with a higher demand for healthy, nutritious offerings. However, menu selection sales have not mirrored that demand—consumers petition for healthier options, but when flavor and health compete, flavor continues to win.

To compete in this paradoxical landscape, operators must strike a balance between health-conscious offerings and unmatched flavor. In finding that balance, it is important to note an item's perceived healthiness can vary on a guest-by-guest basis—plant-based vegan options may be considered the epitome of health for some, while protein-heavy paleo dishes win out for others. One thing today's consumers can agree on is the importance of fresh, higher quality ingredients. A 1,000-calorie entrée featuring antibiotic-free chicken on an organic, locally sourced roll may satisfy demand for better-for-you options over a lower-calorie dish.

One thing today's consumers can agree on is the importance of fresh, higher quality ingredients.

Winning in an Expanding Food Landscape

Following years of competing in an albeit saturated league of their own, limited-service concepts are facing a new threat—an ever-expanding and wildly competitive food service landscape quickly encroaching on once-untapped territory.

Alternative service concepts including food trucks and pop-ups entered the space with a momentum that has not shown any signs of slowing down. Street food culture, paired with the novelty of these innovative concepts, have made them a mainstay in dining consideration sets. Boasting convenience and affordability, meal delivery services have added another layer of competition for QSRs and fast casuals.

The answer to a highly competitive food landscape is diversification. Quick service and fast casual brands have expanded into the consumer packaged goods industry, bottling sauces or beverages to diversify revenue streams. Others have reimagined the limited-service concept as a whole, including fully self-service or delivery-only locations. Adopting a “when you can't beat them, join them,” mentality, QSR operators have also launched their own mobile concepts or pop-up events.

Competing on Value vs. Price

Fresher, better quality ingredients, as demanded by today's consumers, inherently come at a higher price tag. Although health-focused guests are willing to pay more for higher quality food, price is still a concern for QSR and fast casual consumers. With Millennials and Gen Z making up a large segment of the QSR and fast-casual customer base, value remains one of the biggest decision drivers.

Operators looking to drive business from these audiences have turned to value bundling to remain competitive. However, value bundles, like many other aspects of the QSR food landscape, have evolved. Traditional combos have given way to tiered pricing models that allow guests to customize their meal to obtain the most, or what they perceive to be the most, value from their dollar.

The definition of value varies guest-by-guest—the lowest price does not always equal the highest value. For many guests, complete meals, including a beverage, side and/or dessert, hold more weight than lower priced item combinations. Operators focusing on delivering the best value-to-price ratios are poised to gain consideration from key audiences.

WHAT'S NEXT: TRACEABILITY

In recent years, consumer demand for increased food quality has seen a significant spike. Many QSR and fast casual operators have answered that demand with new supplier relations, shifting to ingredients with organic, non-GMO or antibiotic-free classifications. Now, consumers have set their sights on a new level of food responsibility—traceable ingredients.

Learning exactly where ingredients come from is the next logical step on the quest for complete transparency. Locally sourced products are a solid first step for operators, however specifics win with discerning diners, including the name and location of farms ingredients were grown on. Storytelling also goes a long way with transparency-seeking consumers—the what, how and why behind everything on their plate.





Evok Advertising is America's premier boutique advertising agency specializing in QSR and fast casual restaurant marketing, headquartered in Orlando with offices in Tallahassee, Memphis and Los Angeles.

For more information on our agency, our services or to participate in our next published State of the Industry Report, contact us at 407-302-4416 or through our website at evokrestaurantmarketing.com.

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