



# Serving It Up

RESTAURANT TRENDS 2015

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Tonight – from Buenos Aires to Bangkok, London to LA, Sydney to Seattle – hungry consumers will trade their kitchens for the convenience of a local eatery. Whether it's fast food, fast casual or five star, restaurants around the world will be serving up more than just mouth-watering morsels to these patrons. On the menu will be a far more amorphous, yet equally desirable, offering - time.

A commodity more valuable than the latest product or gadget, time is of even greater value than money to today's consumer. With demands from work, family and social engagements more intense than ever before, people view time as a nearly tangible asset. Overscheduled, overstimulated and overloaded

consumers are constantly on the lookout for ways to reclaim this most elusive “product.” One way is to trade in work-intensive meals at home for the simple luxury of breakfast, lunch or dinner out. This choice actually gives consumers double happiness - the gastronomic enjoyment and the satisfaction of reclaimed time.

The value consumers place on time greatly influences the companies that Infusive includes in the Consumer Alpha™ universe. Infusive understands that when consumers are able to regain precious time, an intrinsic sense of happiness naturally follows. This is how restaurants fit into the Consumer Alpha™ philosophy, and why trends in the restaurant industry are always on Infusive's radar.

***SPEED READ***

- ⌘*** Fast casual restaurants are becoming a major player in the restaurant industry, driven by consumer demand for sustainability and healthy food choices.
- ⌘*** Established brands are broadening their scope and expanding their presence beyond their traditional niches.
- ⌘*** Consumer insistence for “clean” food is driving menu upgrades across the board.

## **A \$2.7 TRILLION INDUSTRY**

The global consumer foodservice industry grew to more than \$2.7 trillion in annual sales in 2014, according to London-based market intelligence firm Euromonitor. This marked the most successful year of growth in recent history, with a real growth increase of more than 2%. While China and the U.S. still represent the largest markets in terms of value, the balance of growth is shifting to emerging markets like Latin America and the Middle East and Africa. In these markets a cultural shifts towards “eating out” is fueling growth and providing the opportunity for rapid expansion of international chains.

In the United States, the National Restaurant Association estimates that industry sales will eclipse \$7 billion in 2015, a number equal to 4% of the U.S. gross domestic product. This number also represents

an 8% increase over the preceding five-year period. Restaurants now account for 47% of each food dollar spent by U.S. consumers, compared to just 25% in 1995.

The data is clear – today’s consumers are embracing the idea of eating out as part of their daily routine instead of treating it as a special occasion. Yet despite these compelling statistics, today’s entrants in the global restaurant market have to stay ahead of the curve in order to maintain a competitive edge.

How are today’s restaurant players – especially established fast food chains like McDonalds, Starbucks and Taco Bell and fast casual offerings from Chipotle, Panera and the like – meeting the ever-changing demands of the contemporary consumer? And how are newcomers influencing this already established market?



### THE RISE OF FAST CASUAL

Mention the phrase fast food and most people immediately conjure up images of golden arches, burgers and fries. Decades of marketing have given consumers a ready reference. Yet ask people what fast casual is and you may be met with a blank stare.

It isn't just consumers that have difficulty defining fast casual. Even industry insiders are not in total agreement as to which brands meet the definition of fast casual. However, what industry experts do agree on is a loose set of criteria that helps differentiate fast casual from its relatives fast food and casual dining. Most industry experts also agree that chains like Chipotle, Shake Shack and Panera all fit the fast casual bill.

These restaurants each share some general characteristics, starting with cost. The typical price point per receipt in a fast casual restaurant is between \$9 and \$13 compared to an average of \$5 in a fast food establishment. Other differentiators include first-rate décor, flexible offerings, higher food quality, better ingredients and a perception of freshness. Fast casual restaurants ideally earn less than 50% of their business from full-service, sit down meals, which helps distinguish them from their casual dining counterparts, like Applebee's or Chili's.

While consumers may have difficulty identifying fast casual, they have no trouble embracing it and making it the hottest trend in the restaurant industry today. According to Euromonitor, the market for fast casual food has grown by more than 550% since 1999. This represents more than

ten times the growth experienced by the fast food industry over the same period. Fast casual now controls 5% of all restaurant traffic, a 4% increase since 2000.

More than \$21 billion was spent in the United States alone last year on fast casual food, but this explosive growth isn't limited to just the American market. Twenty-four other markets in the world contributed at least \$100 million to the category's total, including Western Europe and the United Kingdom who together were responsible for 18% of the global total.

Why is fast casual dominating the restaurant industry? According to industry analysts, consumers are looking for the best value proposition when selecting an option for dining out, and value doesn't always equate to the lowest price. Today's health conscious and environmentally aware consumers want to combine sustainability with wholesome food choices, and fast casual brings this winning combination to the table.

### **DEMAND FOR ‘REAL FOOD’**

Consumer demand for healthy, time-saving dining options is leading restaurants across the board to upgrade their menus. Options for “clean” foods and fresh, seasonal ingredients are particularly popular with millennials and baby boomers. Fast casual has readily embraced this challenge and most effectively met this particular consumer demand.

Brands like Chipotle and Panera have set the pace in this healthy menu movement. Chipotle promises consumers meat free from hormones and antibiotics, along with locally sourced and organic vegetables. Panera recently announced several moves targeting health-conscious consumers, including antibiotic-free chicken and the removal of artificial trans fat from its menu.

According to Chris Hollander, Panera’s Head of Marketing, “The Panera experience starts with great taste, but good food should also be good for you.” To that end, the chain’s beverages also received a healthy makeover, with bottled beverages and seasonal offerings like its pumpkin spice latte both free of artificial colors, flavors, sweeteners and preservatives. The chain promises to remove all artificial additives and preservatives from its full menu by the end of 2016.



Although fast casual has done it best, fast food is also making the move toward healthier fare. McDonald’s updated its menu several years ago with the introduction of choices like apple slices and carrot sticks in its kids’ Happy Meals. More recently, the fast food giant has added more fruit and vegetable options to their adult combo meals.

Following suit, other fast food chains are making healthy menu pledges, too. Chic-fil-A intends to phase out chicken raised with antibiotics, and Carl’s Jr. introduced their “all-natural burger” made with grass-fed, free-range beef raised without antibiotics or steroids.

### **BRANDS BRANCH OUT**

For many well-established restaurant brands, staying relevant in an ever-changing marketplace is a constant concern. Companies like Starbucks, Taco Bell and McDonald’s run the risk of being pigeonholed as places only good for one thing. In an effort to avoid being seen as one-dimensional, to keep pace with evolving consumer demand and even capture new market share, these chains and others are changing their brand placement approach.

One example is McDonald’s decision to offer all day breakfast. While certainly not the first chain to do this (IHOP, Denny’s and Sonic have been offering breakfast all day for years), McDonald’s is dramatically altering its basic operational structure in an attempt to break new ground and attract new customers. Banking on a new breed of diner – the “Breakfastarian” who craves breakfast food regardless of time of day – McDonald’s hopes to be seen as more than just a burger place after traditional breakfast hours are over.

# STARBUCKS COFFEE



Initial consumer reaction to McDonald's breakfast all day initiative has been positive. Foursquare CEO Jeff Glueck said his group has noted a 9% increase in foot traffic at McDonald's since all day breakfast was introduced. Glueck also noted that Taco Bell saw a 25% increase in foot traffic when it unveiled its new breakfast menu last year.

While Taco Bell has seen a bigger increase in foot traffic, Glueck attributes the latter's higher increase to the fact that Taco Bell was new to the breakfast market, while McDonald's was already an established player there for many years. What this data shows is that consumers love breakfast food that someone else prepares, regardless of the time of day.

But breakfast, as a new addition or expansion to service all day, isn't the only way established brands are expanding their presence and targeting a new audience. Setting its sights in the opposite direction, Starbucks has rolled out its "Starbucks Evenings" program. The brand hopes this night-centric move will lure loyal morning customers back later in the day for savory snacks, craft beers and wine. It also hopes to attract new consumers who haven't before embraced the chain's morning-themed offerings. On a practical note more focused on the bottom-line than customer experience, this expansion allows Starbucks to repurpose its hard costs related to infrastructure.

Starbucks markets this new endeavor as a way for customers to gather in a familiar place later in the day, even if caffeine isn't their goal. Instead of meeting up at a noisy, crowded bar, friends can instead opt for this "third place" where they can get together to enjoy a glass of beer or wine and upscale, shareable snacks in comfortable surroundings.

Noting that 70% of Starbucks customers drink wine (compared to just 30% of the general population) and in keeping with the company's aspirational vibe, Starbucks employed its own in-house sommelier to cultivate the "Starbucks Evenings" wine list. The wines vary by region, as does the craft beer selection. Craft beers were chosen because Starbucks customers are two times more likely to opt for local craft beers than the general public, according to Mintel Reports 2014. Not leaving any part of the experience to chance, the company's culinary team helped curate a distinctive menu of shareable small plate, artisanal offerings like Truffle Mac & Cheese and Artichoke & Goat Cheese Flatbread. Food options vary by region, too.

Not to be left out, Taco Bell is also experimenting with brand expansion in an attempt to capture the attention of consumers looking for something more than Chalupas or Cinnamon Twists. In September, the company opened its first concept store in Chicago's Wicker Park neighborhood, followed within weeks by



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a second location near AT&T Park in San Francisco. The locations are not by chance. Taco Bell executives selected them specifically because they are in close proximity to a high volume of foot and bicycle traffic from millennials.

In addition to familiar fare taken straight from standard Taco Bell menus, these new “Taco Bell Cantinas” offer shareable snacks, wine, beer, frozen cocktails and sangria, depending on the location. They also feature local craft beers and high-tech offerings like USB ports and free Wi-Fi, in an attempt to attract a younger, more urban crowd. According to the company’s own website, Taco Bell wants to simplify and modernize the restaurant experience while maximizing technology to create a unique experience for existing and new consumers.

**FROM GROCERY AISLES TO STOREFRONTS**

Consumers are familiar with finding their favorite restaurant brands on their local supermarket shelves. From Taco Bell sauces to P.F. Chang frozen entrees to Starbucks bottled coffee drinks, shoppers can take a little bit of restaurant indulgence home in their shopping bags each week. But what happens when tried-and-true supermarket brands make the leap to a bricks-and-mortar restaurant?

Several popular consumer brands are finding out. Nestlé operates 145 Nestlé Toll House Café shops in the US, Canada and Middle East, where cookies, ice cream and smoothies are made using at least 60% Nestlé

ingredients. For Nestlé, the café concept is about trust and showcasing the variety of ways their ingredients can be used. “Anybody who walks by one of our cafés may not be 100% aware of the café concept, but there’s a trust factor in the Nestlé brand,” Shawnon Bellah, Nestlé Café’s Chief Operating Officer recently stated.

Nestlé, the parent company of Nespresso, has also opened several coffee boutiques under the Nespresso moniker in major US cities like Miami, New York and San Francisco. The idea is to showcase how the company’s traditional coffee capsules can be transformed into other beverages. Consumers try the different drinks in the store and learn how to re-create them at home.

Other familiar grocery-store brands have also opened restaurants hoping to capitalize on their name recognition and transform it into an additional revenue stream. Amy’s Kitchen, the vegetarian frozen food company, and Chobani, the Greek yogurt purveyor, are both experimenting with concept stores in the United States.

What all these brands have in common is a desire to turn their basic reputation into an aspirational lifestyle brand. From the Instagram-ready décor of their locations to the Pinterest-worthy food presentation, these brands hope to elevate themselves to a coveted, social media-friendly experience. Whatever the end goal, their presence is influencing the restaurant industry in ways not imaginable just a few short years ago.