

AlixPartners



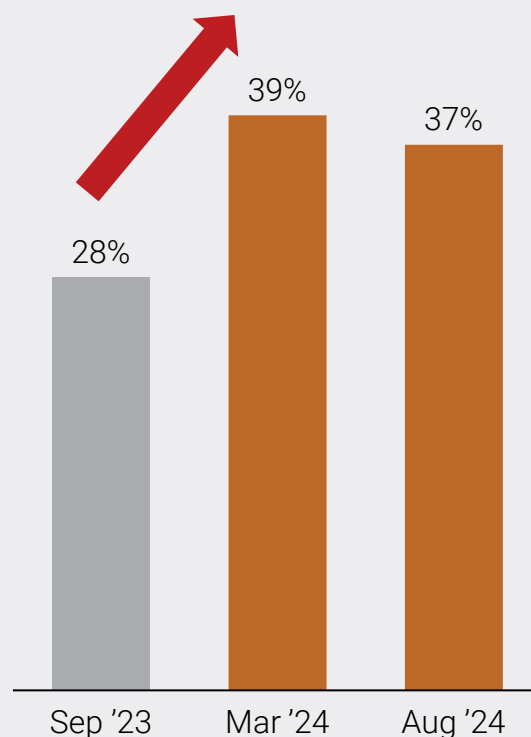
THE GREAT DINING TRADE-UP

Restaurant operators evolve products and services as ideas around 'value' shift

AT A GLANCE

- Consumer debt is rising, but rather than trading down, diners are reducing visits and prioritizing dine-out occasions. Steady price hikes are hitting fast food and casual dining restaurants the most—over a quarter of consumers say QSR offerings have declined in value.
- Operators have an opportunity to right the value proposition through targeted menu innovation, promotions, and consistency.
- Where operators once viewed AI and automation as a key threat, they are now investing in AI solutions across customer-facing, administrative, and operational functions. Nearly 3 in 5 operators see AI as their biggest opportunity.
- Almost 9 in 10 (87%) respondents to the U.S. Restaurant Worker Survey say new technologies in the restaurant have positively impacted their job duties and responsibilities and improved efficiency and customer satisfaction. Their desire for DE&I initiatives to improve employee belonging has increased slightly.

Consumer financial anxiety remains elevated



Consumer demand, financial performance, and the economy are among TOP OPERATOR CONCERNS

1	Consumer demand	15%	
2	Financial Performance Growth	14%	
3	Labor/Talent Adaptability	12%	
4	Economy	9%	

CONSUMER INSIGHTS

FINANCIAL ANXIETY PULLS THE TABLECLOTH OUT FROM RESTAURANT SPENDING

Consumers are showing signs of financial exhaustion: the share of respondents who reported financial distress rose from 28% in fall 2023 to 39% in spring 2024 and remained elevated here at the end of summer at 37%, while 75% said debt levels had increased in the past six months. Our U.S. Restaurant Consumer Pulse Survey finds that the need to cut back will have the harshest effect on QSRs. This is on CEOs' minds; respondents cited concerns such as "guest's ability to continue to eat out considering the rise in costs."

A focus on "experiential" spending means that consumers are less willing to trade down to cheaper restaurants or items, instead reducing the number of visits to restaurants while prioritizing opportunities to dine-out over cheaper drive-through or takeaway options. There is a dramatic difference in perception between sectors, suggesting a near-term focus for struggling casual dining operators needs to be quality, execution, and guest experience to drive value—not price.

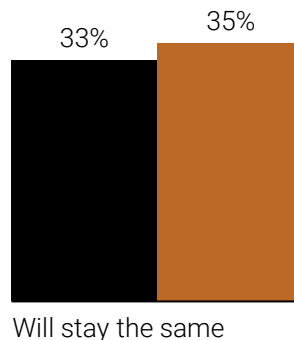
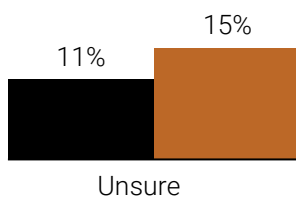
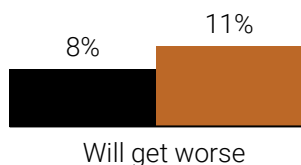
Fine dining surprisingly shows the greatest resilience in an inflationary atmosphere, while fast food is perceived as showing the largest declines in value (26% believe value has fallen), followed by fast casual (19%). Younger consumers (Gen Z) are the most likely to pull back on their spending overall.

Across segments, there are opportunities to preserve and gain market share as the disparate fortunes of big restaurant companies show: comparable transactions declined 6% in the U.S. for one of the major [coffee chains](#) in Q3 2024 while a [fast-casual chain](#) saw 11% growth in transactions. Similarly within [one restaurant group](#) with multiple concepts, there were mixed results, with traffic growing 1-2% while another casual dining concept showed retrenchment—there are many winners and losers within segments.

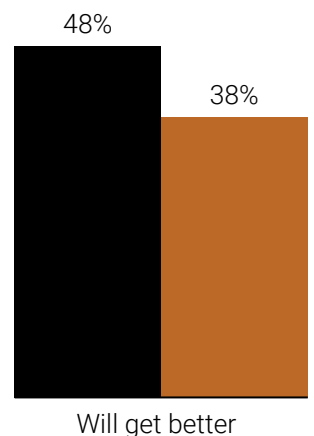
What is the financial outlook for your household for the remainder of the year?

More people are worried about the economy...

■ Mar-24
■ Aug-24



...and fewer people believe it's getting better



NEARLY
60%

of consumers report having debt, with 75% of those respondents noting increased financial concerns in recent months

LESS THAN
40%

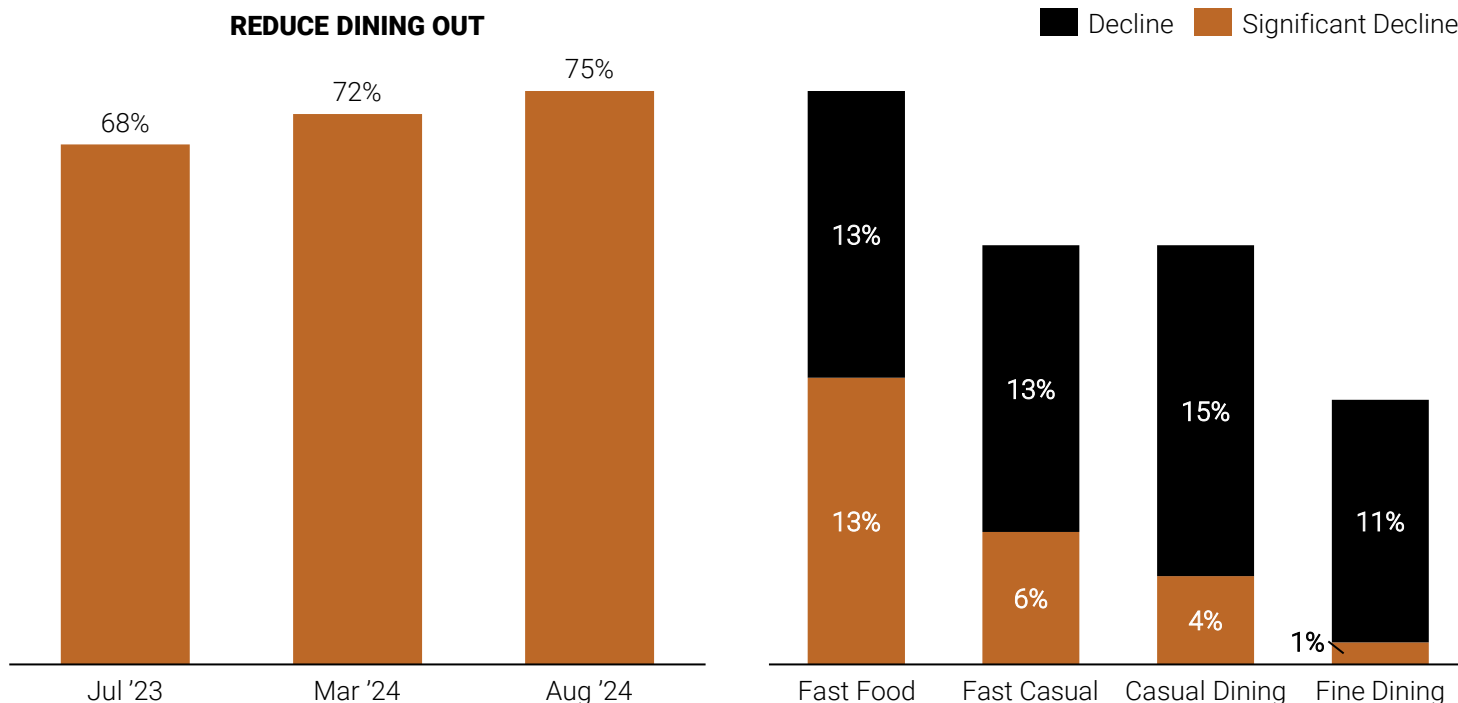
expect their finances to improve—a more pessimistic view than earlier in 2024

CONSUMER INSIGHTS

Consumers continue to suggest that they are less willing to trade down to cheaper restaurants or items.

The highest share planned to reduce dining out (75%), followed by ordering less takeout (57%) and ordering less delivery (42%) ...

... and the focus on value will most hurt the QSR sector, which consumers believe has decreased the most in value over the past year



50%+

Consumers say they must adjust spending down

KEY TAKEAWAYS

- The collapse of ghost kitchens aligns with dropping interest in off-premise restaurant spending. Dine-in is alive and well for those concepts that are noted for their service excellence
- Brands must rethink menus as consumer appetite for menu price increases stalls. Many attempts recently by brands to offer perceived value over discounts to combat the value perception divide.
- One of the key ways brands can immediately focus on service is through investing in their people through training, recognition, and rewards. Even employees see this as a key to unlock efficiency and growth.
- Only 26% of consumers have strong interest in fully robotic restaurants, but we see applications for productivity and staffing for some concepts where this fits the brand.

OPERATOR INSIGHTS

IT'S A BUMPY RIDE FOR RESTAURANT OPERATORS

Like the 8 p.m. rush to flip tables, operators are in the midst of a massive overhaul. Fifty-nine percent of respondents to the July 2024 Prosper/AlixPartners Operator Survey said change is underway already, while another 29% expect to begin in the next year to three years.

Product and service models are the most likely to change as consumer preferences morph from the at-home boom of COVID into an experiential focus on dining out. Innovation is a balancing act that must be equal parts engaging consumers in products they want while also execution-focused offerings that can be delivered well consistently. Second, operators are reevaluating their go-to-market channels and geographies. With the financial markets and capital deployment challenged, restaurateurs and brands are looking more and more to retail channels and other avenues to grow.

With product and service offerings under question, operators are looking at how they need to evolve

What elements of your business model do you expect to be **TRANSFORMED THE MOST?**



Product/Service offering/Portfolio

48%



Go-to-market/Channel/Customer/Geo. strategy

30%



Labor strategy and costs

14%



Financial structure

4%



Supply chain distribution

3%

Of interest in our recent Operator Survey, an increased focus on forms of automation and AI have emerged. Once viewed as a threat, AI is now a priority for operators looking at how to improve the customer interface (26%), automate administrative processes (18%), support R&D for customer trends and preferences (15%), and impact customer loyalty and lifecycle (13%). Early adopters have seen mixed results here with the use of AI ranging from less-than-successful drive-thru implementations to success with AI adjusting marketing outreach to better target customers. The follower cohort is still waiting to see the success proven out consistently before opening their pocketbooks .

OPERATOR INSIGHTS

Largest opportunities in the next 12 months

2024 RANKING		2024	2023	RANKING MOVEMENT (YOY)
1	Automation/AI	59%	53%	= 0
2	Diversity, equity, & inclusion	27%	23%	▲ +2
3	Supply chain stability	21%	32%	▼ -1
4	Inflation	19%	24%	▼ -1
5	Regulation, policy or geopolitics	17%	12%	▲ -1

7 in 10

operators report high disruption to their company over the past 1 to 2 years

6 in 10

operators expect their company's business model needs to change immediately

The battle for labor has seen operators focus on wages and career development above all—but DE&I initiatives are still important as they seek to redefine what a restaurant career path can look like. **The potential for diversity, equity, and inclusion (DE&I) initiatives is more apparent to operators than last year as seen in the increase in rankings from #4 to #2 in opportunities.**

Operators expect more transformation in their go-to-market strategy

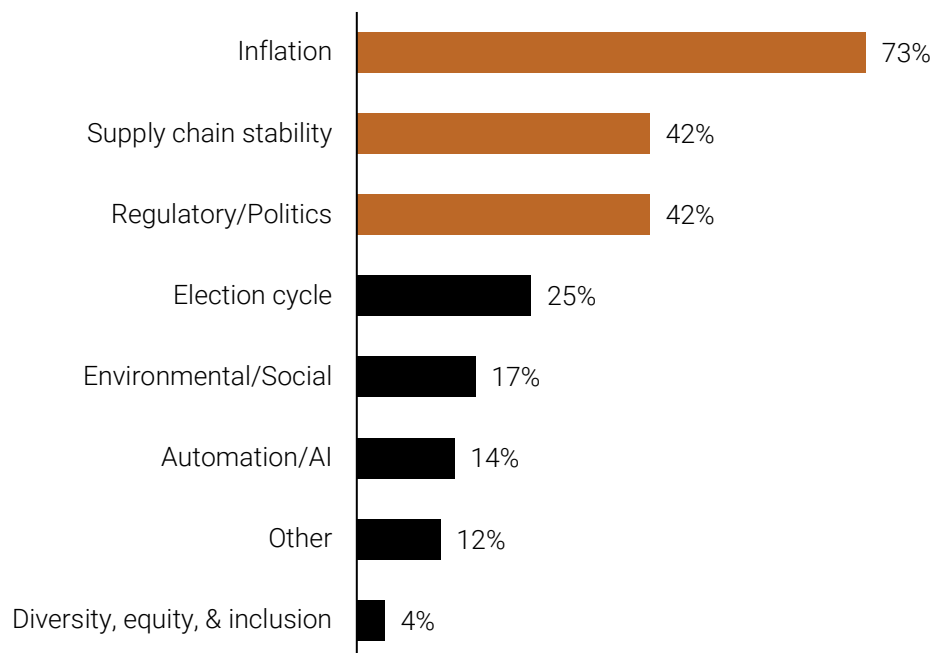
+7%

and less in labor (-7%) than in 2023

They increasingly believe their company should invest more time into product/service innovations

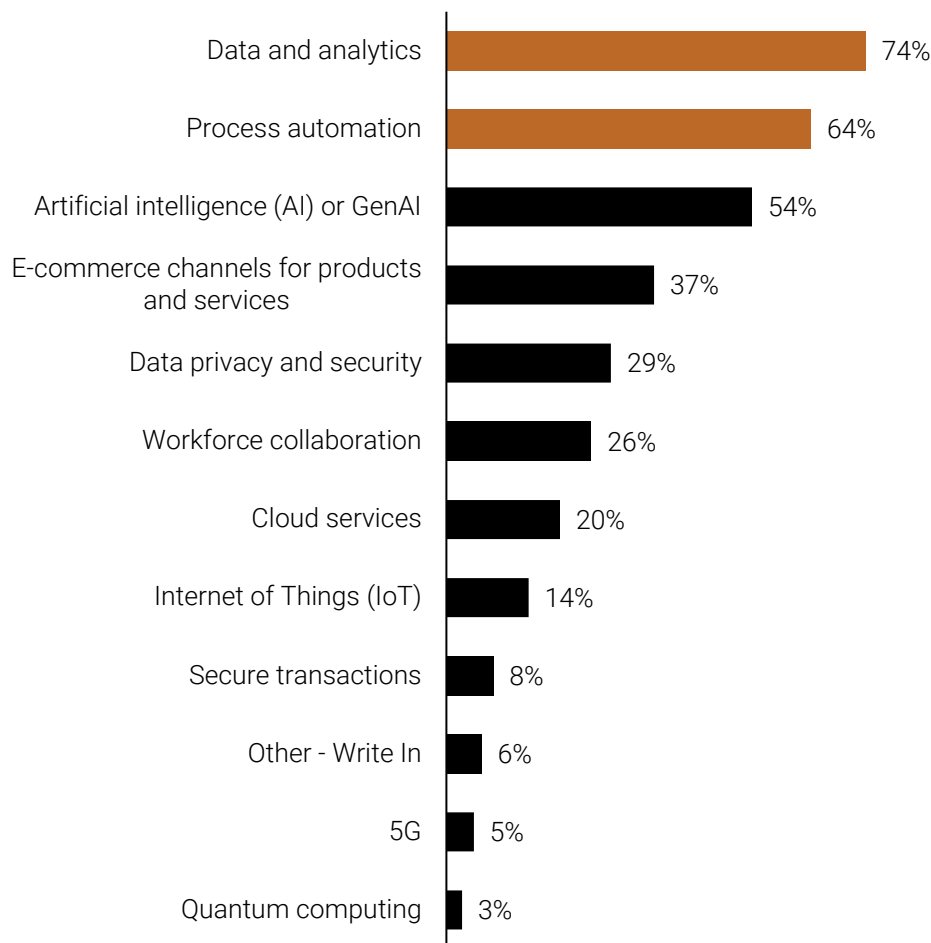
+8%

The top 3 threats in the next 12 months remain inflation, supply-chain stability, and regulations



OPERATOR INSIGHTS

Companies are investing more in tools and technology, with data analytics and process automation topping the list of what needs to be addressed in the next 12-24 months



GREATEST OPPORTUNITIES FOR AI

26%

customer facing applications at the location for ordering, check-in or other need

18%

process automation for administrative processes within corporate

15%

research and development for consumer trends and preferences to drive innovation of products and services

13%

loyalty/customer lifecycle

KEY TAKEAWAYS

- Operators are developing comprehensive plans for how and where the company will adopt AI, with clear, actionable goals, and automated business processes.
- Almost 1 in every 2 operators (46%) believe that the main areas needing investment, time, and resources are the product and services they offer.
- Employee retention and training is critical if operators are to deliver on the service expectations of customers who have banked their dining-out budget and want it to count.

WORKER INSIGHTS

WITHOUT OPPORTUNITIES, TALENT WILL DRIVE RIGHT THROUGH—WHEN RESTAURANTS NEED THEM TO WIN OVER CUSTOMERS

Only 21% of workers see jobs in the restaurant industry as a career destination, and 65% see it as a temp job. At a time where service quality and consistency are tied to value and dining experiences, restaurants need to recruit and retain talent.

DE&I initiatives continue to help shape an employee-friendly workplace. At a time where people are under a great deal of stress, our U.S. Restaurant Worker Survey showed clearly that, no matter their gender, ethnicity, or age, employees are taking note of the improvements and see a difference even in just the last 12 months. Three in four respondents are aware of brands' social policies, and there is increased interest in DE&I sponsorship opportunities and team-building opportunities over 2023.

Workers, like management, see promise in tech-enabled processes. Almost 9 in 10 (87%) respondents to the U.S. Restaurant Worker Survey say new technologies in the restaurant have positively impacted their job duties and responsibilities (up from 81% in 2023). They say it improves table turnover (34%), inventory management and waste reduction (33%), and service speed and customer satisfaction (32%).

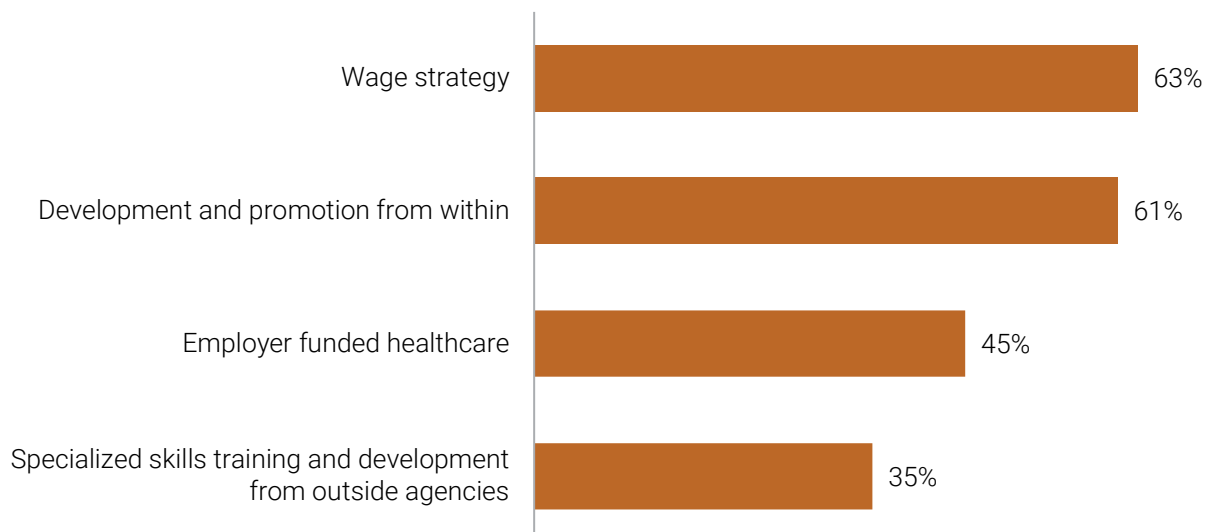
50%

of restaurant workers say their employer has deployed a staffing program to improve labor efficiency in the last year

76%

of restaurant employees are somewhat influenced by a brand's social efforts, with no noticeable difference when looking at gender or ethnicity

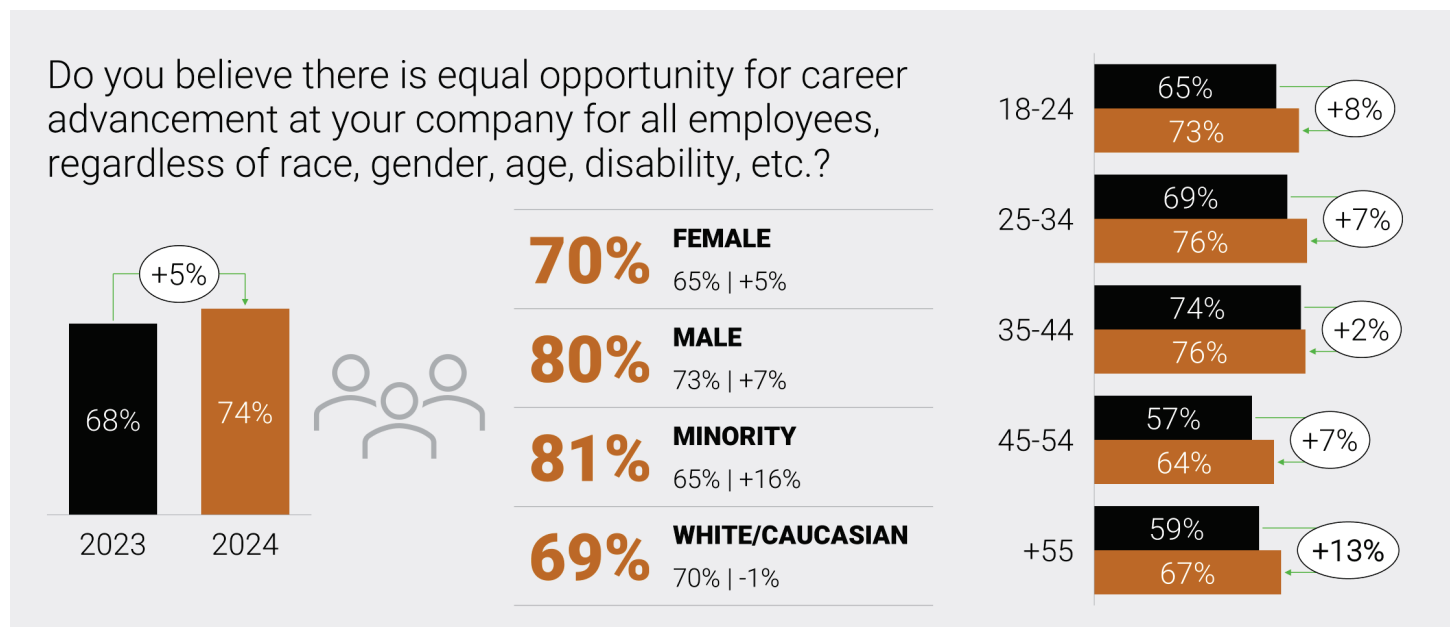
Amid staffing shortages, operators outline the recipe for workforce stabilization



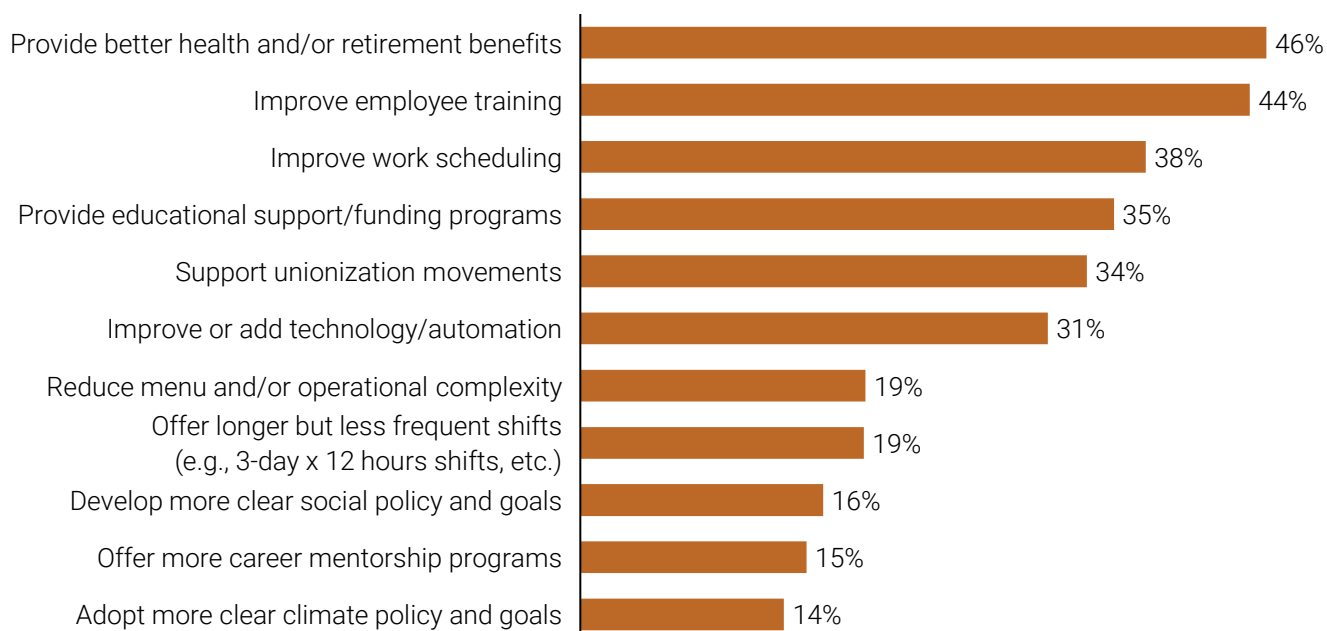
WORKER INSIGHTS

The ability to trade shifts among employees and regular skills training are seen (by 30% of respondents) as the most important contributors to efficiency.

While DE&I objectives remain consistent, respondents are more focused on social support and education



While long-term retention is mostly influenced by benefits and work/life balance, we now see DE&I and ESG priorities making the cut



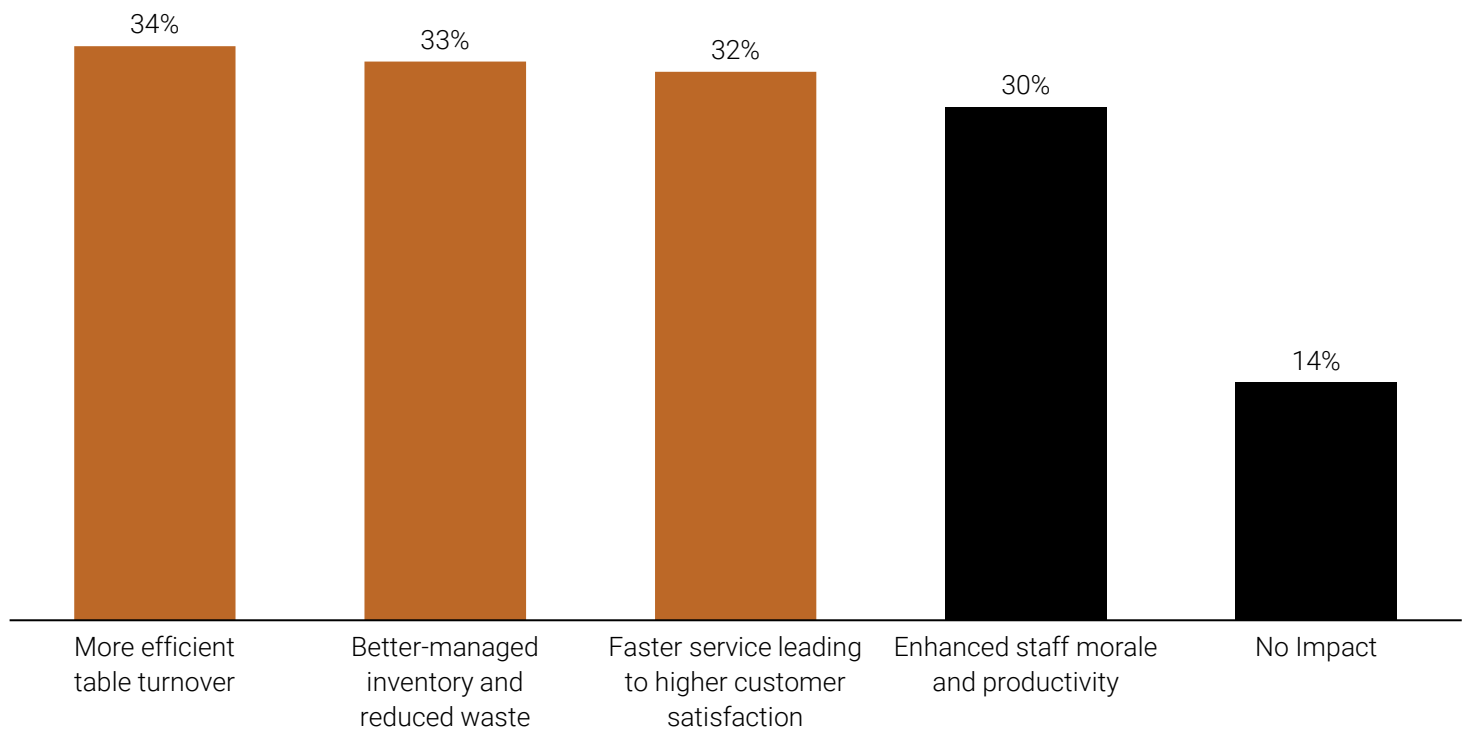
WORKER INSIGHTS

Implementing tech improves workers' experiences and their service in quality and speed, resulting in higher pay

QUALITY
+28%

SPEED
+24%

In turn, labor efficiency may increase sales through more efficient turnover and customer satisfaction



KEY TAKEAWAYS

- Employees are no longer worried technology will “take their jobs.” Rather, they see tech as a tool to increase their productivity, facilitate shift-swaps, and help them manage waste and inventory.
- Only 21% of workers view the restaurant industry as a career destination; operators are working to redefine these roles with competitive wages and opportunities for development.
- Workers’ focus on retirement and health benefits as the top way to improve long-term retention offers a window into a future industry that has shown employees that restaurant roles do not have to be temporary, but a career choice.

After polling consumers, operators, and workers, it is clear that the restaurant experience has to evolve, and fast. What consumers call out as value-erosion is in some cases the strategies restaurants put in place to cater to customers in a time of social-distancing (mobile ordering, curbside pickup, QR-code menus). Diners are now back at the table and they want the experience to count, which means delivering on service.

FOUR MAIN STRATEGIES TO STAY AHEAD OF THE COMPLEX CONSUMER AND FINANCIAL ENVIRONMENT

1

Evolve menu offerings to enhance the focus on core offerings

2

Enhance the consumer experience through more effective engagement

3

Invest in employees to differentiate the company from competitors

4

Implement balanced pricing, including value options to embrace the customer where they are

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METHODOLOGY:

PROSPER FORUM OPERATOR SURVEY

- Understand how operators are addressing **disruption, employees, DE&I and ESG**
- **Sectors:** Restaurants (QSR, Fast Casual, Casual, Fine), Foodservice, Hospitality
- **Date fielded:** July 21 to August 17, 2024
- **Participants:** Approximately 140 attendees
- **Org Level:** Board members, C-level executives and senior management

RESTAURANT CONSUMER SENTIMENT SURVEY

- Understand **consumer concerns** tied to finances
- Investigate **behaviours and sentiment** around dining and hospitality
- Reveal buying **patterns** to aspects of **dining-out, pricing, digital efforts, DE&I and ESG**
- **Date fielded:** Recent updates August 15-16, 2024; prior survey data from 2021-2024
- **Population:** 1,175 participants per survey
- **Demographics:** Balanced as to gender, ethnic, age, income, education, geography

U.S. HOSPITALITY WORKER SURVEY

- Understand workers **sentiment around careers** in hospitality
- Learn about workers **perception** of employers' **DE&I and ESG development and efforts**
- **Date fielded:** July 2-8, 2024
- **Population:** 1,173 participants from limited and full-service restaurants
- **Roles surveyed:** Cashiers, prep, cooks, servers, supervisors, managers, etc.
- **Demographics:** Balanced as to gender, ethnic, age, income, education, geography

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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